THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Golden Harvest Entertainment (Holdings) Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

Golden Harvest Entertainment (Holdings) Limited
嘉 禾 娛 樂 事 業(集 團)有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock code : 1132)

MAJOR AND CONNECTED TRANSACTION

Financial adviser to Golden Harvest Entertainment (Holdings) Limited

SOMERLEY LIMITED

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

OSK Capital Hong Kong Limited

A letter from the Independent Board Committee (as defined in this circular) is set out on page 23 of this circular. A letter from OSK, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders (as defined in this circular) is set out on pages 24 to 48 of this circular.

A notice convening the SGM (as defined in this circular) to be held at Jade Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Monday, 20 July 2009 at 2:30 p.m. is set out on pages 211 to 212 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

25 June 2009

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

"Acquisition"	the proposed acquisition of the Transferred Assets by the Purchaser pursuant to the Agreement
"Acquisition Consideration"	the consideration for the Acquisition pursuant to the Agreement
"Aggregate Net Profits"	the audited consolidated profit after taxation and minority interests (but excluding any event or transaction that is outside the ordinary course of business) of and derived from the Transferred Assets in aggregate for the two years ending 31 December 2010 expressed in RMB prepared and presented in accordance with the HKFRS
"Agreement"	the equity transfer agreement dated 15 June 2009 entered into between the Vendors and the Purchaser in relation to the Acquisition
"Announcement"	the announcement of the Company dated 15 June 2009 and published on the website of the Stock Exchange
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Avex"	Avex Group Holdings Inc., a substantial shareholder of CT and a company listed on Tokyo Stock Exchange First Section
"Board"	board of Directors
"Bohong Advertisements"	北京橙天博鴻廣告有限公司 (Beijing Chengtian Bohong Advertisement Co., Ltd.), a company established under the laws of the PRC with limited liability and beneficially owned by CT
"Bohong Advertisements Contracts"	contracts and Deposits relating to the Restricted Business entered into by Bohong Advertisements up to the date of Completion
"Business Day"	a day (other than Saturday or Sunday) on which banks in Hong Kong are generally open for business
"Chengtian Entertainment Contracts"	contracts related to the Restricted Business entered into by CT up to the date of Completion

"Chengtian Zhihong"	北京橙天智鴻影視製作有限公司 (Beijing Chengtian Zhihong Film & TV Production Co. Ltd.), a company established under the laws of the PRC with limited liability and beneficially owned by CT
"Company"	Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1132)
"Completion"	completion of the Acquisition
"Completion Date"	the date after five Business Days (or such later date as shall be agreed in writing between parties to the Agreement) after the fulfillment of all the conditions precedent to the Agreement
"connected person"	has the meaning ascribed to it under the Listing Rules
"Conversion Shares"	16,018,934 new Shares (subject to adjustment) which will be issued upon full conversion of the principal amount of the Convertible Notes at the conversion price of HK$3.38 per Share
"Convertible Notes"	the convertible notes in the maximum principal amount of approximately HK$54.1 million (equivalent to RMB48 million and subject to adjustment) to be issued to CT entitling it to convert the outstanding principal amount into Conversion Shares at an exercise price of HK$3.38 per Share until its maturity date which falls on 31 December 2015
"CT"	Chengtian Entertainment Group (International) Holding Company Limited, a company incorporated in the British Virgin Islands with limited liability which presently holds 40,553,060 Shares, representing approximately 22.13% of the total issued share capital of the Company, as the date hereof
"CT Contracts"	Chengtian Entertainment Contracts and Orange Sky HK Contracts and the Deposits related thereto together with such further contracts (and the related deposits) related to the Restricted Business that may be entered into by Orange Sky HK up to the date of Completion
"Deferred Consideration Arrangement"	the arrangement for settlement of the remaining Acquisition Consideration, which remains outstanding after Completion, of up to RMB40 million in 2011

"Deposits"	the deposits and prepayments paid by CT, Orange Sky HK, Bohong Advertisements and/or Zhihong Technology (as the case may be) to the counterparties of Chengtian Entertainment Contracts, Orange Sky HK Contracts, Bohong Advertisements Contracts and/or Zhihong Technology Contracts (as the case may be) and such further deposits and prepayments that may be paid by CT, Orange Sky HK, Bohong Advertisements and/or Zhihong Technology in relation to Restricted Business as at Completion
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group together with the Transferred Assets
"Group"	the Company and its subsidiaries
"Guaranteed Period"	the two financial years ending 31 December 2009 and 2010
"Guaranteed Profit"	the consolidated profit of RMB20 million (equivalent to approximately HK$22.6 million) after taxation and minority interests (but excluding any event or transaction that is outside the ordinary course of business) of or derived from the Transferred Assets for the Guaranteed Period as guaranteed by CT pursuant to the terms of the Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of independent non-executive Directors established to advise the Independent Shareholders in respect of the terms of the Agreement, including the issue of the Convertible Notes and the Conversion Shares
"Independent Financial Adviser" or "OSK"	OSK Capital Hong Kong Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders other than the Vendors and their respective associates
"Latest Practicable Date"	23 June 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date"	31 October 2009 or such later date as the Purchaser and CT may agree in writing
"Mr. Wu"	Mr. Wu Kebo, chairman and executive Director of the Company and the legal holder of 90% equity interest in Chengtian Zhihong and 80% beneficial owner of CT
"Ms. Wu"	Ms. Wu Keyan, alternate Director to Mr. Wu
"Orange Sky HK"	Orange Sky Entertainment International Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CT
"Orange Sky HK Contracts"	contracts related to the Restricted Business entered into by Orange Sky HK as at Completion
"PRC"	the People's Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"Purchaser"	Golden Harvest Motion Pictures Company Limited, a company incorporated in Hong Kong with limited liabilities and a wholly-owned subsidiary of the Company
"Reorganisation"	the reorganisation undertaken by Mr. Wu and CT to restructure the Restricted Business beneficially owned by CT
"Restricted Business"	any business relating to Chinese-language (in all forms) films and television programmes production, investment, marketing and advertising and/or distribution, including, but not limited to, the related activities in the form of self-financing, co-operation and/or provision of consultancy services
"Restructured Group"	the Group including Chengtian Zhihong after Completion
"RMB"	Renminbi, the lawful currency of the PRC
"SGM"	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$1.0 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Transferred Assets"	entire equity interest in Chengtian Zhihong and the CT Contracts, the Bohong Advertisements Contracts and the Zhihong Technology Contracts
"United States"	the United States of America
"US$"	US Dollar, the lawful currency of the United States
"Vendors"	Mr. Wu, Ms. Wu and CT, all are connected persons to the Company
"Zhihong Technology Contracts"	contracts and Deposits related to the Restricted Business entered into by Zhihong Technology up to the date of Completion
"Zhihong Technology"	北京橙天智鴻科技發展有限公司 (Beijing Chengtian Zhihong Technology Development Co., Ltd.), a company established under the laws of the PRC and beneficially owned by CT
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB1.00 = HK$1.128 has been used for currency translation. Such exchange rates are for the purposes of illustration only and do not constitute a representation that any amount in RMB or HK$ have been, could have been or may be converted at such or any other rates.

Golden Harvest Entertainment (Holdings) Limited
嘉禾娛樂事業(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code : 1132)

Chairman and Executive Director:
Mr. Wu Kebo

Executive Directors:
Ms. Winnie Chan Suet Yin
Ms. Fiona Chow Sau Fong
Ms. Wu Keyan (alternate to Mr. Wu Kebo)

Non-executive Director:
Mr. Li Pei Sen

Independent non-executive Directors:
Mr. Leung Man Kit
Mr. George Huang Shao-Hua
Mr. Masahito Tachikawa

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business:
16th Floor
The Peninsula Office Tower
18 Middle Road
Tsimshatsui
Kowloon
Hong Kong

25 June 2009

To the Shareholders

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

The Purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire from the Vendors the Transferred Assets for an aggregate consideration of up to RMB80 million (equivalent to approximately HK$90.2 million), subject to adjustment. The Acquisition Consideration will be partly satisfied by cash of RMB32 million (equivalent to approximately HK$36.1 million) and the issue of the first tranche of Convertible Notes to CT of RMB8 million (equivalent to approximately HK$9.0 million) upon Completion and the remaining of up to RMB40 million (equivalent to approximately HK$45.1 million) will be satisfied by the issue of the second tranche of Convertible Notes to CT in accordance with the Deferred Consideration Arrangement.

THE AGREEMENT

Date: 15 June 2009

Parties

(i) Purchaser: Golden Harvest Motion Pictures Company Limited, a wholly-owned subsidiary of the Company

(ii) Vendors: Mr. Wu, Ms. Wu and CT

Assets to be acquired

The Purchaser has conditionally agreed to acquire the entire equity interest of Chengtian Zhihong and the CT Contracts from the Vendors. In addition, each of Mr. Wu and CT has undertaken to conduct Reorganisation which includes (i) procure the Bohong Advertisements Contracts to be assigned or novated (as the case may be) to Chengtian Zhihong; and (ii) procure Zhihong Technology Contracts to be assigned or novated (as the case may be) to Chengtian Zhihong, on or prior to Completion.

Information on the Transferred Assets

Upon completion of the Reorganisation, which is for reorganising and centralising the films and television programmes related business of CT and is a condition precedent to the Agreement, the Transferred Assets will comprise the entire equity interest in Chengtian Zhihong, the CT Contracts, the Bohong Advertisements Contracts and the Zhihong Technology Contracts.

Chengtian Zhihong was established on 9 June 2004 under the laws of the PRC and commenced business in 2004 with a registered capital of RMB3 million. As at the Latest Practicable Date, Mr. Wu is the legal holder of 90% equity interest in Chengtian Zhihong and two other PRC nationals ("Transferors" and "Transferor" means either one of them) are the legal holders of the remaining 10% equity interest in Chengtian Zhihong; and CT is the beneficial owner of the entire equity interest in Chengtian Zhihong. As at the Latest Practicable Date, Mr. Wu has entered into an equity transfer agreement with one of the Transferors in respect of the transfer of 5% of the equity interest held by such Transferor in Chengtian Zhihong to Mr. Wu. The parties are in the process of handling the relevant procedures with the PRC regulatory authorities. Similarly, Ms. Wu has entered into an equity transfer agreement with one of the Transferors in respect of the transfer of 5% of the equity interest held by such Transferor in Chengtian Zhihong to Ms. Wu. The parties are in the process of handling the relevant procedures with the PRC regulatory authorities.

CT is owned as to 80% by Mr. Wu and 20% by Avex, a company listed on Tokyo Stock Exchange First Section, which is engaged in the communication and content creation business in Japan and overseas. Mr. Wu is the chairman, an executive Director and the controlling shareholder of the Company. Chengtian Zhihong principally engages in the investment, production (either by itself or through cooperation with other entities and foreign producers), distribution and marketing of Chinese-language films and television programmes in the PRC. Major involvement in film business by Chengtian Zhihong in recent years includes, *Red Cliff* ("赤壁") and *Warlords* ("投名狀"), which cast international artists including Jet Lee, Andy Lau, Tony Leung and Takeshi Kaneshiro. Chengtian Zhihong also produced a number of television series including *Make Sure Be Happy* ("你一定要幸福"), *Stage Sisters* ("舞台姐妹") and *Bald Beautiful Woman* ("光頭美女"). Films and television programmes produced by Chengtian Zhihong are screened and broadcasted in the PRC and other major cities in Asia.

Bohong Advertisements, Zhihong Technology and Chengtian Zhihong are beneficially wholly-owned by CT. Bohong Advertisements is principally engaged in the marketing and advertising services including films and television programmes related advertisements. The business activities of Zhihong Technology are pre-production and investment in films and television programmes. Bohong Advertisements Contracts represent among others film advertisement contracts entered into with international consumer brands for the appearance of their products in the films for promotion and marketing purposes. Included in CT Contracts are film investment contracts in respect of co-investment of films with international film producers and the pre-production contracts entered into with well-known film directors for film production. Zhihong Technology Contracts include pre-production contracts entered into with PRC film directors and screenplay development contracts entered into with PRC movie script writers. The businesses in respect of the above contracts are part of the Restricted Business.

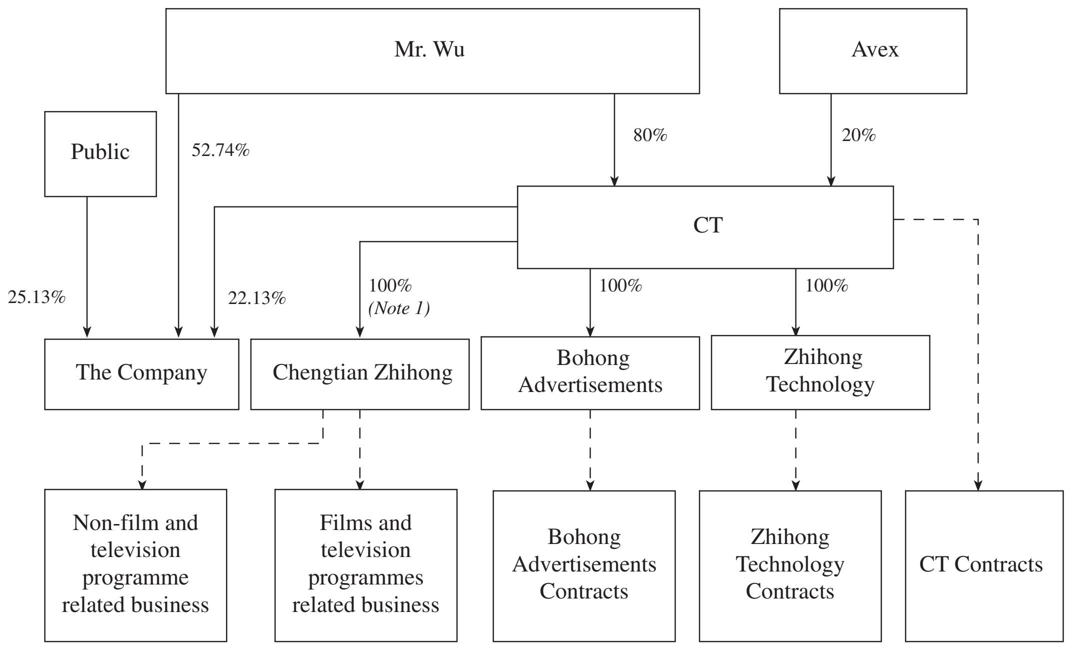
Reorganisation

Pursuant to the Reorganisation, the films and television programmes related business of CT, through its subsidiaries or companies controlled by it (collectively, the "CT Group") will be reorganised and centralised under Chengtian Zhihong, while all the non-film and television programme related business of Chengtian Zhihong will be regrouped and transferred back to CT Group. Accordingly, each of Mr. Wu and CT has undertaken to the Purchaser to procure, on or prior to Completion, (i) Bohong Advertisements to novate or assign (as the case may be) the Bohong Advertisements Contracts to Chengtian Zhihong; and (ii) Zhihong Technology to novate or assign (as the case may be) the Zhihong Technology Contracts to Chengtian Zhihong.

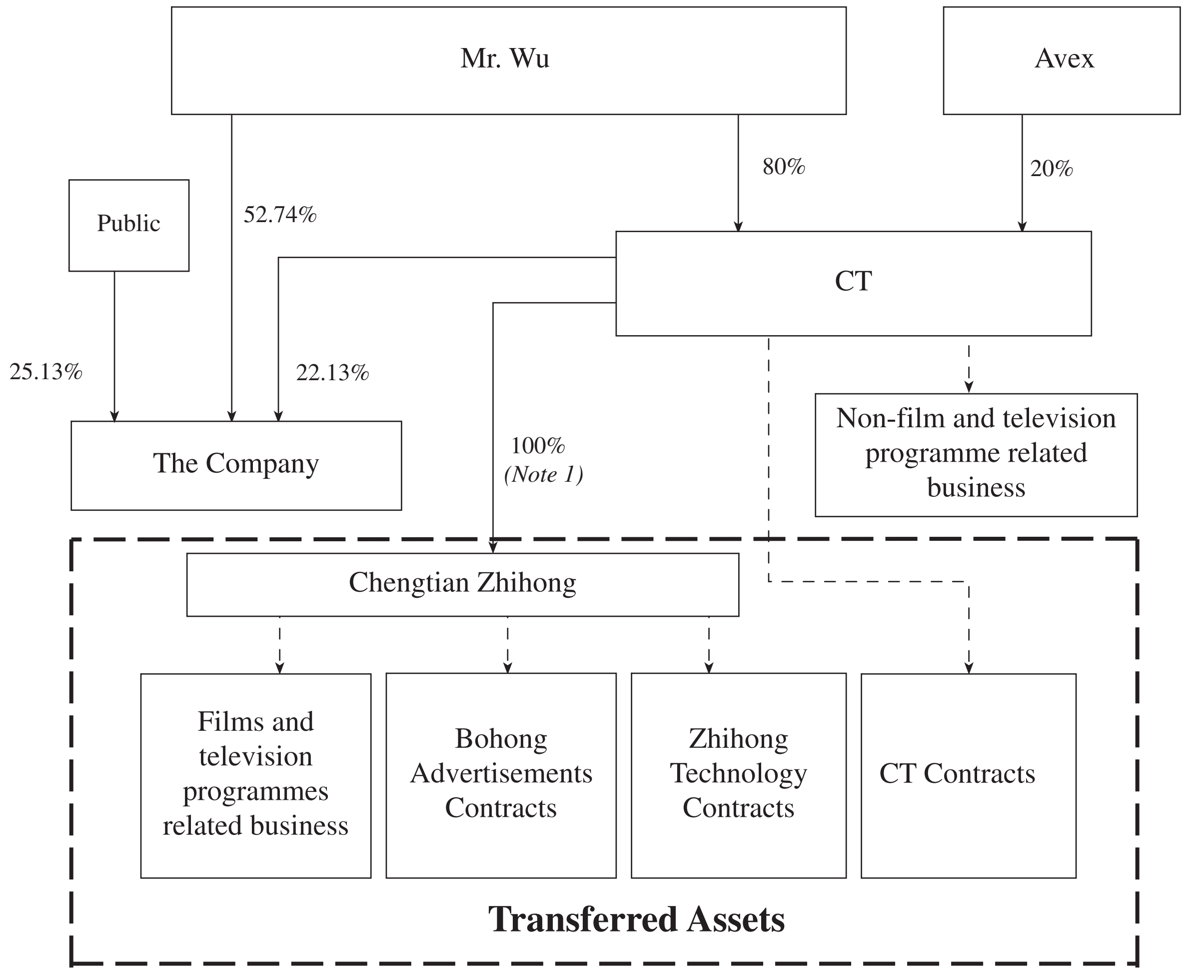
After completion of the Reorganisation and the Acquisition, the Restructured Group will principally be engaged in investment, production and worldwide distribution of films and videos, film exhibition in Hong Kong, the PRC, Taiwan and Singapore, and provision of films and television programmes related advertising and consultancy services.

Set out below is the simplified shareholding structure of the Transferred Assets before and after the Acquisition:

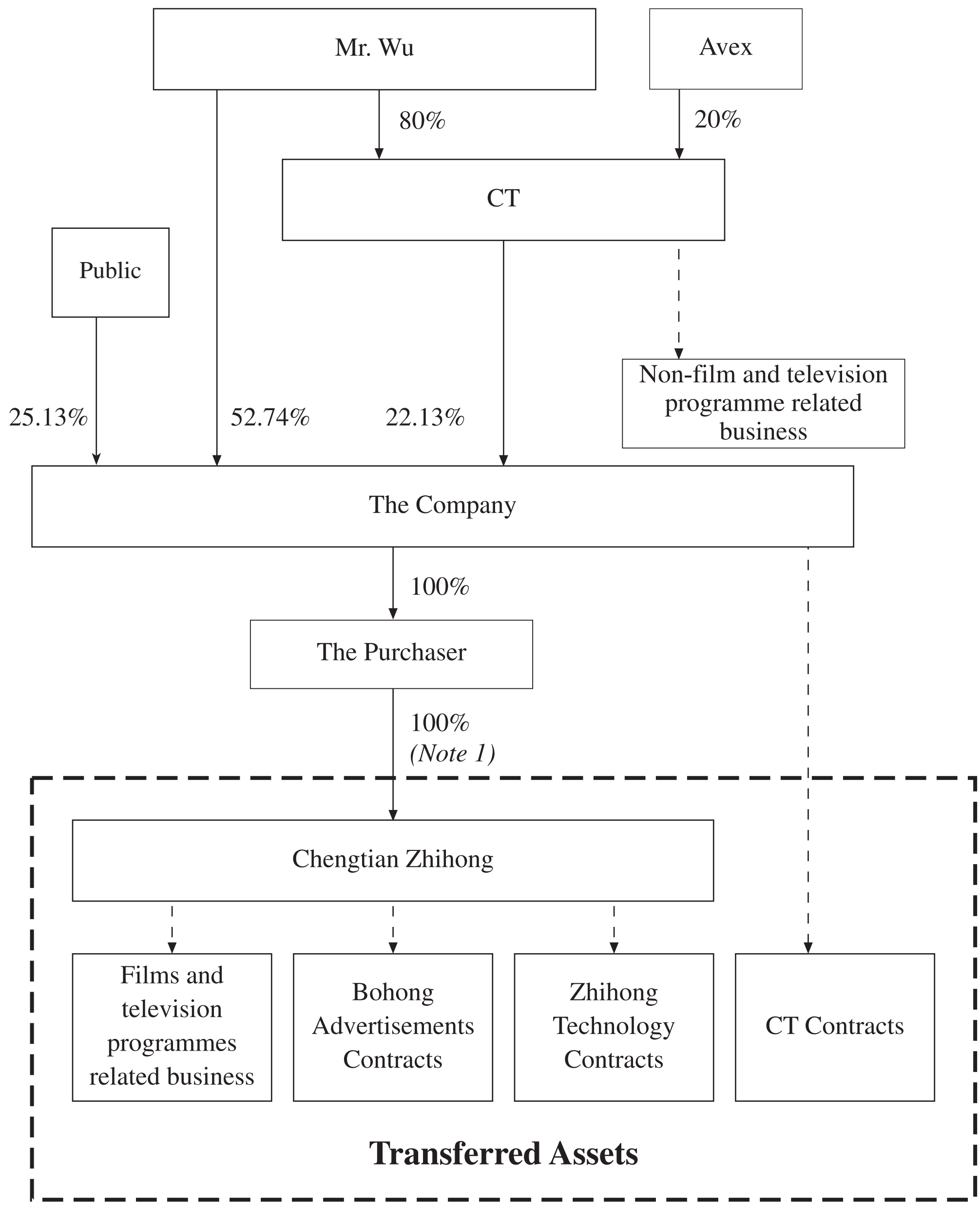
(i) *Immediately before the Reorganisation*



(ii) *Immediately after the Reorganisation but before the Completion*



(iii) *Immediately after the Completion of the Acquisition but before any exercise of the Convertible Notes*



Note 1: As at the Latest Practicable Date, Mr. Wu is the legal holder of 90% equity interest in Chengtian Zhihong and two other PRC nationals are the legal holders of the remaining 10% equity interest; and CT is the beneficial owner of the entire equity interest in Chengtian Zhihong. Mr. Wu has entered into an equity transfer agreement with one of the Transferors in respect of the transfer of 5% of the equity interest held by such Transferor in Chengtian Zhihong to Mr. Wu. The parties are in the process of handling the relevant procedures with the PRC regulatory authorities. Similarly, Ms. Wu has entered into an equity transfer agreement with one of the Transferors in respect of the transfer of 5% of the equity interest held by such Transferor in Chengtian Zhihong to Ms. Wu. The parties are in the process of handling the relevant procedures with the PRC regulatory authorities. Mr. Wu and Ms. Wu have undertaken to the Purchaser to execute the Contractual Arrangements (as defined below) on Completion. Mr. Wu and Ms. Wu have undertaken to the Purchaser to procure the Transferors to transfer from each 5% equity interest in Chengtian Zhihong to Mr. Wu and to Ms. Wu respectively prior to Completion.

The Transferred Assets had an audited net asset value of approximately RMB38 million as at 31 December 2008, and the audited combined profits for each of the two years ended 31 December 2008 were as follows:

	Financial year ended 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
Profit before taxation from continuing operations	25,035	4,970
Profit after tax from continuing operations	19,002	4,970

Following Completion, the accounts of the Transferred Assets will be fully consolidated into the financial statements of the Group through the Contractual Arrangements (as defined below).

The investment cost of the Vendors in the Transferred Assets was amounted to RMB16.5 million as at 31 December 2008.

Following Completion, the Bohong Advertisements Contracts and the Zhihong Technology Contracts will be executed by Chengtian Zhihong and the CT Contracts will be executed by the Company.

Contractual arrangements regarding the equity interests in Chengtian Zhihong

PRC regulations currently have certain restrictions on the foreign ownership of companies involved in certain businesses or operational areas of the film and television industry. The business scope of Chengtian Zhihong principally includes: (i) film production; (ii) distribution of domestic films and (iii) production of television programmes. The business activities of Chengtian Zhihong are regulated by certain regulating authorities, which include the State Administration of Radio, Film and Television in the PRC. According to the foreign investment catalogue in the PRC issued in 2007, a foreign investor is only allowed to engage in television programmes production and films production by means of cooperation with qualified PRC partners. Upon Completion, the Group will not have any direct equity interest in Chengtian Zhihong and Chengtian Zhihong will continue to be wholly held by PRC nationals (i.e. Mr. Wu and Ms. Wu). The Group's effective management, control and beneficial interest in Chengtian Zhihong will be protected through the following Contractual Arrangements (as defined below) which have been narrowly tailored to achieve the Group's business purposes and minimise any potential conflict with the PRC laws and regulations as the Group will not have any direct equity interest in Chengtian Zhihong.

Mr. Wu and Ms. Wu have undertaken, and CT shall procure Mr. Wu and Ms. Wu, to execute (i) the loan agreement on normal commercial terms for the purposes of the entering into of the equity pledge agreement set out in (ii) below whereby a wholly foreign owned enterprise of the Company will lend an amount not exceeding RMB100,000 to Mr. Wu and Ms. Wu which will be repayable by Mr. Wu and Ms. Wu on demand and will not be offset under the Deferred Consideration Arrangement; (ii) the equity pledge agreement in respect of the entire equity interest in Chengtian Zhihong in favour of a wholly foreign owned enterprise of the Company on terms satisfactory to the Purchaser whereby Mr. Wu and Ms. Wu will undertake to the wholly foreign owned enterprise of the Company on matters relating to the operations of Chengtian Zhihong, including, Mr. Wu and Ms. Wu will procure Chengtian Zhihong not to dispose, transfer, charge or otherwise deal with the assets of Chengtian Zhihong and will procure Chengtian Zhihong not to enter into any material contracts without the written consent of the wholly foreign owned enterprise of the Company, so as to exercise management control over the operations of Chengtian Zhihong and to prevent disposal of assets to the shareholders of Chengtian Zhihong; (iii) the exclusive option agreement at nil consideration in respect of the equity interest in Chengtian Zhihong in favour of a wholly foreign owned enterprise of the Company whereby an exclusive option will be granted to a wholly foreign owned enterprise of the Company to acquire the equity interest in Chengtian Zhihong at minimum consideration in accordance with the applicable laws and on terms satisfactory to the Purchaser and such minimum consideration will be transferred to a wholly foreign owned enterprise of the Company at nil consideration within a certain period of time after Mr. Wu and Ms. Wu received such payment; (iv) a proxy agreement at nil consideration in favour of a wholly foreign owned enterprise of the Company on terms satisfactory to the Purchaser whereby the wholly foreign owned enterprise will have right to dividends (which shall be transferred to the wholly foreign owned enterprise or any other entity nominated by the Group within ten Business Days after such distribution) and voting rights indirectly as the shareholders of Chengtian Zhihong will irrevocably act upon the instructions of the wholly foreign owned enterprise of the Company in respect of these matters; and (v) the service agreement with a wholly foreign owned enterprise of the Company and Chengtian Zhihong in respect of any services that may be provided by the wholly foreign owned enterprise of the Company to Chengtian Zhihong (collectively, "the Contractual Arrangements").

The Company will comply with the applicable requirements under the Listing Rules at the time when the agreements on Contractual Arrangements are entered into and at the time when the exclusive option under the exclusive option agreement is exercised (if necessary).

As part of the Completion obligations as set out in the Agreement, the Vendors have to deliver on or prior to Completion a PRC legal opinion in a form satisfactory to the Purchaser, in relation to, among other things, the legality and enforceability of the Contractual Arrangements. In the opinion of the Company's PRC legal counsel, the Contractual Arrangements among Mr. Wu, Ms. Wu and the Group are in compliance with all existing PRC laws, rules and regulations.

Risks associated with the Contractual Arrangements

PRC laws and regulations restrict certain foreign investments in certain areas of the PRC film and television industry. The Group does not and will not be as a result of the Acquisition have any direct equity interest in Chengtian Zhihong but instead enjoy the economic benefits in Chengtian Zhihong through the Contractual Arrangements. In the opinion of the Company's PRC legal counsel, the Contractual Arrangements among Mr. Wu, Ms. Wu, Chengtian Zhihong and the Group are in compliance with all existing PRC laws, rules and regulations. The Group, however, cannot assure that PRC regulatory authorities will take the same view in their interpretation and application of current or future PRC laws and regulations. If the PRC government determines that the Group does not comply with applicable PRC laws, rules and regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation, including, without limitation, levying fines, confiscating Chengtian Zhihong's income, requiring the Group to restructure the Group's ownership structure or operations, requiring Chengtian Zhihong to discontinue its business or revoking the business licence of Chengtian Zhihong. Furthermore, the Contractual Arrangements may not be as effective in providing control over the operations of Chengtian Zhihong as direct ownership in Chengtian Zhihong since these arrangements will not preserve the Group's control in the occurrence of certain events which may fall outside the control of the Shareholders and the Group, including the imposition of statutory liens, judgments, court orders, death or incapacity. In particular, Mr. Wu, Ms. Wu and Chengtian Zhihong could fail to perform or make payments as required under the Contractual Arrangements, and the Group will then have to rely on the PRC legal system to enforce those Contractual Arrangements to ensure maximum protection for the Company.

Accounting treatments regarding the Contractual Arrangements

Under the Hong Kong Accounting Standard 27, Consolidated and Separate Financial Statements, subsidiary is an entity controlled by the Company. "Control" exists when the Group has the power to govern the financial and operational polices of an entity so as to obtain benefits from its activities.

The Group will enter into the Contractual Arrangements with Mr. Wu, Ms. Wu and Chengtian Zhihong, such that:

- a wholly foreign owned enterprise of the Company is entitled to enjoy all the economic benefits of Chengtian Zhihong as all the dividends, bonuses or any other assets distributed to Mr. Wu and Ms. Wu by Chengtian Zhihong will be transferred to the Group upon the instructions of the wholly foreign owned enterprise of the Company at nil consideration within a period of time after such distribution;

- a wholly foreign owned enterprise of the Company is granted the exclusive right to acquire, to the extent permissible under PRC laws, the equity interests in Chengtian Zhihong at nominal consideration; and

- Mr. Wu and Ms. Wu are required to follow the instructions of the wholly foreign owned enterprise of the Company, whenever Mr. Wu and Ms. Wu exercise their rights (which include the right to dividends and voting rights) as the shareholders of Chengtian Zhihong.

Based on the above Contractual Arrangements, the Group has effective control over the financial and operational policies of Chengtian Zhihong as well as the economic benefits derived from the operations of Chengtian Zhihong. Notwithstanding the fact that the Group does not have direct equity interest in Chengtian Zhihong, the Group will consolidate the financial results and positions of Chengtian Zhihong in the consolidated financial statements of the Group under Hong Kong Financial Reporting Standards as the Contractual Arrangements effectively transfer the economic risks and benefits of Chengtian Zhihong to the Group.

Non-compete undertakings

Subject to Completion, each of Mr. Wu and CT undertakes to and for the benefit of the Purchaser that, save and except through their respective interests in the Company and Chengtian Zhihong, they will not and shall use their best endeavors to ensure that they will not, whether as principal or agent and whether undertaken directly or indirectly (including through any affiliate, body corporate, partnership, joint venture or other contractual arrangement), carry on, engage in or make any investment, whether for profit, reward or otherwise, in any business relating to the Restricted Business. Such undertakings shall survive and remain in full force and effect from Completion. For the purposes of Mr. Wu, such undertakings shall survive and remain in full force and effect for so long as Mr. Wu directly and/or indirectly holds 30% or more of the total issued share capital of the Company. For the purposes of CT, such undertaking shall survive and remain in full force and effect for so long as CT, directly and/or indirectly holds 10% or more of the shareholding interest in the Company or is controlled by Mr. Wu.

Acquisition Consideration

The maximum aggregate Acquisition Consideration is up to RMB80 million (equivalent to approximately HK$90.2 million) which will be partly satisfied by cash of RMB32 million (equivalent to approximately HK$36.1 million) funded by the internal resources of the Group and by the issue of the first tranche of the Convertible Notes by the Company to CT of RMB8 million (equivalent to approximately HK$9.0 million) upon Completion and the remaining of up to RMB40 million (equivalent to approximately HK$45.1 million) will be satisfied by the issue of the second tranche Convertible Notes by the Company to CT in accordance with the Deferred Consideration Arrangement set out below:

(i) RMB40 million (equivalent to approximately HK$45.1 million) shall be paid to CT or such other entities as designated by CT, of which RMB32 million (equivalent to approximately HK$36.1 million) will be in cash within one Business Day (after deducting the costs arising out of or in connection with the preparation, negotiation and implementation of the Agreement that needs to be borne by CT), from the Completion Date or such other time as agreed to by the Purchaser and CT in writing and RMB8 million (equivalent to approximately HK$9.0 million) by way of issuing the first tranche Convertible Notes within five Business Days from the Completion Date; and

(ii) Up to RMB40 million (equivalent to approximately HK$45.1 million) shall be paid to CT by way of issuing the second tranche Convertible Notes in accordance with the Deferred Consideration Arrangement.

The Acquisition Consideration was determined after arms' length negotiation between the Company and the Vendors after taking into consideration the financial position of the Transferred Assets; the prospects of the films and television programmes related business in the PRC; and the Guaranteed Profit. The Directors consider that the Acquisition Consideration is fair and reasonable.

Deferred Consideration Arrangement

Pursuant to the Agreement, CT has undertaken to the Purchaser that the consolidated profit after taxation and minority interests (but excluding any event or transaction that is outside the ordinary course of business) of or derived from the Transferred Assets for the Guaranteed Period prepared and presented in accordance with the HKFRS shall not be less than RMB20 million (equivalent to approximately HK$22.6 million).

(i) In the event that the Aggregate Net Profits for 2009 and 2010 are equal to or more than the Guaranteed Profit of RMB20 million, a sum equal to RMB40 million (equivalent to approximately HK$45.1 million) shall be payable by the Purchaser to CT by procuring the Company to issue the Convertible Notes within 15 Business Days from 30 April 2011.

(ii) In the event that the Aggregate Net Profits for 2009 and 2010 are positive but less than the Guaranteed Profit of RMB20 million, a sum equal to the Aggregate Net Profits multiplied by a factor of two shall be payable by the Purchaser to CT by procuring the Company to issue the Convertible Notes within 15 Business Days from 30 April 2011. No amount shall be payable by the Purchaser where the Aggregate Net Profits are equal to or less than zero.

If the Aggregate Net Profits are less than the Guaranteed Profit as mentioned above, the Company will publish an announcement to disclose the detail as soon as practicable and will include such detail in its next relevant annual report. The independent non-executive Directors will provide an opinion in the Company's next relevant annual report as to whether the Vendors have fulfilled their obligations under the deferred consideration arrangement.

Convertible Notes

The principal terms of the Convertible Notes to be issued by the Company will be as follows:

Principal amount:	The Convertible Notes will be issued in two tranches with the maximum principal amount of approximately HK$54.1 million (equivalent to RMB48 million). The Convertible Notes are denominated in HK$. The HK$ equivalent of the Convertible Notes are calculated based on the exchange rate of RMB to HK$ at the rate of RMB1: HK$1.128.
Maturity date:	Unless previously converted, the outstanding principal amount of the Convertible Notes will be repaid by the Company on 31 December 2015
Coupon:	Nil
Conversion:	The whole or any part (in authorised denominations) of the outstanding principal amount of Convertible Notes are convertible from time to time and at any time over the term of the Convertible Notes at a conversion price of HK$3.38 per Share (subject to adjustment). The conversion price of the Convertible Notes is subject to adjustment provisions standard for convertible securities of similar type. Adjustment events will include changes in the share capital of the Company, such as consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, or subsequent issue of securities in the Company at a discount to market.

	The holder of the Convertible Notes undertakes to the Company that it will not exercise its conversion rights to convert the Convertible Notes into Conversion Shares in such a way that it will render the Company being not able to comply with the requirements on public float of the Listing Rules.
Redemption:	To the extent not previously converted, the Company shall redeem the Convertible Notes in cash at 100% of the outstanding principal amount on 31 December 2015.
Listing:	No application will be made for the listing of the Convertible Notes on any stock exchange. Application will be made for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.
Ranking of the Convertible Notes:	The Convertible Notes constitute (subject to the terms and conditions of the Convertible Notes) unsecured obligations of the Company and ranking pari passu with other unsecured obligation of the Company.
Conversion Shares:	On the basis of the principal amount of HK$54.1 million and the initial conversion price of HK$3.38 per Share, a total of 16,018,934 Conversion Shares will be issued upon full conversion of the Convertible Notes. The Conversion Shares shall upon issue rank pari passu in all respects with the then issued Shares.
Transferability:	The Convertible Notes will not be assignable or transferable which is not a subsidiary or holding company of the holders of the Convertible Notes except with the prior written consent of the Company. The Convertible Notes may not be assigned or transferred to a connected person of the Company without the prior written consent of the Company. Save as aforesaid, there is no other restriction applicable to the subsequent sale of the Convertible Notes and the Conversion Shares.

The initial conversion price of the Convertible Notes of HK$3.38 per Share has been determined after arms' length negotiation between the Purchaser and the Vendors with reference to the recent daily closing price of Shares.

The initial conversion price of HK$3.38 per Share represents:

(i) a premium of approximately 12.667% over the closing price of HK$3.0 per Share as quoted on the Stock Exchange on 15 June 2009, being the last trading day immediately prior to the release of the Announcement;

(ii) a premium of approximately 11.331% over the average closing price of HK$3.036 per Share as quoted on the Stock Exchange over the last 10 trading days up to and including 15 June 2009;

(iii) a premium of approximately 8.787% over the average closing price of HK$3.107 per Share as quoted on the Stock Exchange over the last 30 trading days up to and including 15 June 2009;

(iv) a premium of approximately 4.969% over the average closing price of HK$3.220 per Share as quoted on the Stock Exchange since the Company resumed trading on 14 April 2009 up to and including 15 June 2009;

(v) a premium of approximately 14.576% over the closing price of HK$2.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 2.238% over the audited consolidated net tangible assets value (excluding minority interest) of the Group of HK$3.306 per Share as at 30 June 2008; and

(vii) a premium of approximately 0.118% over the unaudited consolidated net tangible assets value (excluding minority interest) of the Group of HK$3.376 per Share as at 31 December 2008.

The Acquisition Consideration was determined after taking into account, among other things, that (i) the Convertible Notes is zero coupon, has no premium on redemption, no put option, no re-set provision and a conversion price (subject to adjustment) which reflects a premium over recent market prices and approximately equal to the unaudited consolidated net tangible assets value of about HK$3.376 per Share as at 31 December 2008; and (ii) that there is no immediate dilution effect on the shareholding interests of the Independent Shareholders.

Conditions of the Agreement

The Agreement is subject to and conditional upon the fulfillment of, inter alia, the following conditions precedent on or before the Long Stop Date:

(i) completion of satisfactory legal, financial and business due diligence in respect of the Transferred Assets by the Purchaser;

(ii) the obtaining of all consents which are necessary or desirable for the implementation of the transactions contemplated by the parties under the Agreement, including without limitation, approval of the Shareholders, if required, in relation to the Agreement and the transactions contemplated thereunder and any other approvals or notifications required pursuant to the requirements of the Listing Rules, including the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in the Conversion Shares to be issued pursuant to the conversion of the Convertible Notes;

(iii) all consents, in form and substance reasonably satisfactory to the Purchaser, to the performance by the Vendors of their obligations under the Agreement as are required under any law and regulation or arrangement (contractual or otherwise) having been obtained and remaining in full force and effect;

(iv) none of the warranties and representations being found to be, or no event occurring or matter arising which may render or renders any of the warranties and representations, untrue or inaccurate or misleading on and as at the Completion Date; and

(v) completion of Reorganisation, to the reasonable satisfaction of the Purchaser.

The Purchaser may at its absolute discretion waive in writing the conditions mentioned above (other than conditions (ii) above). If any of the above conditions shall not have been fulfilled in full (or, where applicable, waived by the Purchaser in writing) on or before the Long Stop Date, then the Agreement shall lapse and no party shall make any claim against the other in respect hereof, save for any antecedent breach.

Completion

Completion is to take place after five Business Days after fulfillment (or, where applicable, waived by the Purchaser in writing) of the conditions referred to above.

Effect on the shareholding structure of the Company

The following is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full conversion of the first tranche of the Convertible Notes to be issued upon Completion; and (iii) immediately after full conversion of the maximum issued amounts of Convertible Notes (assuming no other changes in shareholding before then):

	As at the Latest Practicable Date		After full conversion of the first tranche of Convertible Notes issue upon Completion		Immediately after full conversion of the maximum issued amounts of Convertible Notes	
Shareholders	**No. of Shares**	**Approximate percentage (%)**	**No. of Shares**	**Approximate percentage (%)**	**No. of Shares**	**Approximate percentage (%)**
CT	40,553,060	22.13%	43,222,882	23.24%	56,571,994	28.38%
Mr. Wu *(Note 1)*	96,670,412	52.74%	96,670,412	51.99%	96,670,412	48.51%
CT and Mr. Wu	**137,223,472**	**74.87%**	**139,893,294**	**75.23%**	**153,242,406**	**76.89%**
Public Shareholders	**46,050,518**	**25.13%**	**46,050,518**	**24.77%**	**46,050,518**	**23.11%**
Total:	**183,273,990**	**100%**	**185,943,812**	**100%**	**199,292,924**	**100%**

Note:

1. *Mr. Wu through his 100% beneficial holding in Skyera International Limited, Mainway Enterprises Limited and Cyber International Limited hold 96,670,412 Shares. Of these Shares, (a) 37,798,813 Shares were held by Skyera International Limited; (b) 40,871,599 Shares were held by Mainway Enterprises Limited; and (c) 18,000,000 Shares were held by Cyber International Limited.*

Conversion of the Convertible Notes may result in the Company failing to meet the minimum public float requirement as prescribed under Rule 8.08 of the Listing Rules. According to the terms of the Convertible Notes, CT will only be able to exercise the conversion rights as to such number of Shares if, upon conversion, the percentage of the Shares held by the public will still meet the minimum public float requirement under Rule 8.08 of the Listing Rules. A total of 16,018,934 Conversion Shares to be issued upon full conversion of the maximum issued amounts of Convertible Notes represents approximately 8.74% of the existing share capital of the Company, approximately 8.04% of the share capital of the Company as enlarged by the Conversion Shares. Assuming the shareholding structure of the Company as at the Latest Practicable Date remains unchange, full conversion of the Convertible Notes would not result in a change of control of the Company.

INFORMATION ON THE COMPANY AND CT

The Group is principally engaged in worldwide film and video distribution, film exhibition in Hong Kong, the PRC, Taiwan and Singapore.

CT was incorporated in the British Virgin Islands with limited liability and was founded by Mr. Wu in 2004. CT is principally engaged in films and television programmes production, music and musical production, artist management and advertising businesses in the PRC. CT is owned as to 80% by Mr. Wu and 20% by Avex, a company listed on Tokyo Stock Exchange First Section, which engages in communication and content creation business in both Japan and overseas.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition will provide an opportunity for the Group to expand its entertainment business in the PRC in accordance with its strategy to redeploy resources to grow and strengthen its presence in the PRC. The Group currently operates cinema and digital screen/in-theatre advertising business in Shenzhen, the PRC and is actively expanding the film exhibition business in other cities of the PRC. The Board believes that the Acquisition will further develop the Group's business network and capabilities in the PRC, which cover not just developing and distributing Chinese-language contents, but also understanding the local customers' tastes and marketing the Group's offerings to their needs. The Group can leverage, upon Completion, on Chengtian Zhihong's operation platform which covers the areas of film and media production, film distribution and advertising service businesses to grow the Group's market presence in the PRC.

The Directors are of the view that the transactions contemplated under the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Following Completion, Chengtian Zhihong will be wholly and beneficially owned by the Purchaser and will become a wholly-owned subsidiary of the Company. The accounts of the

Transferred Assets will be fully consolidated into the financial statements of the Group after Completion. Based on the unaudited pro forma financial information of the Enlarged Group on pages 196 to 202 of this circular, both assets and liabilities of the Group will be increased by HK$121.9 million and HK$108.2 million, respectively.

For the year ended 31 December 2008, profit for the year from continuing operations of the Transferred Assets was amounted to approximately RMB5 million. In view of the profitable track record of the Transferred Assets and given the financial statements of the Transferred Assets will be consolidated to the Group, the Acquisition is expected to further enhance the profitability and earning prospect of the Group.

FINANCIAL AND TRADING PROSPECTS

Looking forward, the Group will dedicate its efforts in strengthening and growing both the exhibition and distribution networks in territories with higher market potential and better returns. Given the continued opening of film market in the PRC as well as growing influence of Chinese-language films in the international film industry, the Directors strongly believe that more focus should be placed onto opportunities related to the PRC market. In addition to the planned opening of more screens in Shenzhen and other principal cities such as Beijing, Hangzhou, Suzhou and Wuxi, the Group will also actively expand its distribution business in the PRC.

Upon Completion, the Group will obtain direct access to premium films and television programmes library and expand the Group's participation in the PRC films and televisions industry. Besides, the Company's interest in the Transferred Assets would contribute to the future profit and loss of the Group as well as the cash generated from the Transferred Assets' operation would serve as the Company's cash flow.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Both Mr. Wu, the chairman and executive Director of the Company, and CT are substantial shareholders of the Company, and Ms. Wu is an alternate Director to Mr. Wu. Accordingly, the Acquisition constitutes a connected transaction of the Company. The Agreement, including the issue of the Convertible Notes and the Conversion Shares, is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, apart from Mr. Wu, CT and their associates, no other Shareholder of the Company has a material interest in the Acquisition and thus no other Shareholder will be required to abstain from voting on the resolution to approve the Acquisition, including the issue of the Convertible Notes and the Conversion Shares at the SGM.

SGM

Your attention is drawn to pages 211 to 212 of this circular where you will find a notice of the SGM to be held at Jade Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Monday, 20 July 2009 at 2:30 p.m.. An ordinary resolution will be proposed at the SGM to approve the terms of the Agreement and the transactions contemplated thereunder. Voting on the resolution will be by way of poll.

Mr. Wu and CT, holding approximately 52.74% and 22.13% of the existing issued share capital of the Company respectively as at the Latest Practicable Date, are substantial shareholders of the Company. Together with any of their associates, they will abstain from voting on the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder. So far as the Company was aware having made all reasonable enquiries, Mr. Wu and CT holding approximately 74.87% of the voting right in respect of the Company's issued ordinary share capital as at the Latest Practicable Date, that no voting trust or other agreement or arrangement or understanding has been entered into by or was binding upon Mr. Wu and CT and/or any of their associates; and that there were no other obligation or entitlement of Mr. Wu and CT and/or any of their associates as at the Latest Practicable Date, whereby Mr. Wu and CT and/or any of their associates has/have or may have temporarily or permanently passed control over the exercise of the voting rights in respect of its/their Shares to a third party, either geneally or on a case-by-case basis.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, 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 holding the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM should you so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll. The chairman of the SGM shall therefore demand voting on all resolution set out in the notices of SGM be taken by way of poll pursuant to paragraph 66 of the bye-laws of the Company.

On a poll, every Shareholder presents in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each Share registered in his/her name in the register of Shareholders. A Shareholder entitled to more than one vote is not necessary to use all his votes or cast all the votes he uses in the same manner.

RECOMMENDATION

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

FURTHER INFORMATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Acquisition. OSK has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regard. Accordingly, your attention is drawn to the letter of advice from the Independent Board Committee set out on page 23 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from the Independent Financial Adviser set out on pages 24 to 48 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

Your attention is also drawn to the general information set out in the Appendix IV to this circular.

Yours faithfully,
By the order of the Board of
Golden Harvest Entertainment (Holdings) Limited
Chan Suet Yin, Winnie
Executive Director

Golden Harvest Entertainment (Holdings) Limited
嘉禾娛樂事業(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code : 1132)

To the Independent Shareholders

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular to the Shareholders dated 25 June 2009 (the "Circular") of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in our opinion, the entering into the Agreement and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. OSK has been appointed to advise the Independent Board Committee and the Independent Shareholders.

We wish to draw your attention to the "Letter from Independent Financial Adviser" as set out on pages 24 to 48 of the Circular. We have considered the terms and conditions of the Agreement, the advice of the Independent Financial Adviser and the other factors contained in the "Letter from the Board" as set out on pages 6 to 22 of the Circular.

In our opinion, the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Agreement is in the best interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
Members of the Independent Board Committee

Mr. Leung Man Kit **Mr. George Huang Shao-Hua** **Mr. Masahito Tachikawa**
Independent Non-executive Directors

The following is the text of the letter of advice from OSK Capital Hong Kong Limited to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

OSK Capital Hong Kong Limited
僑豐融資有限公司
Subsidiary of OSK Investment Bank Berhad, Malaysia

11/F., Hip Shing Hong Centre,
55 Des Voeux Road Central, Hong Kong

25 June 2009

The Independent Board Committee and the Independent Shareholders
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, details of which are set out in the circular of the Company dated 25 June 2009 (the "Circular") of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

Mr. Wu, Ms. Wu and CT are connected persons of the Company and are the Vendors under the Agreement. The Acquisition constitutes a major and connected transaction for the Company as explained in the Circular and is subject to the applicable reporting, announcement and independent shareholders' approval requirements set out in Chapters 14 and 14A of the Listing Rules. The Independent Board Committee comprising Mr. Leung Man Kit, Mr. George Huang Shao-Hua and Mr. Masahito Tachikawa has been established to give advice and make a recommendation to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. We have been appointed as the independent financial adviser to make a recommendation to the Independent Board Committee and the Independent Shareholders as to whether the Agreement is on normal commercial terms, whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole and to make a recommendation to the Independent Shareholders as to whether they should vote for or against the resolution in respect of the Agreement and the transactions contemplated thereunder at the SGM. Mr. Wu, Ms. Wu, CT and their respective associates will abstain from voting at the SGM in respect of such resolution.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made by the Directors and management and advisers of the Group to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management and advisers of the Company that no material facts have been withheld or omitted from such information and representations. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular or to us have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement in the Circular relating to the Group misleading.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.82 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group, CT and the Transferred Assets nor have we carried out any in-depth research on the Group or the current state of or likely prospects of the industries in which the Group, CT and the Transferred Assets operate.

BACKGROUND OF THE ACQUISITION

On 15 June 2009, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendors, namely Mr. Wu, Ms. Wu and CT, pursuant to which the Purchaser agreed to acquire the entire equity interests in Chengtian Zhihong and the CT Contracts from the Vendors subject to the terms and conditions of the Agreement. Under the Agreement, each of Mr. Wu and CT has undertaken to conduct the Reorganization which includes the proposed assignment or novation of the Bohong Advertisements Contracts and the Zhihong Technology Contracts to Chengtian Zhihong prior to Completion.

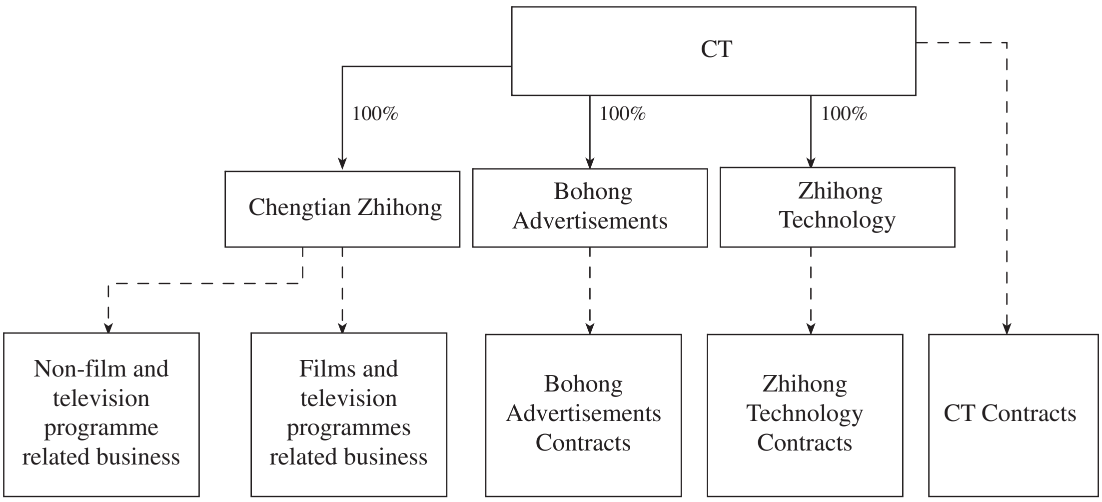
It is stated in the Letter from the Board that Bohong Advertisements, Zhihong Technology and Chengtian Zhihong are beneficially wholly owned by CT. Bohong Advertisements is principally engaged in the provision of marketing and advertising services including films and television programmes related advertising services. Zhihong Technology is principally engaged in the pre-production and investment in films and television programmes. The Bohong Advertisements Contracts represent, among others, films advertisement contracts. The CT Contracts are film investment contracts in respect of co-investments in films with other film production companies and pre-production contracts entered into with film directors regarding film productions. The Zhihong Technology Contracts are pre-production contracts entered into with film directors and screenplay writing contracts.

We understand from the Company that the CT Contracts, the Bohong Advertisements Contracts and the Zhihong Technology Contracts represent all the contracts entered into by CT, Orange Sky HK, Bohong Advertisements or Zhihong Technology (including those to be entered into up to the date of Completion, if any) in relation to the production or distribution or sale of advertising resources in relation to the films and television programmes in which the CT Group (apart from Chengtian Zhihong) has invested or is otherwise involved.

As part of the Reorganization, the outstanding Deposit made by CT, Orange Sky HK, Bonhong Advertisements and Zhihong Technology in relation to the CT Contracts, the Bonhong Advertisement Contracts and the Zhihong Technology Contracts to the counterparties of the contracts will also form part of the Transferred Assets.

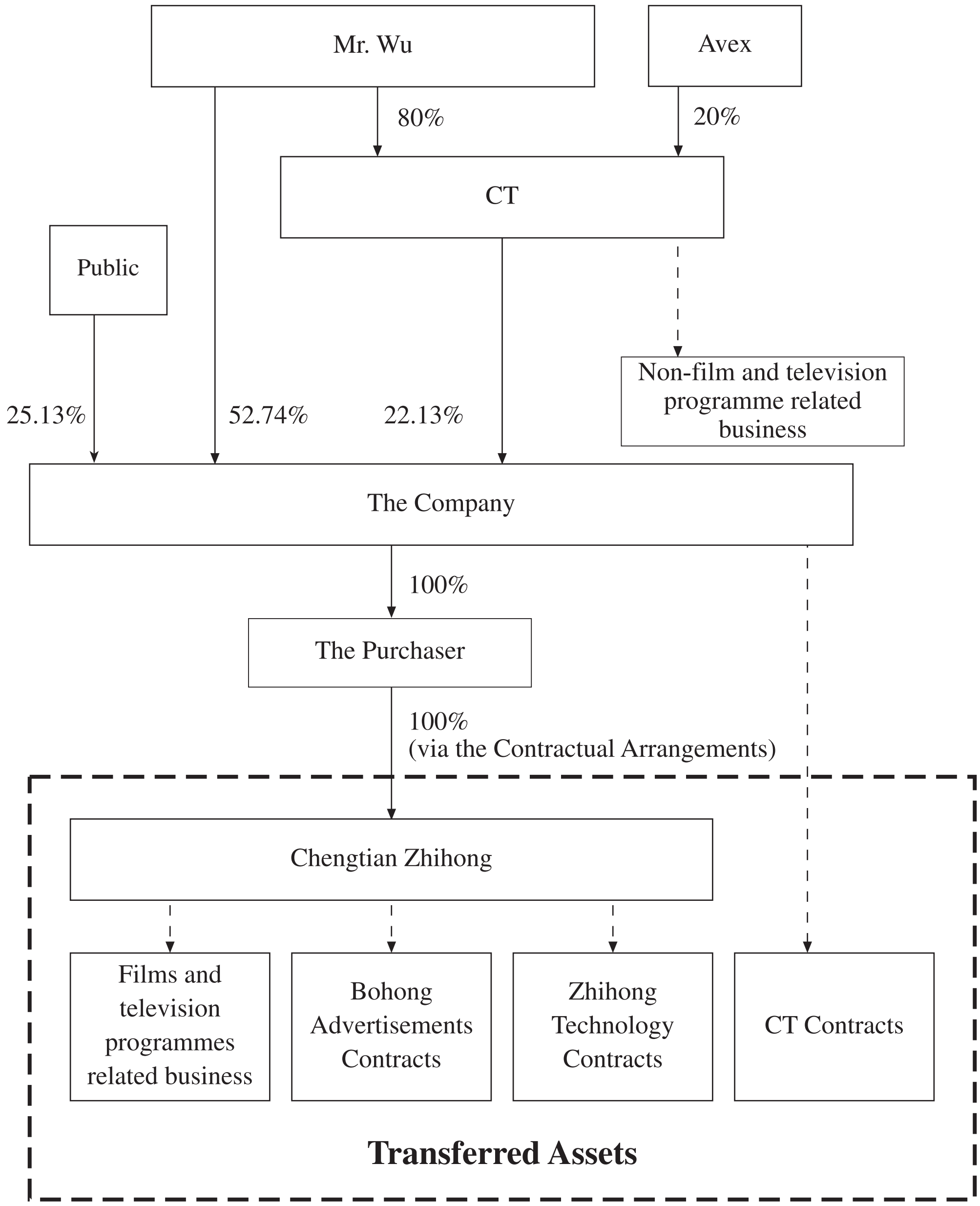
We understand that CT, through its subsidiaries, including among others, Chengtian Zhihong, is principally engaged in films and television programmes related business and other media and entertainment related business. Under the Reorganisation, apart from the CT Contracts, CT will group all its films and television programmes related business under Chengtian Zhihong. Accordingly, by acquiring the Transferred Assets (comprising the entire equity interest in Chengtian Zhihong and the CT Contracts), the Group will acquire the entire films and television programmes related business of CT under the Agreement.

The diagram below shows the existing group structure of CT.



As at the Latest Practicable Date, the legal title of Chengtian Zhihong was owned by Mr. Wu as to 90% and the two other individuals (each of them a "Transferor") as to the remaining 10%. As set out in the letter from the Board, CT is the beneficial owner of the entire equity interests in Chengtian Zhihong. Mr. Wu has entered into an equity transfer agreement with one of the Transferors in respect of the transfer of 5% of the equity interest held by such Transferor in Chengtian Zhihong to Mr. Wu. Ms. Wu has entered into another equity transfer agreement with another Transferor in respect of the transfer of another 5% of the equity interest held by such Transferor in Chengtian Zhihong to Ms. Wu.

The diagram below shows the structure of the Transferred Assets immediately upon Completion but before conversion of any Convertible Notes.



Mr. Wu is the controlling shareholder of the Company. CT is an associate of Mr. Wu and a substantial shareholder of the Company and Ms. Wu is a sister of Mr. Wu. Mr. Wu is also the chairman and an executive Director of the Company. Ms. Wu is the alternative Director to Mr. Wu. Each of Mr. Wu, Ms. Wu and CT is a connected person of the Company for the purposes of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company and is subject to, among other things, approval by the Independent Shareholders.

The Acquisition also constitutes a major transaction for the Company under the Listing Rules.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Acquisition, we have considered the Acquisition and have taken into consideration the following principal factors:

Reasons for the Acquisition

(a) ***Business of the Group***

The Group is principally engaged in worldwide film and video distribution, and film exhibition in Hong Kong, the PRC, Taiwan and Singapore.

Set out below are the audited consolidated income statements of the Company for each of the three years ended 30 June 2008 and the unaudited consolidated income statements of the Company for the six months ended 31 December 2008 (extracted from the relevant published annual reports and interim report of the Company):

	(Unaudited) Six-months ended 31 December	(Audited) Year ended 30 June		
	2008	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	397,925	619,901	469,511	512,285
Cost of sales	(183,843)	(289,552)	(216,732)	(232,033)
Gross profit	214,082	330,349	252,779	280,252
Other income	18,523	67,723	43,775	41,836
Selling and distribution costs	(182,852)	(301,739)	(244,452)	(267,740)
General and administrative expenses	(26,639)	(61,498)	(68,799)	(52,490)
Other operating expenses	(5,247)	(14,979)	(11,445)	(10,599)
Profit/(Loss) from operations	17,867	19,856	(28,142)	(8,741)
Finance costs	(553)	(11,970)	(15,712)	(7,450)
Share of profits less losses of associates	—	9,663	20,801	24,143
Gain on disposal of interest in an associate	—	—	115,970	—
Gain/(loss) on disposal of interest in a jointly controlled entity	61,852	—	(5,717)	—
Profit before taxation	79,166	17,549	87,200	7,952
Income tax	(6,898)	(10,391)	414	(2,737)
Profit for the year/period from continuing operations	72,268	7,158	87,614	5,215
Profit for the year/period from discontinued operation	1,198	3,911	8,949	—
Profit for the year/period	73,466	11,069	96,563	5,215

A special dividend of HK$0.1 per Share was declared and paid during the six months ended 31 December 2008. No dividend was paid for the two years ended 30 June 2008.

Set out below is a summary of the audited consolidated balance sheets of the Company as at 30 June 2006, 2007 and 2008 and the unaudited consolidated balance sheet of the Company as at 31 December 2008 (extracted from the relevant published annual reports and interim report of the Company):

	(Unaudited) As at 31 December	**(Audited) As at 30 June**		
	2008	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	505,415	555,203	604,401	635,730
Current assets	473,431	563,941	326,012	135,192
Current liabilities	216,581	378,199	204,555	217,866
Net current assets/(liabilities)	256,850	185,742	121,457	(82,674)
Non-current liabilities	34,788	71,789	187,843	132,190
Net assets	727,477	669,156	538,015	420,866

For the year ended 30 June 2006, the Company reported a turnover of approximately HK$512.3 million and net profit of approximately HK$5.2 million.

According to the Company's 2008 annual report, the Group recorded a turnover of approximately HK$469.5 million and HK$619.9 million for the years ended 30 June 2007 and 30 June 2008 respectively. We understand from the Company that the increase in turnover was mainly attributable to an increase in box office receipts and the income derived from film distribution rights.

Despite the increase in turnover for the year ended 30 June 2008 as compared with the previous financial year, the net profits of the Group decreased to approximately HK$11.1 million for the year ended 30 June 2008 from approximately HK$96.6 million for the year ended 30 June 2007. The net profits for the year ended 30 June 2007 were boosted by a non-recurring gain of approximately HK$116.0 million recorded as the result of the disposal of certain of the Group's investment in an associate. Excluding the gain or loss from disposals of the Group's interests in an associate and a jointly control entity, the Group would have recorded a loss for the year ended 30 June 2007.

The Group recorded relatively stable results from its operations for the six months ended 31 December 2008 with a turnover of approximately HK$397.9 million and a profit from operations of HK$17.9 million. During this six months period, the Group recorded a net gain of approximately HK$61.9 million as a result of another disposal of the Group's interests in a jointly controlled entity. The Group recorded a net profit from continuing operations of HK$72.3 million.

The Group had unaudited net assets of approximately HK$727.5 million as at 31 December 2008.

The Group had a net cash position with a deposit and cash balance of approximately HK$350 million as at 31 December 2008.

Apart from some non-interest bearing loans from joint venture partners, the Group was debt-free as at 31 December 2008.

The strong cash and low leverage position of the Group allows it to continue to roll out new projects in the present difficult environment and to take up new business opportunities with a view to strengthening and growing both its film exhibition and distribution networks in territories with greater market potential, like the PRC, and expanding further into the film and entertainment industry in the PRC.

(b) ***Business of the Transferred Assets***

CT, through its subsidiaries, is principally engaged in films and television programmes production, music and musical production, artist management and advertising businesses in the PRC. Under the Acquisition, CT will transfer its entire films and television programmes related business, including the investment, production, distribution and marketing of Chinese-language films and television programmes and the relevant advertising business, to the Group. Chengtian Zhihong was involved in the production of some major Chinese language films, including the award winning *Red Cliff* ("赤壁") and *The Warlords* ("投名狀"). As stated in the letter from the Board, films and television programmes produced by Chengtian Zhihong are screened and broadcast in the PRC and other major cities in Asia.

The table below is a summary of the results of the Transferred Assets for the past three financial years as extracted from the Accountants' Report on the Transferred Assets set out in Appendix II to the Circular.

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Turnover	17,615,815	74,333,420	41,614,424
Cost of sales	(484,889)	(35,374,657)	(24,023,617)
Gross profit	17,130,926	38,958,763	17,590,807
Other revenue	57,712	193,180	368,018
Other net loss	(272,488)	—	—
Selling and distribution expenses	(2,232,931)	(5,293,482)	(7,393,777)
Administrative and other operating expenses	(5,988,471)	(8,823,400)	(5,595,457)
Profit before taxation	8,694,748	25,035,061	4,969,591
Income tax	—	(6,032,929)	—
Profit for the year from continuing operations	8,694,748	19,002,132	4,969,591
Discontinued operations			
Profit for the year from discontinued operations	16,434,957	635,580	3,078,841
Profit for the year	25,129,705	19,637,712	8,048,432

Chengtian Zhihong commenced its business operations in 2004 and, together with its various subsidiaries, commenced its film business in 2006. The Transferred Assets have invested in a total of 9 movies, the production of which has been completed. Apart from the blockbusters like *Red Cliff* ("赤壁") and *The Warlords* ("投名狀"), the Transferred Assets also invest in some smaller budget films, like *I am Liu Yue Jin* ("我叫劉躍進"), *Dangerous Games* ("棒子老虎雞") and *Shooting Star* ("逆轉流星"). The Transferred Assets also work with television stations/media in investing, planning, developing, producing, distributing, and/or marketing television drama series.

For the year ended 31 December 2006, the Transferred Assets recorded a turnover and a profit from continuing operations of approximately RMB17.6 million (equivalent to approximately HK$19.9 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) and approximately RMB8.7 million (equivalent to approximately HK$9.9 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) respectively. For the year ended 31 December 2007, the Transferred Assets recorded a turnover of approximately RMB74.3 million (equivalent to approximately HK$84.1 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) and a profit from continuing operations of approximately RMB19.0 million (equivalent to approximately HK$21.5 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1). The improvement in the results of the Transferred Assets was partly due to the completion of certain film and television projects in 2007, the production of which commenced in 2006, including, among others, *The Warlords* ("投名狀") and the marketing and advertising of the film *Red Cliff* ("赤壁"). For the year ended 31 December 2007, the Transferred Assets recorded a turnover from films and television programmes production and distribution amounting to approximately RMB47.8 million (equivalent to approximately HK$54.1 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) whilst the Transferred Assets did not record any income from this business activity for the year 2006. Agency commission and consultancy income relating to films and television programmes of the Transferred Assets also increased significantly from RMB 13.8 million (equivalent to approximately HK$15.6 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) for the year ended 31 December 2006 to approximately RMB25.5 million (equivalent to approximately HK$28.9 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) for the year ended 31 December 2007 and we understand from the Company that this significantly contributed to the increase in the profits of the continuing operations of the Transferred Assets in 2007.

The Transferred Assets recorded a turnover of approximately RMB41.6 million (equivalent to approximately HK$47.1 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) for the year ended 31 December 2008 and a profit from continuing operations of approximately RMB5.0 million (equivalent to approximately HK$5.7 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1). As explained by the Board in its management discussion and analysis in respect of the results of the Transferred Assets set out in Appendix II to the Circular, the results of the Transferred Assets for the year ended 31 December 2008 were adversely affected by a snowstorm disaster, an earthquake and the Olympic Games in the PRC during the year. We understand from the Company that the management of the Transferred Assets has taken cost control strategies and implemented new projects with a view to achieving better results for the year ending 31 December 2009. We understand that the Restricted Business continues to invest in Chinese language films and television programmes and has invested in a number of films the planning and/or production of which are in progress. The Restricted Business has invested jointly with other investors in *The Storm Warriors II* ("風雲II") which is scheduled to be screened later this year in Hong Kong and the PRC.

Independent Shareholders are advised to study the Accountants' Report on the Transferred Assets and the related Management Discussion and Analysis set out in Appendix II to the Circular. Independent Shareholders should also note that the Accountants' Report on the Transferred Assets is prepared on a historical basis and includes the results of the discontinuing operations of the Transferred Assets which do not relate to the films and television programmes business to be acquired by the Group and which will be disposed of by Chengtian Zhihong under the Reorganisation.

(c) ***Reasons for and benefits of the Acquisition***

The Board considers that the Acquisition will provide the Group with an opportunity to expand its entertainment business in the PRC in accordance with its strategy to re-deploy resources to grow and strengthen its presence in the PRC. The Group operates cinema and digital screen/in-theatre advertising business in Shenzhen, the PRC and is actively expanding its film and exhibition business in other cities in the PRC. With the management experience and expertise of Chengtian Zhihong, the Company believes that the Group's market knowledge in respect of the tastes of audiences in the PRC will be further strengthened. The Board is confident that the Group will be able to leverage on Chengtian Zhihong's operations platform in the PRC.

Based on the audited financial statements of the Group for the year ended 31 December 2008, Hong Kong was the most significant market of the Group in terms of revenue. Revenue derived from the Hong Kong market represented approximately 28.3% of the Group's turnover; whilst revenue derived from the China market only represented approximately 8.6% of the Group's turnover.

During the recent years, film production in the PRC has been growing quickly. The number of films produced in the PRC reached 400 in 2007. As stated in the Management Discussion and Analysis in Appendix II to the Circular, total box office receipts in the PRC reached RMB4.3 billion in 2008. Some of the PRC produced films have been very well received by local and overseas audiences. Total box office receipts from *The Warlords* ("投名狀") and *Red Cliff* ("赤壁") amounted to nearly RMB200 million and RMB300 million respectively. The PRC film industry should continue to afford ample business development opportunities.

We understand from and agree with the Company that the Acquisition will broaden the films and television programmes production and distribution expertise of the Group and should facilitate the Group to strengthen its production capability and distribution network, in particular in respect of the PRC market and thus enhance the revenue generating power and earnings prospects of the Group.

Non-compete undertakings

Subject to Completion, each of Mr. Wu and CT undertakes to and for the benefit of the Purchaser that, save and except through their respective interests in the Company and Chengtian Zhihong, they will not and shall use their best endeavours to ensure that they will not, whether as principal or agent and whether undertaken directly or indirectly (including through any affiliate, body corporate, partnership, joint venture or other contractual arrangement), carry on, engage in or make any investment, whether for profit, reward or otherwise, in any business relating to the Restricted Business carried on by the Transferred Assets. Such undertakings shall remain in full force and effect from Completion and shall continue for so long as, in the case of Mr. Wu, he directly and/or indirectly holds 30% or more of the total issued share capital of the Company and in the case of CT, it directly and/or indirectly holds a shareholding interest of 10% or more in the Company or it is controlled by Mr. Wu.

Mr. Wu is the chairman and an executive Director of the Company. We understand from the Company that Mr. Wu is also a key management of CT's films and television programmes business to be acquired by the Group under the Agreement. We consider that the non-compete undertakings given by Mr. Wu and CT will help protect the interests of the Group in the films and television programmes business to be acquired by the Group.

The Contractual Arrangements

As set out in the letter from the Board, PRC laws and regulations restrict certain foreign investments in certain areas of the PRC film and television industry. The business scope of Chengtian Zhihong includes, among other things, (i) film production; (ii) distribution of domestic films; and (iii) production of television programmes. The business activities of Chengtian Zhihong are regulated by certain regulatory authorities, which include the State Administration of Radio, Film and Television in the PRC. According to the foreign investment catalogue in the PRC issued in 2007, a foreign investor is only allowed to engage in films production and television programmes production by means of cooperation with qualified PRC partners. To facilitate the Acquisition, the legal ownership of the entire equity interests in Chengtian Zhihong are to be held by Mr. Wu and Ms. Wu, who are PRC nationals.

Mr. Wu and Ms. Wu have undertaken, and CT shall procure Mr. Wu and Ms. Wu, to execute on Completion (i) a loan agreement with a wholly foreign owned enterprise of the Company on terms satisfactory to the Purchaser; in relation to which the Company expects that the wholly foreign owned enterprise of the Company will lend an amount not exceeding RMB100,000 to Mr. Wu and Ms. Wu on normal commercial terms which shall be repayable by Mr. Wu and Ms. Wu on demand and will not be offset against any amount which the Company may owe the Vendors pursuant to the Acquisition under the Agreement; (ii) an equity pledge agreement in respect of the entire equity interests in Chengtian Zhihong in favour of a wholly foreign owned enterprise of the Company on terms satisfactory to the Purchaser; in relation to which the Company expects that Mr. Wu and Ms. Wu will undertake to the wholly foreign owned enterprise of the Company on matters relating to the operations of Chengtian Zhihong, including, Mr. Wu and Ms. Wu procuring Chengtian Zhihong not to dispose of, transfer, charge or otherwise deal with the assets of Chengtian Zhihong and not to enter into any material contracts without the written consent of the wholly foreign owned enterprise of the Company, so as to allow the wholly foreign owned enterprise of the Company to exercise management control over the operations of Chengtian Zhihong and to prevent disposal of Chengtian Zhihong's assets to the shareholders of Chengtian Zhihong; (iii) an exclusive option agreement in respect of the entire equity interests in Chengtian Zhihong in favour of a wholly foreign owned enterprise of the Company pursuant to which an exclusive option will be granted to the wholly foreign owned enterprise of the Company to acquire the entire equity interests in Chengtian Zhihong at a nominal consideration in accordance with the applicable laws and on terms satisfactory to the Purchaser; (iv) a proxy agreement in favour of a wholly foreign owned enterprise of the Company on terms satisfactory to the Purchaser; in relation to which the Company expects that the wholly foreign owned enterprise will be able to indirectly enjoy the right to dividends and voting rights as, Mr. Wu and Ms. Wu (the shareholders of Chengtian Zhihong) will irrevocably act upon the instructions of the wholly foreign owned enterprise of the Company in respect of these matters, including transferring any dividends received by them from Chengtian Zhihong to the wholly foreign owned enterprise or any other party nominated by the Purchaser within ten working days after such distribution; and (v) service agreements to be entered into between a wholly foreign owned enterprise of the Company and Chengtian Zhihong in respect of services that may be provided by the wholly foreign owned enterprise of the Company to Chengtian Zhihong.

We understand from the Company that the entering into of the loan agreement in (i) above is for the purpose of giving effect to the equity pledge agreement to be executed in (ii) above. The Company also expects that (1) there shall be no consideration for the entering into of the exclusive option agreement in (iii) above; (2) the consideration for the acquisition of the legal title of the equity interests in Chengtian Zhihong shall represent the minimum consideration as allowed under the applicable PRC laws or regulations or orders and Mr. Wu and Ms. Wu shall within a certain period of time after they have received the consideration payment from the Group, transfer such entire amount to a wholly foreign owned enterprise of the Company at no consideration; and (3) there shall be no consideration for the entering into of the proxy agreement in (iv) above.

The Company will have to comply with the applicable Listing Rules at the time when the exclusive option agreement in (iii) above and the service agreements in (v) above are entered into and at the time when the exclusive option under the exclusive option agreement is exercised.

We are given to understand that the Contractual Arrangements are a package of transactions and arrangements designed with a view to allowing the Group to obtain management control and economic interests in the Transferred Assets as allowed under the PRC law. According to the legal opinion issued to the Company by the Group's PRC lawyer, subject to certain regulatory registration procedure that needs to be effected in the PRC, the Contractual Arrangements are lawful in the PRC and are legally binding to the parties to the relevant contracts and undertaking. However, the PRC lawyer is of the view that there are risks that the relevant regulatory authorities in the PRC may take a different view regarding the Contractual Arrangements and view that the Contractual Arrangements do not comply with the relevant legal requirements in the PRC which prohibit foreign investments in Chengtian Zhihong and the relevant authorities may revoke the Contractual Arrangements and/or the business licence of Chengtian Zhihong and/or impose fine on the parties. Subject to the final PRC legal opinion to be delivered by the PRC lawyer on or prior to Completion, we concur with that the Company's view that the above risks are acceptable given the opinion provided by PRC lawyer that the Contractual Arrangements are lawful and the prospects of the Transferred Assets.

Conditions to the Agreement

The Agreement is subject to and conditional upon the fulfillment of, inter alia, the following conditions precedent on or before the Long Stop Date:

(i) completion of satisfactory legal, financial and business due diligence in respect of the Transferred Assets by the Purchaser;

(ii) the obtaining of all consents which are necessary or desirable for the implementation of the transactions contemplated by the parties under the Agreement, including without limitation, approval of the Shareholders, if required, in relation to the Agreement and the transactions contemplated thereunder and any other approvals or notifications required pursuant to the requirements of the Listing Rules, including the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in the Conversion Shares to be issued pursuant to the conversion of the Convertible Notes;

(iii) all consents, in form and substance reasonably satisfactory to the Purchaser, to the performance by the Vendors of their obligations under the Agreement as are required under any law and regulation or arrangement (contractual or otherwise) having been obtained and remaining in full force and effect;

(iv) none of the warranties and representations being found to be, or no event occurring or matter arising which may render or renders any of the warranties and representations, untrue or inaccurate or misleading on and as at the Completion Date; and

(v) completion of Reorganisation, to the reasonable satisfaction of the Purchaser.

The Purchaser may at its absolute discretion waive in writing the conditions mentioned above (other than condition (ii) above). If any of the above conditions shall not have been fulfilled in full (or, where applicable, waived by the Purchaser in writing) on or before the Long Stop Date, the Agreement shall lapse and no party shall make any claim against the other in respect hereof, save for any antecedent breach.

Completion will only take place if the Agreement and the transactions contemplated thereunder are duly approved by the Independent Shareholders in accordance with the Listing Rules.

Consideration

Upon Completion, the Group shall pay the Vendors RMB32 million (equivalent to approximately HK$36.2 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) cash and issue the Convertible Notes with an aggregate principal amount of HK$9.02 million (equivalent to RMB8 million at the agreed exchange rate of HK$1.128 to RMB1 pursuant to the Agreement).

Depending on the Aggregate Net Profits (the aggregate consolidated profit after taxation and minority interests (excluding any event or transaction that is outside the ordinary course of business) of or derived from the Transferred Assets for the two years ending 31 December 2010), the Company may issue further Convertible Notes to CT.

The Purchaser shall pay to CT further consideration equivalent to two times the Aggregate Net Profits (in Hong Kong dollars based on an agreed exchange rate of HK$1.128 to RMB1 pursuant to the Agreement) subject to a maximum further consideration of RMB40 million by procuring the Company to issue Convertible Notes with an equivalent principal amount in Hong Kong dollars within 15 Business Days from 30 April 2011.

No further consideration shall be payable by the Purchaser to CT if the Transferred Assets do not record any positive Aggregate Net Profits.

We understand from the Company that the consideration for the Acquisition was agreed after arm's length negotiation between the Company and Vendors after taking into account a number of factors, including among other things, the financial results and position of the Transferred Assets and the prospects of the films and television programmes related business in the PRC and the Guaranteed Profit. Pursuant to the Agreement, CT has undertaken to the Purchaser that the consolidated profit after taxation and minority interests (but excluding any event or transaction that is outside its ordinary course of business) of or derived from the Transferred Assets for the Guaranteed Period prepared and presented in accordance with the HKFRS shall not be less than RMB20 million (equivalent to approximately HK$22.6 million).

As set out above, under the Agreement, the total consideration for the Acquisition is to be determined by an earn-out formula depending on the actual Aggregate Net Profits and ranges from a minimum total consideration of RMB40 million to a maximum total consideration of RMB80 million. We believe that the use of an earn-out formula is in the interests of the Company as it results in a significant portion of the consideration for the Acquisition being dependent on the performance of the Transferred Assets post-Completion and will further align the interests of Mr. Wu with those of the Group (Mr. Wu is a vendor as well as a key member of the management of the Transferred Assets).

Assuming that the Guaranteed Profit is evenly contributed from the two years ending 31 December 2010, and based on the net asset value of the Transferred Assets as at 31 December 2008, the maximum consideration payable will give the Transferred Assets an implied price-to-earnings ratio and price-to-book ratio as follows:

Price-to-earnings ratio based on the net profit of the Transferred Assets for the year ending 31 December 2009 assuming the Guaranteed Profit is evenly contributed from the two years ending 31 December 2010	Price-to-book ratio based on the net assets value of the Transferred Assets as at 31 December 2008 (excluding the assets and liabilities held for sale)
8.0	2.1

To assess the fairness and reasonableness of the consideration for the Acquisition, we have compared the above implied price-to-earnings ratio and the price-to-book ratio of the Transferred Assets with the price-to-earnings ratios and price-to-book ratios of companies listed on the Stock Exchange as at the Latest Practicable Date, whose principal business relates to films and television programmes production and/or distribution.

Stock code	Company name	Principal business	Net profit/ (loss)[△]	Net asset value[△]	Market capitalisation as at the Latest Practicable Date	Total external borrowings to total assets[△Φ]	Price-to-book multiple[□]	Price-to-earnings ratio[n]
			HK$	*HK$*	*HK$*			
Main Board listed								
9	China Mandarin Holdings Ltd.	Film distribution and licensing, film processing and advertising and promotional services.	(216,317,000)	158,148,000	642,480,000	15.92%	4.06	NA
391	Mei Ah Entertainment Group Ltd.	Television operations, film exhibition, film rights licensing and sub-licensing, sale and distribution of films and programs and processing of audio visual products through its associated companies.	(83,413,000)	447,478,000	481,224,000	4.99%	1.08	NA
419	Media China Corporation Ltd.	Television advertising business, films and TV drama business and provision of IP telephony and related services.	(441,117,000)	814,738,000	1,065,766,000	2.01%	1.31	NA
491	See Corporation Ltd.	Film and TV programme production, event production, artiste and model management, music production, a pay TV operation and investment in securities.	(7,204,000)	287,849,000	96,940,000	46.58%	0.34	NA
571	eSun Holdings Ltd.	Development and operation and investment in media, entertainment, music production and distribution, production, investment in and distribution of film and video format products, provision of advertising agency services and sale of cosmetic products.	(385,476,000)	5,321,231,000	1,352,398,000	2.39%	0.25	NA

Stock code	Company name	Principal business	Net profit/ (loss)[△] *HK$*	Net asset value[△] *HK$*	Market capitalisation as at the Latest Practicable Date *HK$*	Total external borrowings to total assets[△Φ]	Price-to-book multiple[□]	Price-to-earnings ratio[n]
1046	Universe International Holdings Ltd.	Distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film rights and leasing of investment properties.	(27,118,000)	305,304,000	165,710,000	0.07%	0.54	NA
1132	Golden Harvest Entertainment (Holdings) Ltd.	Worldwide film distribution, film exhibition, film production and television drama series production and video distribution.	10,763,000	667,735,000	540,658,000	4.59%	0.81	50.23
2366	Qin Jia Yuan Media Services Co. Ltd.	Provision of TV programme related services, marketing related services and public relations services in the PRC.	217,463,000	1,242,105,000	1,040,086,000	17.36%	0.84	4.78
GEM listed								
8043	Era Information & Entertainment Ltd.	Home video products distribution, theatrical release arrangement, film rights sub-licensing and games distribution.	(27,197,000)	10,821,000	87,719,000	35.02%	8.11	NA
8078	Emperor Entertainment Group Ltd.	Artiste management, event production, music production and distribution, film and television programme production, distribution and licensing.	(78,469,000)	19,729,000	169,000,000	0.00%	8.57	NA
8130	Brilliant Arts Multi-Media Holding Ltd.	Film production, film distribution and properties investment.	19,289,000	163,969,000	39,743,000	1.90%	0.24	2.06

Stock code	Company name	Principal business	Net profit/ (loss)△	Net asset value△	Market capitalisation as at the Latest Practicable Date	Total external borrowings to total assets△Φ	Price-to-book multiple□	Price-to-earnings ratio n
			HK$	*HK$*	*HK$*			
8167	Big Media Group Ltd.	Production and sale of videos and films, and licensing of video and copyrights/film rights.	(25,535,000)	70,895,000	1,925,000,000	0.00%	27.15	NA
					Minimum	**0.00%**	**0.24**	**2.06**
					Maximum	**46.58%**	**27.15**	**50.23**
					Average	**10.90%**	**4.44**	**19.03**

Notes:

△ Figures extracted from the latest audited financial statements

Φ External borrowings including any convertible notes

□ Price-to-book multiple is calculated by dividing the market capitalisation by the latest audited net asset value of the company.

n Price-to-earnings ratio is calculated by dividing the market capitalisation by the audied net profit for the latest financial year of the company.

Source: HKEx, Bloomberg

Among the comparable companies, most of them recorded a financial loss for their respective latest completed financial year. Out of the above twelve comparable companies and aside from the Company itself, only two recorded net profits for their latest completed financial year. We believe such to be partly due to the relatively difficult industry environment in 2008. On the other hand, the Transferred Assets were able to achieve a net profit from continuing operations of RMB5.0 million (equivalent to approximately HK$5.7 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1). Due to the general loss making situations of the vast majority of the comparable companies, we consider it is not meaningful to compare the implied price-to-earnings ratio of the Transferred Assets with the trading price-to-earnings ratios of the remaining few profitable comparable companies with price-to-earnings ratios ranging from 2.06 times to 50.23 times (including the Company's).

Price-to-book is another common valuation method. We note that the implied price-to-book ratio in respect of the Transferred Assets of 2.1 times falls within the range of the price-to-book ratios of the above comparable companies of 0.24 times to 27.15 times and is less than the average price-to-book ratio of 4.44 times.

Given that (1) the implied price-to-book ratio of the Acquisition falls within the range of the price-to-book ratios of the comparable companies, (2) the final amount of consideration is to be determined based on an earn-out formula and (3) that the confirmation from the Company that the terms of the Agreement were agreed between the parties after arm's length negotiation, we consider that the Acquisition is on normal commercial terms for the purposes of the Listing Rules.

The terms of the Convertible Notes

Below is a summary of the principal terms of the Convertible Notes to be issued by the Company as set out in the letter from the Board.

Principal amount:	Up to approximately HK$54.1 million (equivalent to approximately RMB48 million based on the exchange rate of HK$1.128 to RMB1) (for the Independent Shareholders' information, the exchange rate as at the Latest Practicable Date was HK$1.1322 to RMB1)
Maturity date and redemption:	To the extent not previously converted, the Company shall redeem the Convertible Notes in cash at 100% of the outstanding principal amount on 31 December 2015.
Coupon:	Nil
Ranking of the Convertible Notes:	The Convertible Notes will constitute (subject to the terms and conditions of the Convertible Notes) unsecured obligations of the Company ranking pari passu with other unsecured obligations of the Company.

As a debt, the Convertible Notes are repayable by the Company on 31 December 2015, which is more than five years after the Long Stop Date. The issue of the Convertible Notes for the settlement of part of the consideration for the Acquisition of up to RMB48 million effectively allows the Company to defer cash payment for part of the consideration to 31 December 2015 without the need to make interest payments in the intervening period. This sellers' financing arrangement will help the Group reduce its immediate cash outflow.

Conversion:	The whole or any part (in authorised denominations) of the outstanding principal amount of Convertible Notes are convertible at any time over the term of the Convertible Notes at a conversion price of HK$3.38 per Share (subject to adjustment). The conversion price of the Convertible Notes is subject to adjustment. Adjustment events will include changes in the share capital of the Company, such as consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, or subsequent issue of securities in the Company at a discount to market.

The holder of the Convertible Notes undertakes to the Company that it will not exercise its conversion rights to convert the Convertible Notes into Conversion Shares in such a way that it will render the Company unable to comply with the requirements set out in the Listing Rules relating to the minimum level of public float required to be maintained.

We understand from the Company that the initial conversion price of the Convertible Notes of HK$3.38 per Share was determined after arm's length negotiation between the Purchaser and the Vendors with reference to the recent daily closing price of the Shares.

The initial conversion price of HK$3.38 per Share represents:

- a premium of approximately 12.7% over the closing price of HK$3.0 per Share as quoted on the Stock Exchange on 15 June 2009, being the date of the Agreement;

- a premium of approximately 11.3% over the average closing price of HK$3.036 per Share as quoted on the Stock Exchange over the last 10 trading days up to and including 15 June 2009;

- a premium of approximately 8.8% over the average closing price of HK$3.107 per Share as quoted on the Stock Exchange over the last 30 trading days up to and including 15 June 2009;

- a premium of approximately 5.0% over the average closing price of HK$3.220 per Share as quoted on the Stock Exchange since the Company resumed trading on 14 April 2009 up to and including 15 June 2009;

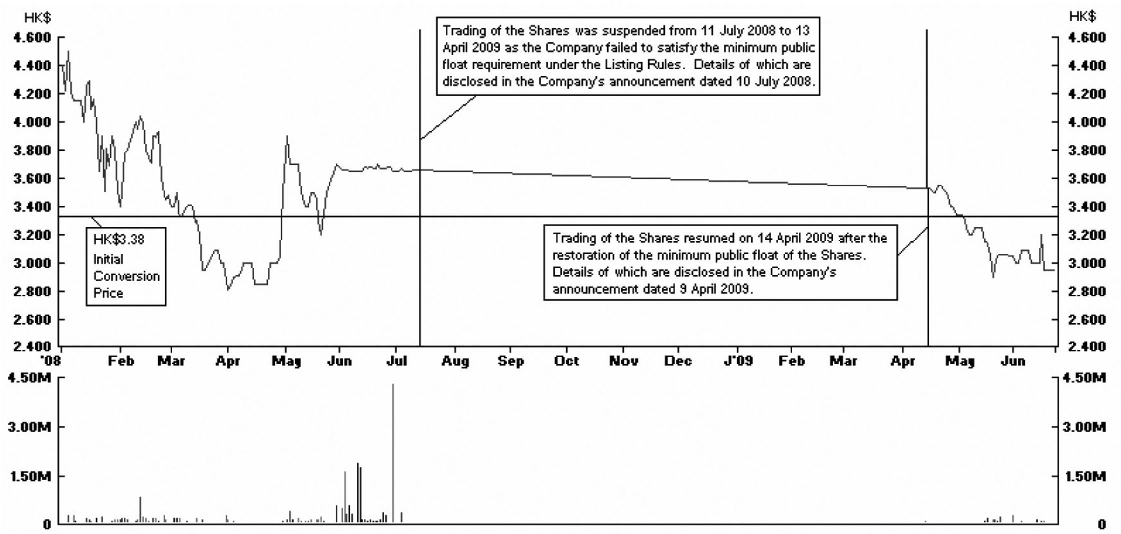
- a premium of approximately 14.6% over the closing price of HK$2.95 per Share on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 14.6% to the unaudited consolidated net asset value (after minority interests) of the Company of HK$3.96 per Share as at 31 December 2008; and

- a discount of approximately 7.9% to the unaudited consolidated net asset value (excluding the goodwill arising from the Acquisition) of the Company of HK$3.67 per Share as at 31 December 2008 assuming the Acquisition had been completed on 31 December 2008 and the Convertible Notes had been issued and converted in full immediately upon their issue.

Given that the initial conversion price represents a premium over the recent market trading price of the Shares prior to the entering into of the Agreement, we consider that the initial conversion price reasonable.

The chart below shows the closing price per Share and the trading liquidity of the Shares on the Stock Exchange from 1 January 2008 to the Latest Practicable Date.



Source: Infocast

The following is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) assuming full conversion of the first tranche of the Convertible Notes to be issued by the Company upon Completion and (iii) assuming full conversion of maximum amount of Convertible Notes which may be issued by the Company pursuant to the Agreement (assuming there is no other change in shareholding of the Company):

	As at the Latest Practicable Date		**Assuming full conversion of the first tranche of the Convertible Notes to be issued upon Completion**		**Assuming full conversion of the maximum amount of Convertible Notes which may be issued**	
Shareholders	*No. of Shares*	*Approximate percentage (%)*	*No. of Shares*	*Approximate percentage (%)*	*No. of Shares*	*Approximate percentage (%)*
CT	40,553,060	22.13%	43,222,882	23.24%	56,571,994	28.38%
Mr. Wu	96,670,412	52.74%	96,670,412	51.99%	96,670,412	48.51%
CT and Mr. Wu	137,223,472	74.87%	139,893,294	75.23%	153,242,406	76.89%
Public Shareholders	46,050,518	25.13%	46,050,518	24.77%	46,050,518	23.11%
Total	183,273,990	100%	185,943,812	100%	199,292,924	100%

Conversion of any Convertible Notes will discharge the Company from any potential obligation to redeem such Convertible Notes. Although the initial conversion price represents a small discount to the pro forma net asset value per Shares as set out above, it, on the other hand, represents a premium over the recent closing price of the Shares and the Company considers that the Acquisition has the potential to enhance the Group's earnings prospects. Given the above, on balance, we consider the dilution effect to the proportional shareholding interests of the Independent Shareholders in the Company acceptable.

Financial effect of the Acquisition on the Group

We have considered the potential financial effects of the Acquisition on the Company based on the financial information of the Group as set out in Appendix I to the Circular, the Accountants' Report on the Transferred Assets as set out in Appendix II to the Circular and the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to the Circular. The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors to illustrate how the Acquisition might have affected the financial position of the Group had the Acquisition been completed. Independent Shareholders should note that the pro forma financial information is for illustrative purposes only and is prepared based on a number of bases and assumptions as set out in Appendix III. One of the assumptions is that the maximum amount of Convertible Notes would be issued by the Company under the Agreement. Independent Shareholders should read such bases and assumptions carefully.

As explained in the letter from the Board, after Completion, Chengtian Zhihong will become a wholly-owned subsidiary of the Company as a result of the Contractual Arrangements notwithstanding that the legal title of the entire equity interests in Chengtian Zhihong will not be held by the Group. The assets, liabilities, results and cash flow of Chengtian Zhihong will be consolidated into the financial statements of the Group.

(a) ***Net assets***

Based on the unaudited pro forma balance sheet of the Enlarged Group as set out in Appendix III to the Circular, had the Acquisition been completed on 31 December 2008, the unaudited pro forma adjusted net assets of the Enlarged Group attributable to Shareholders would have been approximately HK$741.2 million, representing an increase of approximately HK$13.7 million as compared to the net asset value of approximately HK$727.5 million of the Group. Excluding the accounting goodwill arising from the Acquisition of approximately HK$49.4 million, the pro forma net assets of the Enlarged Group would have been decreased by approximately HK$35.8 million to HK$691.7 million which represents the difference between (1) the aggregate of (i) the amount of cash payable by the Group and (ii) the debt portion under the Convertible Notes and (2) the net assets of the Transferred Assets (excluding the assets and liabilities held for sale).

(b) ***Indebtedness and gearing***

Based on the unaudited pro forma assets and liabilities statement of the Enlarged Group as set out in Appendix III to the Circular, had the Acquisition been completed on 31 December 2008, the total borrowings (including amounts due to related parties) of the Enlarged Group would have been approximately HK$122.4 million as compared to the unaudited total borrowings of the Group of HK$28.1 million as at 31 December 2008.

The leverage of the Group is low. As at 31 December 2008, the actual gross gearing ratio (being the total interest bearing borrowings divided by total assets) of the Group was only approximately 2.9%. The gross gearing ratio of the Enlarged Group based on the pro forma assets and liabilities statement of the Enlarged Group would have been approximately 11.1%. Despite the increase, we consider the pro forma gross gearing ratio of the Enlarged Group is still acceptable as compared with the average of 10.9% for the above comparable companies. This is particular the case given the strong cash position of the Enlarged Group. Based on the pro forma assets and liabilities statement of the Enlarged Group, the Enlarged Group would still have a net cash position upon Completion.

The pro forma increase in the total borrowings is mainly a result of the recognition of the portion of the Convertible Notes of HK$40.4 million and certain amounts due to related parties in respect of the Transferred Assets of HK$53.8 million. The Convertible Notes should only be payable by the Company on 31 December 2015 if such Convertible Notes are not converted into new Shares prior to maturity. According to the Accountants' Report on the Transferred Assets, all the amounts due to related parties in respect of the Transferred Assets are unsecured, interest-free and have no specific repayment terms. The Transferred Assets were free from any interest-bearing borrowing as at 31 December 2008.

Given that (1) the Convertible Bonds are only payable by the Company on 31 December 2015 and will be discharged should they be converted and (2) the view of the Company that the Transferred Assets have good earnings prospects and recorded a net cash inflow from operating activities of approximately RMB26.8 million (equivalent to approximately HK$30.3 million based on the exchange rate as at the Latest Practicable Date of HK$1.1322 to RMB1) for the three years ended 31 December 2008 as set out in the Accountants' Report on the Transferred Assets which suggests that the Transferred Assets should help further strengthen the cash flow position of the Group's operations, we consider the increase in the gearing of the Group as a result of the Acquisition to be acceptable.

(c) ***Working capital***

Based on the unaudited pro forma assets and liabilities statement of the Enlarged Group as set out in Appendix III to the Circular, had the Acquisition been completed on 31 December 2008, the Enlarged Group would have had net current assets of approximately HK$260.0 million representing a slight increase of approximately HK$3.1 million as compared with the net current assets of the Group of approximately HK$256.9 million.

The Group had a substantial balance of cash as at 31 December 2008 amounting to approximately HK$349.9 million (not including the pledged bank deposits), representing approximately 73.9% of the total current assets of the Group as at the same date. As at 31 December 2008, deposits and cash of the Transferred Assets amounted to approximately HK$32.4 million. Under the Acquisition, the Group is required to pay a cash amount of approximately HK$38.9 million to the Vendors as part of the consideration for the Acquisition. We understand that such cash payment should not have a material adverse impact on the working capital level of the Group.

The Directors have also confirmed that following completion of the Acquisition, after taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities, the Enlarged Group will have adequate working capital for its present requirements for at least the next twelve months from the date of the Circular, in the absence of unforeseen circumstances.

(d) ***Earnings***

The Company expects that the Acquisition will allow the Group to further develop its PRC films and television programmes business by leveraging upon the reputation, expertise and knowledge of the Transferred Assets and the management of the Transferred Assets. This will help enhance the overall earnings prospects of the Group notwithstanding that the issue of the Convertible Notes will result in notional interest expenses for the Group.

Independent Shareholders should note that the Guaranteed Profits are used as a benchmark for determining the amount of consideration to paid by the Group for the Acquisition and may or may not be met. Nevertheless, we consider it beneficial to the Company to have the consideration to be partially determined based on an earn-out formula as explained earlier in this letter.

Although the Company believes that the prospects of the films and television programmes industry in the PRC are promising, the Independent Shareholders should note that the industry is highly regulated. Changes in any regulation or policy may have significant adverse impact on the Group's investment in the Transferred Assets. We understand that it is the aim of the Company to become a leading entertainment company in the PRC and it will be necessary for the Group to further penetrate and expand into the PRC market if it is to achieve such goal. The Acquisition is in-line with the Group's said strategic business goal.

Given that (1) the Acquisition is complementary to the principal business development of the Group, (2) the growth potential of the Transferred Assets, and (3) the Enlarged Group will continue to have sufficient working capital for its business development, we consider that the pro forma financial effects of the Acquisition on the assets and liabilities of the Enlarged Group acceptable.

CONCLUSION

Based on all the principal factors considered above, including:

- the business of the Transferred Assets is complementary to the business of the Group and the Acquisition will help the Group further penetrate the films and television programmes market in the PRC and thus should help enhance the Group's earnings prospects;
- the Transferred Assets have established a reputation in the films and television programmes industry in the PRC and recorded profits for each of the past three financial years;
- the amount of consideration for the Acquisition is to be determined partly based on the actual profit earned by the Transferred Assets during the Guaranteed Period and the range of consideration for the Acquisition is comparable to the price-to-book ratios of the comparable companies listed on the Stock Exchange;
- the settlement of part of the consideration for the Acquisition by the issue of Convertible Notes which are only redeemable on 31 December 2015; and
- the initial conversion price of the Convertible Notes represents a premium over the recent trading price of the Shares,

we consider that Agreement is on normal commercial terms for the purpose of the Listing Rules, the terms of the Acquisition and other related transactions contemplated under the Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in respect of the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Director

A. SUMMARY OF FINANCIAL STATEMENTS

The following consolidated balance sheets of the Group as at 30 June 2006, 2007 and 2008 and the consolidated income statements, for each of the years in the three-year ended 30 June 2008 are derived from the audited financial statements of the Group prepared under HKFRS. All such financial information should be read in conjunction with the audited consolidated financial statements, and a summary of significant accounting policies and other explanatory notes, which are included in the Group's 2008 annual report. The audited financial statements of the Group for the year ended 30 June 2008, as extracted from the Group's 2008 annual report, are set out in Part B of this Appendix.

In addition, the following consolidated balance sheet of the Group as at 31 December 2008 and the consolidated income statement for the six-months ended 31 December 2008 are derived from the unaudited interim financial report of the Group prepared under HKFRS. All such financial information should be read in conjunction with the unaudited interim financial report, and a summary of significant accounting policies and other explanatory notes, which are included in the Group's 2008 interim report. The unaudited interim financial report of the Group for the six-months ended 31 December 2008, as extracted from the Group's 2008 interim report, are set out in Part C of this Appendix.

CONSOLIDATED INCOME STATEMENTS

	(Unaudited) Six-months ended 31 December	(Audited) Year ended 30 June		
	2008	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	397,925	619,901	469,511	512,285
Cost of sales	(183,843)	(289,552)	(216,732)	(232,033)
Gross profit	214,082	330,349	252,779	280,252
Other income	18,523	67,723	43,775	41,836
Selling and distribution costs	(182,852)	(301,739)	(244,452)	(267,740)
General and administrative expenses	(26,639)	(61,498)	(68,799)	(52,490)
Other operating expenses	(5,247)	(14,979)	(11,445)	(10,599)
Profit/(loss) from operations	17,867	19,856	(28,142)	(8,741)
Finance costs	(553)	(11,970)	(15,712)	(7,450)
Share of profits less losses of associates	—	9,663	20,801	24,143
Gain on disposal of interest in an associate	—	—	115,970	—
Gain/(loss) on disposal of interest in a jointly controlled entity	61,852	—	(5,717)	—
Profit before taxation	79,166	17,549	87,200	7,952
Income tax	(6,898)	(10,391)	414	(2,737)
Profit for the year/period from continuing operations	72,268	7,158	87,614	5,215
Profit for the year/period from discontinued operation	1,198	3,911	8,949	—
Profit for the year/period	73,466	11,069	96,563	5,215

	(Unaudited) Six-months ended 31 December 2008 HK$'000	(Audited) Year ended 30 June 2008 HK$'000	2007 HK$'000	2006 HK$'000
Attributable to:				
Equity holders of the Company	73,370	10,763	96,717	5,215
Minority interests	96	306	(154)	—
	73,466	11,069	96,563	5,215
Earnings per share				
Basic				
- Continuing operations	HK39.87 cents	HK5.2 cents	HK66.6 cents	HK3.9 cents
- Discontinued operation	HK 0.66 cents	HK3.0 cents	HK 6.8 cents	—
	HK40.53 cents	HK8.2 cents	HK73.4 cents	HK3.9 cents
Diluted				
- Continuing operations	HK39.47 cents	HK5.2 cents	HK52.8 cents	
- Discontinued operation	HK 0.65 cents	HK3.0 cents	HK 5.0 cents	
	HK40.12 cents	HK8.2 cents	HK57.8 cents	N/A

CONSOLIDATED BALANCE SHEET

	(Unaudited) As at 31 December 2008 HK$'000	(Audited) As at 30 June 2008 HK$'000	2007 HK$'000	2006 HK$'000
Non-current assets				
Fixed assets	326,651	367,395	262,189	247,540
Investment property	1,952	—	—	—
Interest in associates	—	—	169,369	195,902
Amounts due from jointly controlled entities	22,387	32,285	26,069	42,775
Prepaid rental	6,742	8,015	8,704	11,502
Club memberships	3,590	3,590	3,590	3,590
Rental and other deposits	50,867	54,006	51,507	53,130
Trademarks	79,421	79,421	79,421	79,421
Deferred tax assets	1,547	358	1,503	—
Pledged bank deposits	12,258	10,133	2,049	1,870
	505,415	555,203	604,401	635,730
Current assets				
Inventories	2,497	2,417	708	726
Film rights	27,916	27,503	33,090	16,279
Trade receivables	20,954	27,045	13,450	12,005
Other receivables, deposits and prepayments	59,086	49,355	42,674	35,441
Amounts due from jointly controlled entities	13,110	50,277	14,787	14,400
Pledged bank deposits	—	—	2,141	1,972
Deposits and cash	349,868	266,307	219,162	54,369
	473,431	422,904	326,012	135,192
Assets of a jointly controlled entity held for sale	—	141,037	—	—
	473,431	563,941	326,012	135,192
Current liabilities				
Trade payables	64,866	68,609	46,946	62,028
Other payables and accrued charges	117,268	129,472	87,250	89,380
Amounts due to associates	—	—	236	1,113
Customer deposits	6,497	3,675	5,622	3,492
Bank loans	—	12,480	25,311	37,201
Convertible notes	—	31,066	20,262	—
Current portion of a finance lease payables	—	—	353	328
Loans from joint venture partners	12,500	22,144	14,787	14,400
Taxation payable	15,450	9,618	3,788	9,924
	216,581	277,064	204,555	217,866
Liabilities of a jointly controlled entity held for sale	—	101,135	—	—
	216,581	378,199	204,555	217,866

	(Unaudited) As at 31 December 2008 HK$'000	(Audited) As at 30 June 2008 HK$'000	2007 HK$'000	2006 HK$'000
Net current assets/(liabilities)	256,850	185,742	121,457	(82,674)
Total assets less current liabilities	762,265	740,945	725,858	553,056
Non-current liabilities				
Bank loans	—	7,800	48,686	57,087
Convertible notes	—	—	100,590	19,618
Non-current portion of finance lease payables	—	—	799	1,152
Loans from joint venture partners	15,137	42,505	26,069	42,775
Loan from minority shareholder	471	696	—	—
Deposits received	3,837	4,248	3,700	4,284
Deferred tax liabilities	15,343	16,540	7,999	7,274
	34,788	71,789	187,843	132,190
Net assets	727,477	669,156	538,015	420,866
Capital and reserves				
Share capital	183,274	169,638	128,357	133,031
Reserves	542,793	498,097	409,103	287,835
Total equity attributable to equity holders of the Company	726,067	667,735	537,460	420,866
Minority interests	1,410	1,421	555	—
Total equity	727,477	669,156	538,015	420,866

B. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 JUNE 2008

Set out below is the audited financial statements of the Group for the year ended 30 June 2008 as extracted from the Group's 2008 annual report.

Consolidated Income Statement
for the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Continuing operations			
Turnover	3	619,901	469,511
Cost of sales		(289,552)	(216,732)
Gross profit		330,349	252,779
Other income	5	67,723	43,775
Selling and distribution costs		(301,739)	(244,452)
General and administrative expenses		(61,498)	(68,799)
Other operating expenses		(14,979)	(11,445)
Profit/(loss) from operations		19,856	(28,142)
Finance costs	6(a)	(11,970)	(15,712)
Share of profits less losses of associates		9,663	20,801
Gain on disposal of interest in an associate	15(d)	—	115,970
Loss on disposal of interest in a jointly controlled entity	16(d)	—	(5,717)
Profit before taxation		17,549	87,200
Income tax	7(a)	(10,391)	414
Profit for the year from continuing operations		7,158	87,614
Discontinued operation - jointly controlled entity held for sale	8		
Profit for the year from discontinued operation		3,911	8,949
Total profit for the year		11,069	96,563

	Note	2008 *HK$'000*	2007 *HK$'000*
Attributable to:			
Equity shareholders of the Company	11	10,763	96,717
Minority interests		306	(154)
Profit for the year	6	11,069	96,563
Earnings per share	12		
Basic			
— Continuing operations		5.2 cents	66.6 cents
— Discontinued operation		3.0 cents	6.8 cents
		8.2 cents	73.4 cents
Diluted			
— Continuing operations		5.2 cents	52.8 cents
— Discontinued operation		3.0 cents	5.0 cents
		8.2 cents	57.8 cents

Consolidated Balance Sheet

at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Fixed assets	13	367,395	262,189
Interest in associates	15	—	169,369
Amounts due from jointly controlled entities	16	32,285	26,069
Prepaid rental		8,015	8,704
Club memberships		3,590	3,590
Rental and other deposits		54,006	51,507
Trademarks	17	79,421	79,421
Deferred tax assets	27(a)	358	1,503
Pledged bank deposits	21	10,133	2,049
		555,203	604,401
Current assets			
Inventories	18	2,417	708
Film rights	19	27,503	33,090
Trade receivables	20	27,045	13,450
Other receivables, deposits and prepayments	20(c)	49,355	42,674
Amounts due from jointly controlled entities	16	50,277	14,787
Pledged bank deposits	21	—	2,141
Deposits and cash	21	266,307	219,162
		422,904	326,012
Assets of a jointly controlled entity held for sale	8	141,037	—
		563,941	326,012
Current liabilities			
Trade payables	22(a)	68,609	46,946
Other payables and accrued charges	22(b)	129,472	87,250
Amounts due to associates	15	—	236
Customer deposits		3,675	5,622
Bank loans	23	12,480	25,311
Convertible notes	24	31,066	20,262
Current portion of finance lease payables	25	—	353
Loans from joint venture partners	26(a)	22,144	14,787
Taxation payable		9,618	3,788
		277,064	204,555
Liabilities of a jointly controlled entity held for sale	8	101,135	—
		378,199	204,555

	Note	2008 HK$'000	2007 HK$'000
Net current assets		185,742	121,457
Total assets less current liabilities		740,945	725,858
Non-current liabilities			
Bank loans	23	7,800	48,686
Convertible notes	24	—	100,590
Non-current portion of finance lease payables	25	—	799
Loans from joint venture partners	26(a)	42,505	26,069
Loan from minority shareholder	26(b)	696	—
Deposits received		4,248	3,700
Deferred tax liabilities	27(a)	16,540	7,999
		71,789	187,843
NET ASSETS		669,156	538,015
Capital and reserves	28		
Share capital		169,638	128,357
Reserves		498,097	409,103
Total equity attributable to equity shareholders of the Company		667,735	537,460
Minority interests		1,421	555
TOTAL EQUITY		669,156	538,015

Company Balance Sheet
at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Interest in subsidiaries	14	681,091	627,685
Current assets			
Amount due from a subsidiary	14	20,000	33,000
Prepayments		127	192
Deposits and cash	21	193	319
		20,320	33,511
Current liabilities			
Payables and accrued charges		2,693	2,329
Convertible notes	24	31,066	20,262
		33,759	22,591
Net current (liabilities)/assets		(13,439)	10,920
Total assets less current liabilities		667,652	638,605
Non-current liabilities			
Convertible notes	24	—	100,590
NET ASSETS		667,652	538,015
Capital and reserves	28		
Share capital		169,638	128,357
Reserves		498,014	409,658
TOTAL EQUITY		667,652	538,015

Consolidated Statement of Changes in Equity
for the year ended 30 June 2008

	Note	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Equity component of convertible notes HK$'000	Revaluation reserve HK$'000	Reserve funds HK$'000	Surplus reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Exchange reserve of a jointly controlled entity held for sale HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2007		128,357	125,733	5,085	4,819	80,000	880	3,974	1,139	480	1,208	185,785	—	537,460	555	538,015
Exchange difference on translation of financial statements of																
- overseas subsidiaries		—	—	—	—	—	—	—	—	—	(2,641)	—	—	(2,641)	—	(2,641)
- overseas associates		—	—	—	—	—	—	—	—	—	8,837	—	—	8,837	—	8,837
- overseas jointly controlled entities		—	—	—	—	—	—	—	—	—	20,173	—	—	20,173	106	20,279
Deferred tax credited to equity	27(a)	—	—	—	—	—	—	50	—	—	—	—	—	50	—	50
Total income and expenses recognised directly in equity		—	—	—	—	—	—	50	—	—	26,369	—	—	26,419	106	26,525
Profit for the year		—	—	—	—	—	—	—	—	—	—	10,763	—	10,763	306	11,069
Total income and expenses for the year		—	—	—	—	—	—	50	—	—	26,369	10,763	—	37,182	412	37,594
Repurchases of shares	28(ii)	(1,603)	(3,590)	—	1,603	—	—	—	—	—	—	(1,603)	—	(5,193)	—	(5,193)
Exercise of share options	28(iii)	1,975	4,097	(879)	—	—	—	—	—	—	—	—	—	5,193	—	5,193
Transfer to retained profits on lapse of share options	28(iii)	—	—	(2,658)	—	—	—	—	—	—	—	2,658	—	—	—	—
Conversion of convertible notes	24	40,909	52,822	—	—	—	(638)	—	—	—	—	—	—	93,093	—	93,093
Capital injection from a minority shareholder		—	—	—	—	—	—	—	—	—	—	—	—	—	454	454
Transfer to reserves		—	—	—	—	—	—	—	727	—	(4,781)	(727)	4,781	—	—	—
At 30 June 2008		169,638	179,062	1,548	6,422	80,000	242	4,024	1,866	480	22,796	196,876	4,781	667,735	1,421	669,156

	Note	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Equity component of convertible notes HK$'000	Revaluation reserve HK$'000	Reserve funds HK$'000	Surplus reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2006		133,031	639,881	544	145	—	95	3,943	495	480	(27,460)	(330,288)	420,866	—	420,866
Reserves realised upon disposal of															
- an associate	15(d)	—	—	—	—	—	—	—	—	—	20,204	—	20,204	—	20,204
- a jointly controlled entity	33(c)	—	—	—	—	—	—	—	—	—	339	—	339	(67)	272
Exchange difference on translation of financial statements of															
- overseas subsidiaries		—	—	—	—	—	—	—	—	—	(1,464)	—	(1,464)	—	(1,464)
- overseas associates		—	—	—	—	—	—	—	—	—	8,329	—	8,329	—	8,329
- overseas jointly controlled entities		—	—	—	—	—	—	—	—	—	1,260	—	1,260	—	1,260
Deferred tax credited to equity	27(a)	—	—	—	—	—	—	31	—	—	—	—	31	—	31
Total income and expenses recognised directly in equity		—	—	—	—	—	—	31	—	—	28,668	—	28,699	(67)	28,632
Profit for the year		—	—	—	—	—	—	—	—	—	—	96,717	96,717	(154)	96,563
Total income and expenses for the year		—	—	—	—	—	—	31	—	—	28,668	96,717	125,416	(221)	125,195
Elimination upon capital reorganisation	28(b)	—	(500,000)	—	—	500,000	—	—	—	—	—	—	—	—	—
Setting off accumulated losses	28(b)	—	—	—	—	(420,000)	—	—	—	—	—	420,000	—	—	—
Repurchase of shares	28(ii)	(4,674)	(14,148)	—	4,674	—	—	—	—	—	—	—	(14,148)	—	(14,148)
Issuance of convertible notes	24	—	—	—	—	—	785	—	—	—	—	—	785	—	785
Capital injection from a minority shareholder		—	—	—	—	—	—	—	—	—	—	—	—	776	776
Transfer to reserves		—	—	—	—	—	—	—	644	—	—	(644)	—	—	—
Equity-settled share-based transactions	28(iii)	—	—	4,541	—	—	—	—	—	—	—	—	4,541	—	4,541
At 30 June 2007		128,357	125,733	5,085	4,819	80,000	880	3,974	1,139	480	1,208	185,785	537,460	555	538,015

Consolidated Cash Flow Statement
for the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Profit before taxation			
- Continuing operations		17,549	87,200
- Discontinued operation	8	7,430	12,841
Adjustments for:			
- Interest income		(5,844)	(5,445)
- Finance costs		13,485	16,619
- Depreciation	13	50,206	41,771
- Amortisation of prepaid land lease payments	13	340	18
- Loss on disposal of property, plant and equipment		7,027	1,945
- Foreign exchange gain		(16,584)	(6,112)
- Gain on disposal of interest in an associate	15(d)	—	(115,970)
- Loss on disposal of interest in a jointly controlled entity	16(d)	—	5,717
- Share of profits less losses of associates		(9,663)	(20,801)
- Impairment allowance on trade and other receivables		1,796	1,327
- Equity-settled share-based payment expenses		—	4,541
Operating profit before changes in working capital		65,742	23,651
(Increase)/decrease in inventories		(3,077)	18
Decrease in film rights		8,076	1,892
Increase in trade receivables		(3,312)	(1,407)
Increase in other receivables, deposits and prepayments		(12,903)	(9,161)
Increase/(decrease) in trade payables		11,295	(5,808)
Increase/(decrease) in other payables and accrued charges		35,167	(4,696)
(Decrease)/increase in customer deposits		(1,947)	2,130
Decrease in prepaid rental		689	1,752
Decrease in rental and other deposits		(4,618)	(2,529)
Cash generated from operations		95,112	5,842
Interest received		5,816	4,842
Interest and finance charges paid		(11,392)	(11,615)
Interest element on finance lease rental payments		—	(109)
Hong Kong profits tax paid		—	(6,903)
Overseas tax paid		(7,093)	(4,823)
Overseas tax refund		627	192
Net cash generated from/(used in) operating activities		83,070	(12,574)

	Note	2008 HK$'000	2007 HK$'000
Investing activities			
Payment for the purchase of property, plant and equipment	13	(67,915)	(66,016)
Proceeds from disposal of property, plant and equipment		1,408	582
Acquisition of subsidiaries	33(b)	—	(22,779)
Net proceeds from disposal of interest in			
- an associate	15(d)	—	195,237
- a jointly controlled entity	33(c)	—	7,588
Transfer to jointly controlled entities	33(a)	64,546	—
Payment from jointly controlled entities		19,525	16,319
Repayment to joint venture partners		(20,282)	(16,319)
Repayment from/(advance made to) associates		325	(882)
Increase/(decrease) in deposits received		548	(140)
Increase in pledged bank deposits		(5,943)	(594)
Decrease/(increase) in time deposits with maturity of over three months		10,031	(10,031)
Net cash generated from investing activities		2,243	102,965
Financing activities			
Net proceeds from issuance of convertible notes		—	99,000
Payment for repurchase of the Company's shares		(5,193)	(14,148)
Proceeds from issue of ordinary shares		5,193	—
Capital contribution by a minority shareholder		—	776
Advance of new bank loans		3,323	32,349
Repayment of bank loans		(26,288)	(53,947)
Repayment of loan from minority shareholder		(288)	—
Repayment of finance lease obligations		(1,152)	(328)
Net cash (used in)/generated from financing activities		(24,405)	63,702
Net increase in cash and cash equivalents		60,908	154,093
Cash and cash equivalents at 1 July		209,131	54,369
Effect of foreign exchange rate changes		7,109	669
Cash and cash equivalents at 30 June	21	277,148	209,131

Notes to the Financial Statements

For the year ended 30 June 2008

1 CORPORATE INFORMATION

Golden Harvest Entertainment (Holdings) Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the Group consist of worldwide film and video distribution, film exhibition in Hong Kong, mainland China, Taiwan, Singapore and Malaysia, and the operation of a film processing business in Hong Kong.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) **Statement of compliance**

(i) These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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 disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(ii) The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new and revised HKFRSs has no significant impact on the financial statements of the Group for the years ended 30 June 2007 and 30 June 2008 except for the presentation requirements following the adoption of HKFRS 7, "Financial instruments: Disclosures" and the amendment to HKAS 1, "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided as follows:

HKFRS 7, Financial instruments: Disclosures

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosure about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, "Financial Instruments: Disclosure and presentation". These disclosures are provided in note 29 to the financial statements.

HKAS 1, Presentation of financial statements: Capital disclosures

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 28(e) to the financial statements.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(b) **Basis of preparation of the financial statements**

(i) The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's share of the financial statements of the Group's jointly-controlled entities for the year ended 30 June 2008. The results of subsidiaries and jointly-controlled entities are consolidated and proportionately consolidated, respectively, from the date of acquisition, being the date on which the Group obtains control and joint control, and continue to be consolidated and proportionately consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(ii) The measurement basis used in the preparation of the financial statements is the historical cost except for certain buildings, where the Group adopted the transitional provision of paragraph 80A of HKAS 16 "Property, plant and equipment" and which have been measured at 1995 fair value, further details are set out in note 2(h) to the financial statements.

(iii) The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

(c) **Subsidiaries and minority interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries and subsidiaries of jointly controlled entities attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(r).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 2(l)).

(d) **Joint venture companies**

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

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

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company (note 2(c));

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company (note 2(e));

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company (note 2(f)); or

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

(e) **Jointly controlled entities**

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the proportionate consolidation method, unless it is classified as held for sale (note 2(bb)). The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains and losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(f) **Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the postacquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(g) **Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the income statement.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) **Property, plant and equipment**

The following items of property, plant and equipment are stated in the balance sheet at cost or valuation less accumulated depreciation and impairment losses (note 2(l)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (note 2(k)); and

— other items of plant and equipment, other than construction in progress.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to the income statement in the period in which it is incurred. In situations where 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 an item of property, plant and equipment and where the cost of the item can be measured realisably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The transitional provision set out in paragraph 80A of HKAS 16, "Property, plant and equipment" issued by the HKICPA has been adopted for certain properties, which are stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 30 June 1995 have not been revalued by class at the balance sheet date.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings	4%
— Leasehold improvements	Over the remaining terms of leases
— Machinery and equipment	6.50% — 33.33%
— Furniture and fixtures	5% — 33.33%
— Motor vehicles	20%
— Air-conditioning systems	20%

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits or accumulated losses is transferred directly to retained profits or accumulated loss.

Construction in progress represents an asset under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) **Club memberships**

Club memberships are stated in the balance sheet at cost less impairment losses (note 2(l)). Cost includes fees and expenses directly related to the acquisition of the club memberships.

(j) **Trademarks**

Trademarks are stated in the balance sheet at cost less impairment losses (note 2(l)). Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

(k) **Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) ***Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) ***Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iii) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Prepaid land lease payments under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) **Impairment of assets**

(i) ***Impairment of trade and other receivables***

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— trademarks;

— club memberships;

— film rights; and

— investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (note 2(bb)).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(m) **Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is determined using a first-in, first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down of loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) **Film rights**

(i) ***Film rights***

Film rights represent films and television drama series and are stated at cost less accumulated amortisation and impairment losses (note 2(l)).

Amortisation of film rights is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights.

(ii) ***Films in progress***

Films in progress are stated at cost less any impairment losses (note 2(l)). Costs include all direct costs associated with the production of films. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films. Costs are transferred to film rights upon completion.

(o) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (note 2(l)).

(p) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) **Trade and other payables**

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) **Convertible notes**

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component of the convertible note is recognised in the equity until either the note is converted or redeemed.

If the note is converted the equity, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(t) **Derecognition of financial assets**

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

— the rights to receive cash flows from the asset have expired;

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

— the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(u) **Derecognition of financial liabilities**

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

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

(v) **Employee benefits**

(i) ***Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) ***Share-based payments***

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) ***Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(iv) ***Employment Ordinance long service payments***

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

(v) ***Retirement benefit schemes***

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions to the Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The Group's employer contributions are fully and immediately vested with the employees when contributed to the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries which operate in mainland China are members of the state-sponsored retirement scheme (the "State Scheme") operated by the government of mainland China. Contributions to the State Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they became payable in accordance with the rules of the State Scheme.

(w) **Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(x) **Financial guarantees issued, provisions and contingent liabilities**

(i) ***Financial guarantees issued***

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(x)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) ***Other provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(y) **Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Income from film royalties, screen advertising and video distribution is recognised at the time when the services are provided;

(ii) Income from film distribution, film developing and printing service, advertising production and agency fee and consultancy service is recognised upon the provision of the services;

(iii) Income from box office takings is recognised when the services have been rendered to the buyers;

(iv) Income from confectionery sales and audio visual sales is recognised, at the point of sales when the confectionery and audio visual products are given to the customers;

(v) Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned;

(vi) Interest income is recognised as it accrues using the effective interest method; and

(vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(z) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and the financial statements of overseas subsidiaries, jointly controlled entities and associates are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement, except for those arising from the translation of the financial statements of overseas subsidiaries, jointly controlled entities and associates which are taken directly to the exchange reserve.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(aa) **Borrowing costs**

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(bb) **Non-current assets held for sale and discontinued operations**

(i) ***Non-current assets held for sale***

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) ***Discontinued operations***

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(cc) **Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(dd) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, borrowings, tax balances, corporate and financing expenses.

3 TURNOVER

The principal activities of the Group consist of worldwide film and video distribution, film exhibition in Hong Kong, mainland China, Taiwan, Singapore and Malaysia, and the operation of a film processing business in Hong Kong.

Turnover represents the income from the sale of film, video and television rights, motion picture distribution and theatre operation, advertising agency fees earned, invoiced value of film developing and printing services rendered, consultancy fee income, and proceeds from the sale of audio visual products.

4 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the film and video distribution segment engages in worldwide distribution of films and audio visual products related to films and television programmes;

(b) the film exhibition segment engages in film exhibition and screen advertising in Hong Kong, mainland China, Taiwan, Singapore and Malaysia; and

(c) the others segment comprises film processing business, which provide film processing services and film production.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

(a) **Business segments**

	2008				
	Film and video distribution	**Film exhibition**	**Others**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Sales to external customers	71,870	536,324	11,707	—	619,901
Inter-segment revenue	6,418	—	1,837	(8,255)	—
Other income	1,902	36,460	329	(413)	38,278
Total revenue from continuing operations	80,190	572,784	13,873	(8,668)	658,179
Segment results from continuing operations	4,945	38,570	757	—	44,272
Interest income					5,423
Unallocated operating income/(expenses), net					(29,839)*
Finance costs					(11,970)
Share of profits less losses of associates	3,897	5,766	—	—	9,663
Profit before taxation					17,549
Income tax					(10,391)
Profit for the year from continuing operations					7,158
Discontinued operation					
Sales to external customers	—	119,828	—	—	119,828
Other income	—	1,992	—	—	1,992
Total revenue from discontinued operation	—	121,820	—	—	121,820
Segment results from discontinued operation	—	8,524	—	—	8,524
Interest income					421
Finance costs					(1,515)
Profit before taxation					7,430
Income tax					(3,519)
Profit for the year from discontinued operation					3,911
Total profit for the year					11,069

* *This includes exchange gain of HK$24,154,000.*

	2008				
	Film and video distribution	**Film exhibition**	**Others**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation for the year	537	48,348	230	—	49,115
Unallocated					1,091
					50,206
Amortisation of prepaid land lease payment	—	321	19	—	340
Amortisation of film rights	31,930	—	—	—	31,930
Impairment allowances for trade and other receivables, net	1,535	259	2	—	1,796
Segment assets	86,188	655,064	7,563	—	748,815
Assets of a jointly controlled entity held for sale					141,037
Trademarks					79,421
Unallocated assets					149,871
Total assets					1,119,144
Segment liabilities	39,562	214,305	4,782	—	258,649
Liabilities of a jointly controlled entity held for sale					101,135
Unallocated liabilities					90,204
Total liabilities					449,988
Capital expenditure incurred during the year	716	65,417	—	—	66,133
Unallocated					1,782
					67,915

	2007				
	Film and video distribution	Film exhibition	Others	Elimination	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Sales to external customers	59,647	392,605	17,259	—	469,511
Inter-segment revenue	6,160	—	1,053	(7,213)	—
Other income	1,769	29,966	340	(341)	31,734
Total revenue from continuing operations	67,576	422,571	18,652	(7,554)	501,245
Segment results from continuing operations	14,352	19	872	—	15,243
Interest income					4,959
Unallocated operating income/(expenses), net					(48,344)*
Finance costs					(15,712)
Share of profits less losses of associates	4,542	16,259	—	—	20,801
Gain on disposal of interest in an associate					115,970
Loss on disposal of interest in a jointly controlled entity					(5,717)
Profit before taxation					87,200
Income tax					414
Profit for the year from continuing operations					87,614
Discontinued operation					
Sales to external customers	—	96,189	—	—	96,189
Other income	—	1,815	—	—	1,815
Total revenue from discontinued operation	—	98,004	—	—	98,004
Segment results from discontinued operation	—	13,262	—	—	13,262
Interest income					486
Finance costs					(907)
Profit before taxation					12,841
Income tax					(3,892)
Profit for the year from discontinued operation					8,949
Total profit for the year					96,563

** This includes exchange gain of HK$5,726,000.*

	2007				
	Film and video distribution	Film exhibition	Others	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation for the year	298	40,167	213	—	40,678
Unallocated					1,093
					41,771
Amortisation of prepaid land lease payments	—	—	18	—	18
Amortisation of film rights	11,058	—	—	—	11,058
Impairment allowances for trade and other receivables, net	(99)	(2)	1,428	—	1,327
Segment assets	64,723	426,826	8,736	—	500,285
Interest in associates					169,369
Trademarks					79,421
Unallocated assets					181,338
Total assets					930,413
Segment liabilities	23,982	145,222	5,327	—	174,531
Unallocated liabilities					217,867
Total liabilities					392,398
Capital expenditure incurred during the year	429	64,399	102	—	64,930
Unallocated					1,086
					66,016

(b) **Geographical segments**

	2008							
	Hong Kong	**mainland China**	**Singapore**	**Taiwan**	**Malaysia**	**Elsewhere inAsia**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales to external customers	209,134	63,919	140,490	202,688	120,272	2,439	787	739,729
Less:								
Attributable to discontinued operation	—	—	—	—	119,828	—	—	119,828
Sales to external customers from continuing operations	209,134	63,919	140,490	202,688	444	2,439	787	619,901
Other segment information:								
Segment assets	283,524	83,458	297,679	207,359	167,700	—	3	1,039,723
Trademarks								79,421
Total assets								1,119,144
Capital expenditure incurred during the year	11,400	3,822	8,301	11,122	33,270	—	—	67,915

	2007							
	Hong Kong	mainland China	Singapore	Taiwan	Malaysia	Elsewhere in Asia	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales to external customers	196,740	52,847	—	213,849	98,049	3,035	1,180	565,700
Less:								
Attributable to discontinued operation	—	—	—	—	96,189	—	—	96,189
Sales to external customers from continuing operations	196,740	52,847	—	213,849	1,860	3,035	1,180	469,511
Other segment information:								
Segment assets	305,290	50,058	—	194,082	131,987	191	15	681,623
Interest in associates								169,369
Trademarks								79,421
Total assets								930,413
Capital expenditure incurred during the year	13,070	6,599	—	10,955	35,392	—	—	66,016

5 OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Interest income from bank deposits	4,800	3,726
Interest income on loan to a jointly controlled entity	623	1,233
Rental income	12,753	10,817
Theatre rental	1,497	2,086
Miscellaneous income	23,896	20,187
Exchange gain, net	24,154	5,726
	67,723	43,775
Discontinued operation	2,413	2,301
	70,136	46,076

6 PROFIT FOR THE YEAR

Profit for the year is arrived at after charging/(crediting):

	2008	2007
	HK$'000	*HK$'000*
(a) Finance costs		
Continuing operations		
Interest on bank loans wholly repayable within five years	2,415	5,980
Interest on convertible notes *(note 24)*	7,790	7,186
Interest on loans from joint venture partners *(note 26(a))*	911	1,812
Finance charges on obligations under finance leases	79	109
Other borrowing costs	775	625
	11,970	15,712
Discontinued operation		
Interest on bank loans wholly repayable within five years	1,515	907
	13,485	16,619
(b) Staff costs (excluding directors' remuneration *(note 9)*)		
Salaries, wages and other benefits*	94,878	77,009
Contributions to defined contribution retirement plans	3,039	2,687
Equity-settled share-based payment expenses	—	1,141
	97,917	80,837
(c) Other items		
Cost of inventories	33,565	8,003
Cost of services **	276,344	238,854
Depreciation	50,206	41,771
Amortisation of prepaid land lease payments	340	18
Amortisation of film rights ***	31,930	11,058
Impairment losses on trade and other receivables	1,796	1,327
Provision/(reversal of provision) for long service payments, net	547	(95)
Auditors' remuneration	2,284	2,204
Operating lease charges in respect of land and buildings		
- minimum lease payments	131,754	109,673
- contingent rentals	19,278	16,422
Loss on disposal of property, plant and equipment	7,027	1,945
Rental income less direct outgoings	(12,753)	(10,817)

* The amount includes provision for long service payments.

** The cost of services provided includes approximately HK$2,827,000 (2007: HK$2,826,000) relating to staff costs which is also included in the amount disclosed above.

*** The amortisation of film rights for the year is included in "Cost of sales" on the face of the consolidated income statement.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) **Taxation in the consolidated income statement represents:**

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Group		
Current income tax		
Provision for overseas tax	948	1,237
(Over)/under-provision in respect of prior years	(543)	312
	405	1,549
Jointly controlled entities		
Current income tax		
Provision for overseas tax	2,583	—
Over-provision in respect of prior years	—	(279)
	2,583	(279)
Deferred tax - overseas (note 27(a))		
Origination and reversal of temporary differences	7,403	(1,684)
	9,986	(1,963)
	10,391	(414)
Discontinued operation		
Current income tax		
Provision for overseas tax	2,269	3,465
Deferred tax - overseas (note 27(a))		
Origination and reversal of temporary differences	1,250	427
	3,519	3,892
	13,910	3,478

Notes:

(i) The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in the profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the year ended 30 June 2008. Tax provisions are reviewed regularly to take into account of changes in legislation, practice and status of negotiations.

(ii) Taxation for overseas subsidiaries and jointly-controlled entities is charged at the appropriate current rates of taxation ruling in the relevant countries.

(iii) On 16 March 2007, the Standing committee of the Tenth National People's Congress of the People's Republic of China (the "PRC") approved the income tax law. Certain subsidiaries of the Group operating in Shenzhen, the PRC that were qualified under old law or regulations for incentive tax rate of 15%, the tax rate will progressively increase to 18%, 20%, 22%, 24% and 25% in years 2008, 2009, 2010, 2011 and 2012, respectively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% to 10% on various types of passive income such as dividend derived from sources in the PRC. Distribution of the pre-2008 earnings are exempted from the above-mentioned withholding tax.

(iv) Share of associates' tax for the year ended 30 June 2008 of HK$3,250,000 (2007: HK$13,922,000) is included in the share of profits less losses of associates.

(b) **Reconciliation between tax expense and profit before taxation at applicable tax rates:**

	2008	**2007**
	HK$'000	*HK$'000*
Profit before taxation (including profit from discontinued operation)	24,979	100,041
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	7,138	24,550
Share of profits less losses of associates	(3,251)	(13,922)
Tax effect of non-deductible expenses	8,627	3,902
Tax effect of non-taxable revenue	(7,178)	(21,320)
Tax effect of unused tax losses not recognised	7,729	10,570
Tax effect of previously unrecognised prior years' tax losses utilised this year	(294)	(234)
Tax effect of temporary differences unrecognised	1,682	(101)
(Over)/under-provision in prior years	(543)	33
Actual tax expense	13,910	3,478
Represented by		
- Continuing operations	10,391	(414)
- Discontinued operation	3,519	3,892
	13,910	3,478

8 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On 13 February 2008, the Group entered into an agreement to dispose of its entire 50% equity interests in TGV Cinema Sdn Bhd ("TGV") to its then existing shareholder (the "Purchaser") for a consideration of approximately HK$96,500,000 (RM40,200,000) (the "Transaction") and to procure the repayment of a shareholders' loan in the amounts of approximately HK$25,900,000 (RM10,800,000) by TGV. Details of the Transaction were set out in the Company's circular dated 5 March 2008.

TGV is principally engaged in the theatre operation in Malaysia.

The Group has decided to dispose its entire interests in TGV as it plans to redeploy its resources in the Greater China market. At 30 June 2008, the Transaction was in the process of obtaining the relevant regulatory approval and the financial results of TGV were classified and presented as a discontinued operation in accordance with Hong Kong Financial Reporting Standard 5, "Non-current assets held for sale and discontinued operations". The disposal of TGV was completed on 31 July 2008.

The results of TGV are presented below:

	Note	2008 HK$'000	2007 HK$'000
Turnover	4	119,828	96,189
Cost of sales		(52,287)	(41,183)
		67,541	55,006
Other income	5	2,413	2,301
Selling and distribution costs		(55,924)	(41,786)
General and administrative expenses		(1,674)	(1,340)
Other operating expenses		(3,411)	(433)
Profit from operations		8,945	13,748
Finance costs	6(a)	(1,515)	(907)
Profit before taxation		7,430	12,841
Income tax	7(a)	(3,519)	(3,892)
Profit for the year		3,911	8,949
The net cash flows incurred by the discontinued operation were as follow:			
Operating activities		24,046	23,940
Investing activities		(33,265)	(35,377)
Financing activities		(1,164)	16,091
Net cash (outflow)/inflow		(10,383)	4,654

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	**Salaries, allowances and benefits in kind**	**Retirement scheme contributions**	**Share-based payments**	**Compensation for termination**	**2008 Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note 28(iii))*	*HK$'000*	*HK$'000*
Executive directors						
WU, Kebo	—	593	—	—	—	593
CHOW, Siu Hong	—	529	6	—	—	535
WANG, Wei	—	529	6	—	—	535
CHOW, Sau Fong Fiona	—	909	6	—	—	915
SHEN, De Min	—	310	3	—	—	313
CHOW, Ting Hsing Raymond*	—	1,781	—	—	—	1,781
CHIN, Chow Chung Hang Roberta*	—	476	4	—	—	480
CHAN, Sik Hong David*	—	1,254	9	—	—	1,263
PHOON, Chiong Kit*	53	3,242	26	—	2,072	5,393
LAU, Pak Keung	—	1,627	12	—	—	1,639
Non-executive directors						
KRONFELD, Eric Norman	280	—	—	—	—	280
ARAKI, Takashi	145	—	—	—	—	145
Independent non-executive directors						
HUANG, Shao-Hua George	230	—	—	—	—	230
PRINCE Chatrichalerm Yukol	210	—	—	—	—	210
LEUNG, Man Kit	106	—	—	—	—	106
LIN, Frank*	98	—	—	—	—	98
MA, Ka Woh Paul*	164	—	—	—	—	164
	1,286	11,250	72	—	2,072	14,680

* All these directors resigned during the year. The amounts for the year represented the remuneration of the directors up to the date of resignation.

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement scheme contributions *HK$'000*	Share-based payments *HK$'000* *(note 28(iii))*	2007 Total *HK$'000*
Executive directors					
CHOW, Ting Hsing Raymond	—	10,452	—	—	10,452
PHOON, Chiong Kit	—	8,470	108	2,294	10,872
CHAN, Sik Hong David	—	4,038	12	—	4,050
CHIN, Chow Chung Hang Roberta	—	1,521	12	116	1,649
LAU, Pak Keung	—	1,532	7	233	1,772
Non-executive director					
KRONFELD, Eric Norman	120	—	—	175	295
Independent non-executive directors					
MA, Kah Woh Paul	150	—	—	233	383
LIN, Frank	100	—	—	116	216
HUANG, Shao-Hua George	59	—	—	117	176
PRINCE Chatrichalerm Yukol	100	—	—	116	216
	529	26,013	139	3,400	30,081

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, all (2007: all) are directors whose emoluments are disclosed in note 9.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$36,544,000 (2007: HK$136,655,000) which has been dealt with in the financial statements of the Company.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operation of HK$6,852,000 and HK$3,911,000 respectively (2007: HK$87,768,000 and HK$8,949,000) and the weighted average of 131,225,351 ordinary shares (2007: 131,804,146 ordinary shares) in issue during the year, calculated as follows:

(i) ***Profit attributable to ordinary equity shareholders of the Company***

	2008	**2007**
	HK$'000	*HK$'000*
Profit attributable to ordinary equity shareholders		
- Continuing operations	6,852	87,768
- Discontinued operation	3,911	8,949
	10,763	96,717

(ii) ***Weighted average number of ordinary shares***

	2008	**2007**
Issued ordinary shares at 1 July	128,356,537	133,030,937
Effect of shares repurchased	(1,390,724)	(1,226,791)
Effect of share options exercised	546,175	—
Effect of conversion of convertible notes	3,713,363	—
Weighted average number of ordinary shares at 30 June	131,225,351	131,804,146

(b) **Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operation of HK$6,852,000 and HK$3,911,000 respectively (2007: HK$94,954,000 and HK$8,949,000) and the weighted average number of ordinary shares of 131,642,634 shares (2007: 179,749,351 shares), calculated as follows:

(i) ***Profit attributable to ordinary equity shareholders of the Company (diluted)***

	2008	**2007**
	HK$'000	*HK$'000*
Continuing operations		
Profit attributable to ordinary equity shareholders	6,852	87,768
After tax effect of effective interest on the liability component of convertible notes	—	7,186
Profit attributable to ordinary equity shareholders (diluted)	6,852	94,954
Discontinued operation		
Profit attributable to ordinary equity shareholders	3,911	8,949

(ii) ***Weighted average number of ordinary shares (diluted)***

	2008	**2007**
Weighted average number of ordinary shares at 30 June	131,225,351	131,804,146
Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(note 1)*	417,283	—
Effect of conversion of convertible notes *(note 2)*	—	47,945,205
Weighted average number of ordinary shares (diluted) at 30 June	131,642,634	179,749,351

Notes:

1 The share options had no diluting effect on the basic earnings per share for prior year as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during prior year.

2 The convertible notes had no diluting effect on the basic earnings per share for the current year.

13 FIXED ASSETS

The Group

	Property, plant and equipment									
	Buildings	**Leasehold improvements**	**Machinery and equipment**	**Furniture and fixtures**	**Motor vehicles**	**Air-conditioning systems**	**Construction in progress**	**Sub-total**	**Prepaid land lease payments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:										
At 1 July 2007	4,556	268,664	118,603	36,869	3,297	535	8,320	440,844	1,226	442,070
Additions	—	34,367	27,733	2,030	988	—	2,797	67,915	—	67,915
Transfer to jointly controlled entities *(note 15(c))*	65,531	88,871	78,345	6,785	—	—	—	239,532	63,502	303,034
Transfers	—	1,037	197	—	—	—	(1,234)	—	—	—
Disposals	—	(13,643)	(8,888)	(8,774)	(2,134)	(535)	—	(33,974)	—	(33,974)
Reclassification to held for sale *(note 8)*	—	(109,610)	(66,205)	—	—	—	(5,748)	(181,563)	—	(181,563)
Exchange adjustments	4,126	22,313	12,431	4,930	65	—	635	44,500	3,998	48,498
At 30 June 2008	74,213	291,999	162,216	41,840	2,216	—	4,770	577,254	68,726	645,980
Representing:										
Cost	69,657	291,999	162,216	41,840	2,216	—	4,770	572,698	68,726	641,424
Valuation *(note (ii))*	4,556	—	—	—	—	—	—	4,556	—	4,556
	74,213	291,999	162,216	41,840	2,216	—	4,770	577,254	68,726	645,980
Accumulated depreciation and amortisation:										
At 1 July 2007	2,330	101,004	54,557	20,001	951	535	—	179,378	503	179,881
Charge for the year	1,005	26,413	17,877	4,294	617	—	—	50,206	340	50,546
Transfer to jointly controlled entities *(note 15(c))*	22,749	41,735	49,141	4,292	—	—	—	117,917	321	118,238
Written back on disposals	—	(7,325)	(7,874)	(8,862)	(943)	(535)	—	(25,539)	—	(25,539)
Reclassification to held for sale *(note 8)*	—	(35,131)	(29,831)	—	—	—	—	(64,962)	—	(64,962)
Exchange adjustments	1,484	9,307	6,929	2,673	28	—	—	20,421	—	20,421
At 30 June 2008	27,568	136,003	90,799	22,398	653	—	—	277,421	1,164	278,585
Net book value:										
At 30 June 2008	46,645	155,996	71,417	19,442	1,563	—	4,770	299,833	67,562	367,395

	Property, plant and equipment									
	Buildings	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Motor vehicles	Air-conditioning systems	Construction in progress	Sub-total	Prepaid land lease payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:										
At 1 July 2006	4,556	260,437	91,708	36,449	3,031	535	3,541	400,257	1,226	401,483
Additions	—	25,262	27,164	4,486	617	—	8,487	66,016	—	66,016
Transfers	—	—	3,026	748	—	—	(3,774)	—	—	—
Disposals	—	(10,276)	(4,520)	(2,806)	(380)	—	—	(17,982)	—	(17,982)
Disposal of interest in a jointly controlled entity *(note 16(d))*	—	(10,554)	(1,241)	(2,153)	—	—	(23)	(13,971)	—	(13,971)
Exchange adjustments	—	3,795	2,466	145	29	—	89	6,524	—	6,524
At 30 June 2007	4,556	268,664	118,603	36,869	3,297	535	8,320	440,844	1,226	442,070
Representing:										
Cost	—	268,664	118,603	36,869	3,297	535	8,320	436,288	1,226	437,514
Valuation *(note (ii))*	4,556	—	—	—	—	—	—	4,556	—	4,556
	4,556	268,664	118,603	36,869	3,297	535	8,320	440,844	1,226	442,070
Accumulated depreciation and amortisation:										
At 1 July 2006	2,148	89,322	44,976	15,862	615	535	—	153,458	485	153,943
Charge for the year	182	21,314	12,263	7,413	599	—	—	41,771	18	41,789
Written back on disposals	—	(8,941)	(3,761)	(2,483)	(270)	—	—	(15,455)	—	(15,455)
Disposal of interest in a jointly controlled entity *(note 16(d))*	—	(2,062)	(147)	(836)	—	—	—	(3,045)	—	(3,045)
Exchange adjustments	—	1,371	1,226	45	7	—	—	2,649	—	2,649
At 30 June 2007	2,330	101,004	54,557	20,001	951	535	—	179,378	503	179,881
Net book value:										
At 30 June 2007	2,226	167,660	64,046	16,868	2,346	—	8,320	261,466	723	262,189

(i) Analysis of carrying values of fixed assets:

	2008		2007	
	Buildings	Prepaid land lease payments	Buildings	Prepaid land lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Long leases				
- in Hong Kong	2,044	704	2,226	723
- outside Hong Kong	44,601	66,858	—	—
	46,645	67,562	2,226	723

(ii) The buildings in Hong Kong were revalued on 30 September 1994 by C.Y. Leung & Company Limited, an independent firm of valuers, on an open market value basis, assuming sale with vacant possession. The Group has taken advantage of the transitional provision, as permitted under paragraph 80A of HKAS 16, "Property, plant and equipment", of not making further regular valuations on its revalued assets.

Had the Group's buildings been carried at cost less accumulated depreciation and any impairment losses, the net book values of the buildings would have been HK$Nil at 30 June 2008 and 2007.

(iii) At 30 June 2008, certain property, plant and equipment which are situated in the PRC and land and buildings which are situated in Hong Kong with carrying values of approximately HK$12,971,000 (2007: HK$13,639,000) and HK$Nil (2007: HK$2,949,000) respectively were pledged as security to banks for bank loans and an overdraft facility granted to the Group (note 23).

(iv) At 30 June 2008, the net book value of fixed assets held under finance leases of the Group was HK$Nil (2007: HK$1,458,000).

14 INTEREST IN SUBSIDIARIES

	The Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	167,647	167,647
Capital contribution in respect of employee share-based payments	3,566	3,566
Amounts due from subsidiaries	935,231	944,614
	1,106,444	1,115,827
Less: Impairment losses	(405,353)	(455,142)
	701,091	660,685

	2008	2007
	HK$'000	*HK$'000*
Included in		
- Non-current	681,091	627,685
- Current	20,000	33,000
	701,091	660,685

Amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year, except for an amount due from a subsidiary of HK$20,000,000 (2007: HK$33,000,000) which is expected to be settled within one year and included under current assets. The carrying amount of these amounts due from subsidiaries approximate their fair values.

Details of principal subsidiaries of the Group are set out in note 38 to the financial statements.

15 INTEREST IN ASSOCIATES

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Share of net assets	—	72,733
Amounts due from associates	—	98,900
Amounts due to associates	—	(1,087)
	—	170,546
Less: Impairment loss	—	(1,413)
	—	169,133

(a) As at 30 June 2007, the amounts due from/(to) associates are unsecured, interest-free and are not expected to be recovered/settled within one year, except for amounts due to associates of HK$236,000 which are expected to be repaid within one year and have been classified under current liabilities.

(b) Summary of financial information on associates:

	2008	2007
	HK$'000	*HK$'000*
Total assets	—	495,910
Total liabilities	—	326,426
Revenue	—	492,129
Profit after tax	—	25,869

(c) On 1 January 2008, Dartina Development Limited and its subsidiaries ("Dartina Group") (formerly associates of the Group) became jointly controlled entities of the Group following the new shareholder agreement entered by the Group and the joint venture partner. The financial results of Dartina Group were proportionately consolidated into the Group's financial statements in accordance with the accounting policy as set out in note 2(e). Further details are set out in note 33(a).

(d) On 28 February 2007, the Group disposed of its entire equity interest in Golden Screen Cinemas Sdn. Bhd. ("GSC") to an independent third party for a consideration of HK$195,237,000. The Group recorded a gain on disposal of an associate of HK$115,970,000 for the year ended 30 June 2007, representing the difference between the consideration and the carrying value of the Group's interests in GSC of HK$79,267,000.

16 AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Amounts due from jointly controlled entities		
- non-current	32,285	26,069
- current	50,277	14,787
	82,562	40,856

(a) Amounts due from jointly controlled entities are unsecured and interest-free, except for an amount of HK$19,494,000 (2007: HK$28,667,000) which is interest bearing at 3.5% to 4.0% per annum (2007: 2.5% to 3.5% per annum). The carrying amounts of balances with jointly controlled entities approximate their fair values.

(b) Details of the jointly controlled entities of the Group are set out in note 38 to the financial statements.

(c) Summary financial information on jointly controlled entities - Group's effective interest:

	Continuing operations	**Discontinued operation**	**Total**	
	2008	**2008**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	347,607	121,206	468,813	233,114
Current assets	104,281	19,831	124,112	53,646
Non-current liabilities	(132,585)	(60,571)	(193,156)	(108,684)
Current liabilities	(114,669)	(40,564)	(155,233)	(64,922)
Net assets	204,634	39,902	244,536	113,154
Income	355,906	122,241	478,147	319,821
Expenses	(344,259)	(118,330)	(462,589)	(295,577)
Profit for the year	11,647	3,911	15,558	24,244

(d) On 12 June 2007, the Group disposed of 4.29% equity interests of Vie Show Cinemas Co., Ltd ("Vie Show") to one of the shareholders of Vie Show. The net proceeds of the disposal amounted to HK$10,538,000 and the carrying value of the 4.29% interests in Vie Show amounted to HK$16,255,000. The disposal gave rise to a loss amounting to HK$5,717,000 which was charged to the consolidated income statement for the year ended 30 June 2007. Further details are set out in note 33(c).

17 TRADEMARKS

The trademarks represented the perpetual license for the use of the brand name "Golden Harvest" which takes the form of sign, symbol, name, logo, design or any combination thereof.

The directors are of the opinion that the Group's trademarks have an indefinite useful life due to the following reasons:

(i) the trademarks, which were acquired by the Group in 2001, have been in use for a considerable number of years and will continue to be used for the long term; and

(ii) the Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to income statement when incurred, to maintain and increase the market value of its trademarks.

Vigers Appraisal & Consulting Ltd. ("Vigers Appraisal"), a firm of independent professional qualified valuers, has confirmed, in their valuation of the Group's trademarks, that the market value of the trademarks exceeded their carrying value as at 30 June 2008. Accordingly, no impairment loss was recorded at 30 June 2008.

18 INVENTORIES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Raw materials	139	334
Chemicals	60	58
Machinery parts	152	123
Audio visual products	192	193
Goods for resale	1,874	—
	2,417	708

The carrying amount of inventories sold and recognised as an expense to the consolidated income statement of the Group was HK$33,565,000 (2007: HK$8,003,000).

19 FILM RIGHTS

Film rights represent films and television drama series acquired by the Group.

In accordance with note 2(n) of the Group's accounting policy, the Group performed impairment tests at 30 June 2007 and 30 June 2008 by comparing the attributable carrying amount of the film rights with the receivable amount. No impairment loss was recorded for the years ended 30 June 2008 and 30 June 2007.

20 TRADE AND OTHER RECEIVABLES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Trade receivables	27,045	18,933
Less: Allowance for doubtful debts	—	(5,483)
	27,045	13,450

(a) **Ageing analysis**

The ageing analysis of trade receivables (net of allowance for doubtful debts) as of the balance sheet date:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current to 3 months	21,357	12,325
Within 4 to 6 months	3,900	1,125
Over 6 months	1,788	—
	27,045	13,450

The Group usually grants credit periods ranging from one to three months. Each customer has a credit limit and overdue balances are regularly reviewed by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, the concentration of credit risk is not considered significant. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate their fair values. Further details on the Group's credit policy are set out in note 29(a) to the financial statements.

The trade receivables of the Group included HK$34,000 (2007: HK$Nil) due from a related company, Chengtian Entertainment Group (International) Holding Company Limited, as at 30 June 2008. The balance was unsecured, interest-free and repayable in accordance with normal trading terms.

(b) **Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1 July	5,483	5,629
Uncollectible amounts written off	(5,483)	(146)
At 30 June	—	5,483

The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. As at 30 June 2007, specific allowances for doubtful debts of HK$5,483,000 were recognised. The Group does not hold any collateral over these balances.

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Neither past due nor impaired	13,027	8,620
Less than one month past due	5,286	2,877
Past due over one month	8,732	1,953
	14,018	4,830
	27,045	13,450

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(c) All of the other receivables, deposits and prepayments are expected to be recoverable within one year.

21 CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits at banks	151,203	178,805	—	—
Cash at bank and in hand	125,237	44,547	193	319
	276,440	223,352	193	319
Less: Pledged deposits				
- for bank loans	—	(2,141)	—	—
- as guarantees to landlords	(10,133)	(2,049)	—	—
Deposits and cash	266,307	219,162	193	319
Less: Time deposits with maturity over three months	—	(10,031)		
Cash and cash equivalents held by jointly controlled entity held for sale	10,841	—		
Cash and cash equivalents in the consolidated cash flow statement	277,148	209,131		

Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits at banks are made for varying periods of between one day and five months depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

22 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

(a) **Trade payables**

The ageing analysis of trade payables as of the balance sheet date:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current to 3 months	63,275	42,534
Within 4 to 6 months	193	500
Within 7 to 12 months	1,509	109
Over one year	3,632	3,803
	68,609	46,946

(b) All of the other payables and accrued charges (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

23 BANK LOANS

(a) At 30 June, the bank loans were repayable as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year or on demand	12,480	25,311
After one year but within two years	7,800	20,770
After two years but within five years	—	27,090
After five years	—	826
	7,800	48,686
	20,280	73,997

All of the non-current interest-bearing borrowings are carried at amortised cost.

All bank loans bear interest at floating interest rates which approximate to market rates of interest.

(b) At 30 June, the bank loans were secured as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Bank loans		
- secured	20,280	41,594
- unsecured	—	32,403
	20,280	73,997

(c) At 30 June 2008, the Group's bank loans were secured by:

(i) its 35.71% equity interest in a jointly-controlled entity; and

(ii) the property, plant and equipment of a subsidiary (note 13).

The Group's overdraft facility was previously secured by certain leasehold property and prepaid land payments which were released during the year ended 30 June 2008.

(d) Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 30 June 2008, none of the covenants relating to drawn down facilities had been breached (2007: None).

24 CONVERTIBLE NOTES

On 23 May 2006, the Company issued 4% convertible note with a principal amount of HK$20,000,000. The note is convertible at the option of the note holder into ordinary shares of the Company on or before 15 May 2008 at a price of HK$2.2 per share. The note bears interest at a rate of 4% per annum and is unsecured.

On 22 August 2006, the Company issued 4% convertible notes with principal amount of HK$100,000,000. The notes are convertible at the option of the note holders into ordinary shares of the Company on or before 14 August 2008 at a price of HK$2.2 per share. If the conversion rights are not exercised by the note holders, the notes not converted will be redeemed on 21 August 2008 at 104% of the principal amount of the notes. The notes bear interest at a rate of 4% per annum and are unsecured.

The fair values of the liability portion of the convertible notes were estimated at the issuance date using the Group's prevailing borrowing rate and an equivalent market interest rate for a similar note without a conversion option, and have been ascertained by Vigers Appraisal. The residual amounts were assigned as the equity component and included in shareholders' equity.

In May and June 2008, convertible notes in aggregate amounts of HK$90,000,000 have been converted into the Company's ordinary shares, creating a total of 40.9 million new ordinary shares at a conversion price of HK$2.2 per share.

Subsequent to 30 June 2008, the remaining convertible notes in aggregate amounts of HK$30,000,000 have been converted into the Company's ordinary shares, creating a total of 13.6 million new ordinary shares at a conversion price of HK$2.2 per share.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity components, as follows:

	The Group and the Company		
	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2006	19,761	95	19,856
Nominal value of convertible notes issued, net of issuing costs	98,215	785	99,000
Interest expenses *(note 6(a))*	7,186	—	7,186
Interest paid	(2,811)	—	(2,811)
At 30 June and 1 July 2007	122,351	880	123,231
Conversion of convertible notes	(93,092)	(638)	(93,730)
Interest expenses *(note 6(a))*	7,790	—	7,790
Interest paid	(5,556)	—	(5,556)
At 30 June 2008	31,493	242	31,735

	2008	**2007**
	HK$'000	*HK$'000*
Liability component analysed for reporting purposes:		
Current liabilities - other payables and accrued charges	427	1,499
- convertible notes	31,066	20,262
	31,493	21,761
Non-current liabilities - convertible notes	—	100,590
	31,493	122,351

25 OBLIGATIONS UNDER FINANCE LEASES

At 30 June 2007, the Group had obligations under finance leases repayable as follows:

	2007	
	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*
Within one year	353	434
After one year but within two years	383	434
After two years but within five years	416	435
	799	869
	1,152	1,303
Less: total future interest expenses		(151)
Present value of lease obligations		1,152
Classified as current liabilities		(353)
Non-current portion		799

During the year ended 30 June 2008, the Group made early repayment to discharge its obligations under finance leases. Accordingly, there was no finance lease payables at 30 June 2008.

26 LOANS FROM JOINT VENTURE PARTNERS/MINORITY SHAREHOLDER

(a) **Loans from joint venture partners**

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Loans from joint venture partners		
- current	22,144	14,787
- non-current	42,505	26,069
	64,649	40,856

Loans from joint venture partners are unsecured and interest-free, except for an amount of HK$18,109,000 (2007: HK$28,667,000) which is interest bearing at a rate from 3.5% to 4.0% per annum (2007: 2.5% to 3.5% per annum).

The carrying amounts of the loans from joint venture partners approximate their fair values.

(b) **Loan from minority shareholder**

Loan from minority shareholder is unsecured, interest bearing at a rate from 3.5% to 4.0% per annum and is expected to be settled after one year.

27 DEFERRED TAXATION

(a) **Deferred tax assets and liabilities recognised:**

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowance in excess of related depreciation	**Tax losses recognised**	**Revaluation of leasehold buildings**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:					
At 1 July 2006	6,872	—	402	—	7,274
Exchange adjustments	329	—	—	—	329
Charged/(credited) to the income statement	2,504	(4,045)	—	284	(1,257)
Credited to equity	—	—	(31)	—	(31)
Disposal of interest in a jointly controlled entity *(note 33(c))*	(222)	433	—	(30)	181
At 30 June 2007	9,483	(3,612)	371	254	6,496
At 1 July 2007	9,483	(3,612)	371	254	6,496
Exchange adjustments	1,375	(301)	—	647	1,721
Charged/(credited) to the income statement	5,207	3,913	—	(467)	8,653
Transfer to jointly controlled entity *(note 33(a))*	9,790	—	—	(792)	8,998
Reclassification to held for sale *(note 8)*	(9,636)	—	—	—	(9,636)
Credited to equity	—	—	(50)	—	(50)
At 30 June 2008	16,219	—	321	(358)	16,182

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Net deferred tax liability recognised on the balance sheet	16,540	7,999
Net deferred tax asset recognised on the balance sheet	(358)	(1,503)
	16,182	6,496

(b) **Deferred tax assets not recognised**

At 30 June 2008, the Group has not recognised deferred tax assets in respect of accumulative tax losses of approximately HK$523,739,000 (2007: HK$500,523,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation except for the balances of HK$7,435,000 (2007: HK$31,708,000) which can be only carried forward for five years under the relevant jurisdiction.

(c) **Deferred tax liabilities not recognised**

At 30 June 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly controlled entities or associates as the Group has no significant liability to additional tax should such amounts be remitted.

28 SHARE CAPITAL AND RESERVES

	2008		2007	
	No.of shares	**Amount**	**No. of shares**	**Amount**
		HK$'000		*HK$'000*
Authorised:				
Ordinary shares of HK$1.00 each	600,000,000	600,000	600,000,000	600,000
Ordinary shares, issued and fully paid:				
At 1 July	128,356,537	128,357	1,330,309,375	133,031
Consolidation of every ten shares of nominal value of HK$0.10 each into one share of nominal value of HK$1.00 each *(note (i))*	—	—	(1,166,678,438)	—
Repurchase of shares *(note (ii))*	(1,603,000)	(1,603)	(35,274,400)	(4,674)
Share option exercised *(note (iii))*	1,975,000	1,975	—	—
Conversion of convertible notes *(note (iv))*	40,909,090	40,909	—	—
At 30 June	169,637,627	169,638	128,356,537	128,357

Notes:

(i) *Consolidation of share capital*

Pursuant to an ordinary resolution passed on 9 May 2007, the issued and unissued ordinary shares of HK$0.10 each of the Company were consolidated on the basis of every ten shares into one share of HK$1.00 each. The Company's authorised share capital of HK$600,000,000 divided into 6,000,000,000 ordinary shares of HK$0.10 each was consolidated into 600,000,000 ordinary shares of HK$1.00 each. On the same day, the Company's issued and fully paid share capital of HK$129,630,938 divided into 1,296,309,375 ordinary shares of HK$0.10 each was consolidated into 129,630,937 ordinary shares of HK$1.00 each.

(ii) *Purchase of own shares*

During the year ended 30 June 2008, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at prices ranging from HK$2.9 to HK$4.0 per share for aggregate consideration before expenses of HK$5,155,000.

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares of HK$1,603,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of HK$3,552,000 and the related costs of HK$38,000 were charged to the share premium account.

(iii) *Share option scheme*

Equity-settled share-based transactions

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group, shareholders of the Company, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval in advance by the independent non-executive directors (excluding independent non-executive director who is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any 12-month period up to and including the date of the grant, are subject to the shareholders' approval in advance in a general meeting.

The offer of a grant of share options must be accepted within 30 days inclusive of, and from the day of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, which may not exceed 10 years commencing on such date on or after the date of grant as the directors of the Company may determine in granting the share options and ending on such date as the directors of the Company may determine in granting the share options (which in any event must be prior to the close of business on 30 October 2011). Save as determined by the directors of the Company and provided in the offer of the grant of the relevant share option, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

The exercise price of the share options is determinable by the directors, provided always that it shall be at least the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer of grant of the share options; and (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme and any other share option schemes of the Company (if any) is an amount equivalent to 10% of the shares of the Company in issue as at 28 November 2001. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

Share options do not confer rights on the holders to dividends or to vote at the shareholders' meeting.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price per share	**Options**	**Average exercise price per share**	**Options**
At 1 July	4.08	8,345,000	4.06	45,275,000
Granted	—	—	4.13	38,800,000
Exercised	2.63	(1,975,000)	—	—
Lapsed	4.73	(4,970,000)	4.96	(625,000)
Adjustment upon share consideration	—	—	4.08	(75,105,000)
At 30 June	3.86	1,400,000	4.08	8,345,000

During the year ended 30 June 2008, a total of 1,975,000 share options were exercised (2007: Nil) at exercise prices ranging from HK$2.08 to HK$3.93.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

At the balance sheet date, the Company had 1,400,000 share options outstanding under the Scheme and the Terminated Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,400,000 additional ordinary shares of the Company, representing approximately 1% of the Company's shares in issue as at the balance sheet date, and additional share capital of HK$1,400,000 and share premium account of HK$4,009,000 (before issue expenses).

(iv) *Conversion of convertible notes*

During the year ended 30 June 2008, the note holders exercised their conversion rights to convert notes of HK$90,000,000 into the Company's ordinary shares of 40.9 million ordinary shares at a conversion price of HK$2.2 per ordinary share. Note 24 sets out details of the convertible notes.

(a) **The Group**

Details of the movements in reserves of the Group during the years ended 30 June 2007 and 30 June 2008 are set out in the consolidated statement of changes in equity.

(b) **The Company**

	Share premium	Share option reserve	Capital redemption reserve	Contributed surplus	Equity component of convertible notes	(Accumulated losses)/ retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006	639,881	544	145	191,644	880	(555,158)	277,936
Elimination upon capital reorganisation *(note)*	(500,000)	—	—	500,000	—	—	—
Setting off the accumulated losses *(note)*	—	—	—	(420,000)	—	420,000	—
Repurchases of shares	(14,148)	—	4,674	—	—	—	(9,474)
Profit for the year	—	—	—	—	—	136,655	136,655
Equity-settled share-based transactions	—	4,541	—	—	—	—	4,541
At 30 June 2007	125,733	5,085	4,819	271,644	880	1,497	409,658
At 1 July 2007	125,733	5,085	4,819	271,644	880	1,497	409,658
Repurchase of shares	(3,590)	—	1,603	—	—	(1,603)	(3,590)
Profit for the year	—	—	—	—	—	36,544	36,544
Reserve realised upon							
- exercise of share options	4,097	(879)	—	—	—	—	3,218
- lapse of share options	—	(2,658)	—	—	—	2,658	—
- conversion of convertible notes	52,822	—	—	—	(638)	—	52,184
At 30 June 2008	179,062	1,548	6,422	271,644	242	39,096	498,014

Note: Pursuant to a special resolution passed on 9 May 2007, the share premium account of the Company was reduced by HK$500,000,000 ("Share Premium Reduction") and the credit arising in the books of account of the Company from the Share Premium Reduction has been transferred to the contributed surplus account of the Company and an amount equal to HK$420,000,000 in the contribution surplus account has been applied in setting off the accumulated losses of the Company of HK$420,000,000.

(c) **Nature and purpose of reserves**

(i) *Share premium and capital redemption reserve*

The application of the share premium account is governed by Sections 40 of the Companies Act 1981 of Bermuda.

(ii) *Share option reserve*

The share option reserve represents the fair value of the number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(v)(ii).

(iii) *Contributed surplus*

The contributed surplus represents (i) the difference between the nominal value of the Company's shares in issue, in exchange for the issued share capital of the subsidiaries, and the aggregate net asset value of the subsidiaries acquired at the date of acquisition; and (ii) the net transfer of HK$80,000,000 after setting off the accumulated losses from the share premium account pursuant to the Company's capital reorganisation in May 2007. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders of the Company.

(iv) *Equity component of convertible notes*

Equity component of convertible notes represents the value of equity component of the unexercised convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 2(s).

(v) *Surplus reserve*

The surplus reserve represents an amount transferred from retained profits in accordance with statutory requirements and the articles of association of an associate incorporated in Taiwan. The surplus reserve may only be applied to make up any losses and for the capitalisation by the way of fully paid bonus issue of the shares of the associate in Taiwan.

(vi) *Reserve funds*

In accordance with the relevant regulations in the PRC, the Company's subsidiary established in the PRC is required to transfer a certain percentage of its profits after tax to the reserve funds. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiary's articles of association, the reserve funds may be used either to offset losses, or for capitalisation by way of paid-up capital.

(vii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries, jointly controlled entities and associate. The reserve is dealt with in accordance with the accounting policy set out in note 2(z).

(d) **Distributability of reserves**

At 30 June 2008, the aggregate amount of reserves available for distribution to shareholders of the Company was HK$496,224,000 (2007: HK$403,693,000).

(e) **Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its gearing structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the gearing structure in light of changes in economic conditions.

The Group monitors its gearing structure calculated on the basis of external borrowings, which includes bank loans, convertible notes and finance lease payable over total assets.

The Group's strategy is to maintain the gearing ratio below 35%. In order to maintain or adjust the ratio, the Group may raise new debt financing or sell assets to reduce debt. The gearing ratio at 30 June 2008 and 2007 are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Bank loans	20,280	73,997
Convertible notes	31,066	120,852
Obligations under finance lease	—	1,152
External borrowings	51,346	196,001
Total assets	1,119,144	930,413
Gearing ratio	4.6%	21.1%

29 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) **Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables. The Group has established credit control policies of which credit limits, credit approvals and other monitoring procedures for debts recovery are in place to minimise the credit risk. In addition, management reviews the recoverable amount of each individual receivable regularly to ensure that adequate impairment allowances are made for irrecoverable amounts. With such policies in place, the Group has been able to maintain its bad debts at minimal level.

The Group's trade receivable relate to a large number of diversified customers, the concentration of credit risk is not significant.

(b) **Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay. As all the convertible notes of the Group at 30 June 2008 have been converted to ordinary shares of the Company subsequent to the balance sheet date, the carrying amounts have not been included in the table. In addition, as loans from joint venture partners and minority shareholder and deposits received do not have fixed repayment terms, the carrying amounts have not been included in the table.

The Group

	2008					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	68,609	68,609	68,609	—	—	—
Other payables and accrued charges	129,472	129,472	129,472	—	—	—
Customer deposits	3,675	3,675	3,675	—	—	—
Bank loans	20,280	21,488	13,445	8,043	—	—
	222,036	223,244	215,201	8,043	—	—

	2007					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	46,946	46,946	46,946	—	—	—
Other payables and accrued charges	87,250	87,250	87,250	—	—	—
Amounts due to associates	236	236	236	—	—	—
Customer deposits	5,622	5,622	5,622	—	—	—
Bank loans	73,997	81,409	29,090	21,908	29,393	1,018
	214,051	221,463	169,144	21,908	29,393	1,018

The Company

The earlier settlement dates of the Company's financial liabilities at the balance sheet date are all within one year or on demand and the contractual amounts of the financial liabilities are all equal to their carrying amounts.

(c) **Currency risk**

The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the Group. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in profit or loss.

The Group enters into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the United States dollars. Management of the Group continuously monitors the Group's exposure to such foreign currency risks to ensure they are at manageable levels.

(i) *Exposure to currency risk*

The following table details the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than functional currency to which they relate.

The Group

	2008 Singapore Dollars *'000*	**2007 Singapore Dollars** *'000*
Cash and cash equivalents	5,100	14,156
Net exposure to currency risk	5,100	14,156

(ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. Other components of equity would not be affected by changes in the foreign exchange rates:

	2008		**2007**	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained earnings** *HK$'000*	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained earnings** *HK$'000*
Singapore Dollars	5%	1,464	5%	3,610
	(5)%	(1,464)	(5)%	(3,610)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

Currency risk as defined by HKFRS7 arises on financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature. Differences resulting from the translation of financial statements of overseas subsidiaries, jointly controlled entities and associates into the Group's presentation currency are therefore not taken into consideration for the purpose of the sensitivity analysis for currency risk.

(d) **Interest rate risk**

The Group's exposure to interest rate risk arises primarily to the Group's short and long-term loans. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's borrowings at the balance sheet date:

	2008		2007	
	Effective rate		**Effective rate**	
	%	*HK$'000*	*%*	*HK$'000*
Variable rate borrowings:				
Bank loans *(note 23)*	7.7%	20,280	6.85%	73,997
Loans from joint venture partners *(note 26(a))*	3.5%-4.0%	18,109	2.5%-3.5%	28,667
Loan from minority shareholder *(note 26(b))*	3.5%-4.0%	696	N/A	—

(ii) *Sensitivity analysis*

At 30 June 2008, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and total equity by approximately HK$391,000 (2007: HK$915,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk in existence at that date. The 1% increase/decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(e) **Fair values**

The fair values of receivables, bank balances and other current assets, payables and accruals and current borrowings are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2007 and 30 June 2008. Amounts due (to)/from subsidiaries are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

30 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2008 not provided for in the financial statements are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Contracted for	12,433	14,498
Authorised but not contracted for	219,846	201,890
	232,279	216,388

(b) Capital commitments outstanding at 30 June 2008 in relation to capital contribution to jointly controlled entities are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Authorised but not contracted for	—	26,124

(c) **Operating lease commitments**

(i) *As lessor*

At 30 June 2008, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Leases on premises expiring		
- within one year	18,139	15,613
- after one year but within five years	23,217	27,178
	41,356	42,791

The Group leases certain of its buildings under operating leases. The leases typically run for one to twelve years. None of the leases include contingent rentals.

(ii) *As lessee*

At 30 June 2008, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Leases on premises expiring		
- within one year	158,308	106,955
- after one year but within five years	497,043	364,316
- after five years	372,532	367,125
	1,027,883	838,396

The Group is the lessee in respect of a number of office premises and cinemas held under operating leases. The leases typically run for one to thirteen years.

Certain non-cancellable operating leases are subject to contingent rent payments, which are charged at 5% to 28% (2007: 5% to 28%) of their monthly or annual gross box office takings in excess of the base rents as set out in the respective lease agreements. In addition, 10% of the theatre confectionary sales and advertising income are also charged as payments under certain leases.

31 CONTINGENT LIABILITIES

At 30 June 2008, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries amounting to HK$81,880,000 (2007: HK$62,844,000). At 30 June 2008, banking facilities of HK$20,280,000 (2007: HK$41,594,000) had been utilised by the subsidiaries.

At 30 June 2008, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The Company has not recognised any deferred income in respect of bank guarantees as their fair value cannot be reliably measured and no transaction price was incurred.

32 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

	Notes	2008 HK$'000	2007 HK$'000
Interest on convertible notes	(i), (ii)	3,388	2,910
Consultancy fee	(iii)	121	366
Management fee income from an associate	(iv)	132	192
Accounting services paid to an associate/jointly controlled entity	(v)	76	95
Office rental paid to an associate	(vi)	55	105
Ticketing system maintenance/development costs paid/payable to an associate	(vii)	258	1,087
Consultancy fee income from jointly controlled entities	(viii)	473	274
Advertising agency fee paid to jointly controlled entity	(ix)	491	238
Interest income from jointly controlled entity	(x)	1,126	3,012

Notes:

(i) The related companies are/were the substantial shareholders of the Company or related to a substantial shareholder of the Company.

(ii) The interest expenses were charged at an effective interest rate of 7% per annum (2007: 7% per annum). Details of the terms of the convertible notes are set out in note 24 to the financial statements.

(iii) The distribution consultancy fee paid represented the film production and distribution consulting services provided by a related company (a company owned by a relative of Mr Raymond Chow Ting Hsing) to the Group and was charged in accordance with the terms of the agreement dated 1 July 2004. Upon the resignation of Mr Raymond Chow Ting Hsing on 26 October 2007, the service provider was no longer being the related company of the Group, but it remained as a connected person of the Group under the Listing Rules. The total amount of the consultancy fee paid during the year was HK$272,000.

(iv) The management fee income represented accounting services provided to an associate of the Group which were charged at rates of HK$11,000 per month for the year ended 30 June 2008. For the year ended 30 June 2007, the management fee income represented accounting services provided to two associates of the Group which were charge at rates of HK$10,000 per month from the period from 1 July 2006 to 31 December 2006, and HK$11,000 per month for the period from 1 January 2007 to 30 June 2007, respectively.

(v) The accounting service fee was charged at a rate of S$1,500 (2007: S$1,500) per month for the period from 1 July 2007 to 31 March 2008. After 1 January 2008, the associate became the jointly-controlled entity of the Group. The amount of accounting service fee charged from 1 January 2008 to 31 March 2008 was HK$26,000.

(vi) The rental expense was charged at a rate of approximately S$1,781 for the period from 1 July 2007 to 31 December 2007 (2007: S$1,747) per month for sub-letting a portion of office premises of an associate to the Group.

(vii) The ticketing system maintenance/development costs were charged according to prices and conditions similar to those offered to other customers of the associate.

(viii) The consultancy service fee was received from two jointly controlled entities of the Group, charged at a rate of S$8,000 per month for the period from 1 January 2008 to 30 June 2008 and NT$100,000 per month for the period from 1 July 2007 to 31 March 2008 (2007: S$ Nil and NT$100,000).

(ix) The advertising agency fee was charged on normal commercial terms.

(x) The interest on the shareholder's loan to a jointly-controlled entity was charged at 3.5% to 4.0% per annum (2007: 2.5% to 3.5% per annum).

The transactions amounted to HK$3,660,000 (2007: HK$3,276,000) shown in note (ii) and (iii) above with 5 related companies (2007: 5 related companies) constituted connected transactions as defined in the Listing Rules. The connected transactions were either properly approved by the independent shareholders or constituted the de minimis transactions as defined in the Listing Rules.

None of the other related party transactions set out above constituted connected transactions as defined in the Listing Rules.

33 TRANSFER TO JOINTLY CONTROLLED ENTITIES, ACQUISITION OF SUBSIDIARIES AND DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY

(a) Transfer to jointly controlled entities

For the year ended 30 June 2008

On 1 January 2008, Dartina Group (formerly associates of the Group) became jointly controlled entities of the Group following the new shareholder agreement entered by the Group and the joint venture partner (the "Transaction"). The financial results of Dartina Group were proportionately consolidated into the Group's financial statements in accordance with the accounting policy set out in note 2(e).

The carrying amounts of identifiable assets and liabilities of Dartina Group immediately before the Transaction were as follows:

	2008
	HK$'000
Fixed Assets	184,796
Deferred tax assets	792
Rental and other deposits	2,499
Film rights	2,304
Trade receivables	11,524
Other receivables, deposits and prepayments	5
Cash and cash equivalents	64,546
Trade payables	(21,052)
Other payables and accrued charges	(29,453)
Taxation payable	(4,944)
Loans from shareholders	(105,573)
Deferred tax liabilities	(9,790)
Net assets	95,654
Amount previously accounted for as interest in associates (note 15(c))	95,654

An analysis of the net inflow of cash and cash equivalents in respect of transfer to jointly controlled entities is as follows:

	2008
	HK$'000
Cash and cash equivalents transferred	64,546
Net inflow of cash and cash equivalents in respect of the transfer to jointly controlled entities	64,546

(b) **Acquisition of subsidiaries**

For the year ended 30 June 2007

On 6 December 2006, the Group acquired the entire equity interests in GH Pictures (China) Limited ("GHPC"), GH Media Management Pte Ltd ("GHMMPL") and GH Media Management Limited ("GHMML") from Golden Harvest Private Group and independent third parties. The purchase consideration for the acquisition was in the form of cash, with total cost of HK$23,267,000.

The combined fair values of the identifiable assets and liabilities of the three companies as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	**Carrying amount**
	HK$'000	*HK$'000*
Film rights	18,683	17,940
Amounts due from fellow subsidiaries	7,758	7,758
Cash and bank balances	488	488
Other payables and accrued charges	(2,847)	(2,847)
Taxation payable	(543)	(543)
Provision for long service payments	(272)	(272)
Net assets	23,267	22,524
Satisfied by cash	23,267	

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

	2007
	HK$'000
Cash consideration	(23,267)
Cash and cash equivalents acquired	488
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	(22,779)

(c) **Disposal of interest in a jointly controlled entity**

	2007
	HK$'000
Net assets disposed of:	
Property, plant and equipment	10,926
Prepaid rental	1,046
Rental and other deposits	4,312
Pledged bank deposits	246
Deferred tax assets	181
Cash and bank balances	2,950
Film rights	4
Trade receivables	93
Other receivables, deposits and prepayments	1,274
Trade payables	(1,739)
Other payables and accrued charges	(2,866)
Loans from joint venture partners	(6,332)
Deposits received	(444)
Minority interests	(67)
	9,584
Realisation of exchange reserve	339
Assignment of loans from joint venture partners	6,332
Loss on disposal of interest in a jointly controlled entity	(5,717)
	10,538
Satisfied by cash	10,538

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of interest in a jointly controlled entity is as follows:

	2007
Cash consideration	10,538
Cash and cash equivalents disposed of	(2,950)
Net inflow of cash and cash equivalents in respect of the disposal of interest in a jointly controlled entity	7,588

34 POST BALANCE SHEET EVENTS

(a) **Declaration of a special dividend**

The Board of Directors has declared a special dividend of HK$0.1 per share to shareholders whose names appear on the Register of Members of the Company at the close of business on 11 September 2008.

The special dividend will be paid on or before 18 September 2008.

(b) **Conversion of the convertible notes**

Subsequent to the balance sheet date, convertible notes with principal amounts of HK$30,000,000 were converted into 13,636,363 ordinary shares of the Company at a price of HK$2.2 per share.

35 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 29 contains information about the assumptions and their risk factors relating to financial risk management. Other key sources of estimation uncertainty are as follows:

Key sources of estimation uncertainty

(i) ***Estimated useful lives of fixed assets***

The Group estimates the useful lives of fixed assets based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of fixed assets would increase depreciation charges and decrease non-current assets.

(ii) ***Impairment of assets***

The Group reviews internal and external sources of information at each balance sheet date to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The Group estimates the asset's recoverable amount when any such indication exists. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. The preparation of projected future cash flows involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Group. Changes in these estimates would result in additional impairment provisions or reversal of impairment in future years.

(iii) ***Deferred tax assets***

The Group reviews the carrying amounts of deferred taxes at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

36 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified to conform with the current year's presentation.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2008 and which have not been adopted in these financial statements.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
HKAS 1 (Revised), Presentation of financial statements	1 January 2009
HKAS 23 (Revised), Borrowing costs	1 January 2009
Amendments to HKFRS 2, Share-based payment — Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised), Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
HKAS 27 (Revised), Consolidated and separate financial statements	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

38 SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

(a) Subsidiaries

The following list contains only the particulars of principal subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the Group financial statements.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ operation	Issued equity capital	Group's effective interest	Principal activities
Cine Art Laboratory Limited	Hong Kong	25 shares of HK$100 each and 9,975 non-voting deferred shares# of HK$100 each	100%	Film developing and processing
City Entertainment Corporation Limited	Hong Kong	150,000,000 shares of HK$1 each	100%	Theatre operation
Gala Film Distribution Limited	Hong Kong	49,990,000 shares of HK$1 each and 10,000 non-voting deferred shares# of HK$1 each	100%	Distribution of motion pictures
Global Entertainment and Management Systems Sdn. Bhd.	Malaysia	300,000 shares of RM1 each	100%	Investment holding
GH Global Distribution Limited	British Virgin Islands	1 share of US$1 each	100%	Distribution of motion pictures
GH Pictures (China) Limited	Cayman Islands	354,545 shares of US$1 each	100%	Holding of film rights
Golden Harvest Cinemas Holding Limited	British Virgin Islands	1 share of US$1 each	100%	Investment holding
Golden Harvest China Entertainment Properties Company Limited	Hong Kong	16,831,002 shares of HK$1 each	100%	Theatre operation
Golden Harvest Entertainment Company Limited	Hong Kong	100 shares of HK$1 each and 114,000,000 non-voting deferred shares# of HK$1 each	100%	Investment holding
Golden Harvest Entertainment International Limited	British Virgin Islands	1,000 shares of US$1 each	100%	Investment holding

Name of company	Place of incorporation/ operation	Issued equity capital	Group's effective interest	Principal activities
Golden Harvest Films Distribution Holding Limited	British Virgin Islands	1 share of US$1 each	100%	Investment holding
Golden Harvest (Marks) Limited	British Virgin Islands	1 share of US$1 each	100%	Holding of trademarks
Golden Harvest (Shenzhen) Cinemas Company Limited^	PRC	Registered capital RMB10,000,000	100%	Theatre operation
Golden Harvest Treasury Limited	British Virgin Islands	1 share of US$1	100%	Provision of finance to group companies
Golden Screen Limited	Hong Kong	8,750,000 shares of HK$1 each	100%	Investment holding
Golden Sky Pacific Limited	Hong Kong	2 shares of HK$1 each	100%	Investment holding
M Cinemas Company Limited	Hong Kong	3,161,000 shares of HK$10 each	100%	Theatre operation
Panasia Films Limited	Hong Kong	2,600 shares of HK$1,000 each	100%	Distribution of motion pictures and its related audio visual products and acts as an advertising agent
Shanghai Golden Harvest Media Management Company Limited^^	PRC	Registered capital US$500,000	90%	Distribution of motion pictures
Splendid Ventures Limited	Hong Kong	2 shares of HK$1 each	100%	Theatre operation

Except Golden Harvest Entertainment International Limited, all of the above subsidiaries are indirectly held by the Company.

\# For Golden Harvest Entertainment Company Limited, the deferred shares carry no rights to dividends and carry the right to receive on half of the surplus on a return of capital exceeding HK$1,000,000,000,000,000. Apart from the above, all other deferred share carry rights to dividends for any given financial year of the respective companies when the net profit available for distribution exceeds HK$1,000,000,000. They also carry rights to receive one half of the surplus on a return of capital of the respective companies exceeding HK$500,000,000,000. None of the deferred shares carry any rights to vote at general meetings.

^ Golden Harvest (Shenzhen) Cinemas Company Limited is a wholly-foreign owned enterprise under the PRC Law.

^^ Shanghai Golden Harvest Media Management Company Limited is a Sino-foreign equity joint venture enterprise under the PRC Law.

(b) Jointly controlled entities

The following list contains the particulars of jointly controlled entities, all of which are unlisted corporate entities, which affected the results or assets of the Group:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Dartina Development Limited	Incorporated	Hong Kong	31,200,082 shares of HK$1 each	50%	Investment holding
Golden Village Entertainment (Singapore) Pte Ltd.	Incorporated	Singapore	11,509,332 shares of S$1 each	50%	Investment holding
Golden Village Pictures Pte Ltd.	Incorporated	Singapore	2 shares of S$1 each	50%	Distribution of motion pictures
Golden Village Holding Pte Ltd.	Incorporated	Singapore	15,504,688 shares of S$1 each	50%	Investment holding
Golden Village Multiplex Pte Ltd.	Incorporated	Singapore	8,000,000 shares of S$1 each	50%	Theatre operation
TGV Cinemas Sdn. Bhd.	Incorporated	Malaysia	5,000,000 shares of RM$1 each	50%	Theatre operation
Vie Show Cinemas Co., Ltd.	Incorporated	Taiwan	121,200,000 shares of NTD10 each	35.71%	Theatre operation

C. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

Set out below is the unaudited financial statements of the Group for the six months ended 31 December 2008 as extracted from the Group's 2008 interim report.

CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 31 December 2008 HK$'000	(Unaudited) Six months ended 31 December 2007 HK$'000
Continuing operations			
Turnover	2	397,925	247,600
Cost of sales		(183,843)	(118,463)
Gross profit		214,082	129,137
Other income		18,523	33,267
Selling and distribution costs		(182,852)	(121,602)
General and administrative expenses		(26,639)	(32,066)
Other operating expenses		(5,247)	(6,743)
Profit from operations		17,867	1,993
Finance costs	3(a)	(553)	(6,218)
Share of profits less losses of associates		—	10,939
Gain on disposal of interest in a jointly controlled entity	8	61,852	—
Profit before taxation	3	79,166	6,714
Income tax	4	(6,898)	(3,161)
Profit for the period from continuing operations		72,268	3,553
Discontinued operation			
Profit/(loss) for the period from discontinued operation	8	1,198	(417)
Total profit for the period		73,466	3,136
Attributable to:			
Equity holders of the Company		73,370	3,050
Minority interests		96	86
		73,466	3,136
Dividends attributable to equity holders of the Company	5	18,327	—
Earnings/(losses) per share	6		
Basic			
— Continuing operations		39.87 cents	2.73 cents
— Discontinued operation		0.66 cents	(0.33) cents
		40.53 cents	2.40 cents
Diluted			
— Continuing operations		39.47 cents	2.72 cents
— Discontinued operation		0.65 cents	(0.33) cents
		40.12 cents	2.39 cents

CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) As at 31 December 2008 HK$'000	(Audited) As at 30 June 2008 HK$'000
Non-current assets			
Fixed assets		326,651	367,395
Investment property		1,952	—
Amounts due from jointly controlled entities		22,387	32,285
Prepaid rental		6,742	8,015
Club memberships		3,590	3,590
Rental and other deposits		50,867	54,006
Trademarks		79,421	79,421
Deferred tax assets		1,547	358
Pledged bank deposits		12,258	10,133
		505,415	555,203
Current assets			
Inventories		2,497	2,417
Film rights		27,916	27,503
Trade receivables	7	20,954	27,045
Other receivables, deposits and prepayments		59,086	49,355
Amounts due from jointly controlled entities		13,110	50,277
Deposits and cash		349,868	266,307
		473,431	422,904
Assets of a jointly controlled entity held for sale	8	—	141,037
		473,431	563,941
Current liabilities			
Trade payables	9	64,866	68,609
Other payables and accrued charges		117,268	129,472
Customer deposits		6,497	3,675
Bank loans	10	—	12,480
Convertible notes	11	—	31,066
Loans from joint venture partners		12,500	22,144
Taxation payable		15,450	9,618
		216,581	277,064
Liabilities of a jointly controlled entity held for sale	8	—	101,135
		216,581	378,199
Net current assets		256,850	185,742

	Note	(Unaudited) As at 31 December 2008 HK$'000	(Audited) As at 30 June 2008 HK$'000
Total assets less current liabilities		762,265	740,945
Non-current liabilities			
Bank loans	10	—	7,800
Loans from joint venture partners		15,137	42,505
Loan from minority shareholder		471	696
Deposits received		3,837	4,248
Deferred tax liabilities		15,343	16,540
		34,788	71,789
NET ASSETS		727,477	669,156
Capital and reserves			
Share capital	12	183,274	169,638
Reserves		542,793	498,097
Total equity attributable to equity holders of the Company		726,067	667,735
Minority interests		1,410	1,421
TOTAL EQUITY		727,477	669,156

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008 — unaudited

	Note	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Equity component of convertible notes HK$'000	Revaluation reserve HK$'000	*Reserve funds HK$'000	**Surplus reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Exchange reserve of a jointly controlled entity held for sales HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2008		169,638	179,062	1,548	6,422	80,000	242	4,024	1,866	480	22,796	196,876	4,781	667,735	1,421	669,156
Exchange difference on translation of financial statements of																
— overseas subsidiaries		—	—	—	—	—	—	—	—	—	(5,512)	—	—	(5,512)	—	(5,512)
— overseas jointly controlled entities		—	—	—	—	—	—	—	—	—	(17,557)	—	(4,781)	(22,338)	(107)	(22,445)
Total income and expenses recognised directly in equity		—	—	—	—	—	—	—	—	—	(23,069)	—	(4,781)	(27,850)	(107)	(27,957)
Dividends declared and paid	5	—	—	—	—	—	—	—	—	—	—	(18,327)	—	(18,327)	—	(18,327)
Profit for the period		—	—	—	—	—	—	—	—	—	—	73,370	—	73,370	96	73,466
Total income and expenses for the period		—	—	—	—	—	—	—	—	—	(23,069)	55,043	(4,781)	27,193	(11)	27,182
Transfer to retained profits on lapse of share options	12	—	—	(710)	—	—	—	—	—	—	—	710	—	—	—	—
Conversion of convertible notes	11	13,636	17,745	—	—	—	(242)	—	—	—	—	—	—	31,139	—	31,139
Transfer to/(from) reserves		—	—	—	—	—	—	—	561	(480)	—	(81)	—	—	—	—
At 31 December 2008		183,274	196,807	838	6,422	80,000	—	4,024	2,427	—	(273)	252,548	—	726,067	1,410	727,477

	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Equity component of convertible notes HK$'000	Revaluation reserve HK$'000	*Reserve funds HK$'000	**Surplus reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Exchange reserve of a jointly controlled entity held for sales HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2007	128,357	125,733	5,085	4,819	80,000	880	3,974	1,139	480	1,208	185,785	—	537,460	555	538,015
Exchange difference on translation of financial statements of															
— overseas subsidiaries	—	—	—	—	—	—	—	—	—	(1,994)	—	—	(1,994)	—	(1,994)
— overseas associates	—	—	—	—	—	—	—	—	—	8,742	—	—	8,742	—	8,742
— overseas jointly controlled entities	—	—	—	—	—	—	—	—	—	2,168	—	—	2,168	—	2,168
Deferred tax credited to equity	—	—	—	—	—	—	15	—	—	—	—	—	15	—	15
Total income and expenses recognised directly in equity	—	—	—	—	—	—	15	—	—	8,916	—	—	8,931	—	8,931
Profit for the period	—	—	—	—	—	—	—	—	—	—	3,050	—	3,050	86	3,136
Total income and expenses for the period	—	—	—	—	—	—	15	—	—	8,916	3,050	—	11,981	86	12,067
Repurchases of shares	(1,513)	(3,326)	—	1,513	(1,513)	—	—	—	—	—	—	—	(4,839)	—	(4,839)
Issue of ordinary shares	100	409	(116)	—	—	—	—	—	—	—	—	—	393	—	393
Transfer to retained profits on lapse of share options	—	—	(466)	—	—	—	—	—	—	—	466	—	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	454	454
Transfer to/(from) reserves	—	—	—	—	—	—	—	353	—	(3,779)	(353)	3,779	—	—	—
At 31 December 2007	126,944	122,816	4,503	6,332	78,487	880	3,989	1,492	480	6,345	188,948	3,779	544,995	1,095	546,090

* In accordance with the relevant regulations in the People's Republic of China, the Company's subsidiary established in the Mainland China is required to transfer a certain percentage of its profits after tax to the reserve funds. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiary's articles of association, the reserve funds may be used either to offset losses, or for capitalisation by way of paid-up capital.

** The surplus reserve represents an amount transferred from retained profits in accordance with statutory requirements and the articles of association of an associate in Taiwan. The surplus reserve may only be applied to make up any losses and for capitalisation by way of fully paid bonus issues of the shares of the associate in Taiwan.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 31 December 2008 *HK$'000*	(Unaudited) Six months ended 31 December 2007 *HK$'000*
Net cash generated from operating activities	34,734	18,830
Net cash generated from/(used in) investing activities	95,322	(42,139)
Net cash used in financing activities	(38,832)	(15,625)
Net increase/(decrease) in cash and cash equivalents	91,224	(38,934)
Cash and cash equivalents at 1 July	266,307	219,162
Effect of foreign exchanges rates changes	(7,663)	4,037
Cash and cash equivalents at 31 December	349,868	184,265
Analysis of balances of cash and cash equivalents		
Non-pledged short term bank deposits	81,315	132,289
Non-pledged cash and bank balances	268,553	51,976
Cash and cash equivalents at 31 December*	349,868	184,265

* Amount included cash and cash equivalents of HK$Nil (2007: HK$17,554,000) of a jointly controlled entity classified as held for sale (note 8).

NOTES ON THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

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

The interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 30 June 2008.

The preparation of interim consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

2 Segment information

(a) ***Business segments***

	(Unaudited) Six months ended 31 December									
	Film and video distribution		**Film exhibition**		**Others**		**Eliminations**		**Consolidated**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations										
Segment revenue:										
Sales to external customers	47,650	32,364	346,626	210,250	3,649	4,986	—	—	397,925	247,600
Inter-segment sales	7,599	2,497	—	—	1,378	544	(8,977)	(3,041)	—	—
Other income	867	600	24,359	16,640	110	150	(248)	(196)	25,088	17,194
Total	56,116	35,461	370,985	226,890	5,137	5,680	(9,225)	(3,237)	423,013	264,794
Segment results	8,964	1,140	33,963	16,106	(93)	153	—	—	42,834	17,399
Interest income									3,036	2,805
Unallocated operating expenses, net									(28,003)	(18,211)
Gain on disposal of interest in a jointly controlled entity									61,852	—
Finance costs									(553)	(6,218)
Share of profits less losses of associates	—	3,897	—	7,042	—	—	—	—	—	10,939
Profit before taxation									79,166	6,714
Income tax									(6,898)	(3,161)
Profit for the period from continuing operations									72,268	3,553

	(Unaudited) Six months ended 31 December									
	Film and video distribution		Film exhibition		Others		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Discontinued operation										
Segment revenue:										
Sales to external customers	—	—	13,674	54,287	—	—	—	—	13,674	54,287
Other income	—	—	284	934	—	—	—	—	284	934
Total	—	—	13,958	55,221	—	—	—	—	13,958	55,221
Segment results	—	—	1,913	1,509	—	—	—	—	1,913	1,509
Interest income									26	278
Finance costs									(124)	(746)
Profit before taxation									1,815	1,041
Income tax									(617)	(1,458)
Profit for the period from discontinued operation									1,198	(417)
Total profit for the period									73,466	3,136

(b) ***Geographical segments***

	(Unaudited) Six months ended 31 December															
	Hong Kong		**Mainland China**		**Taiwan**		**Singapore**		**Malaysia**		**Elsewhere in Asia**		**Others**		**Consolidated**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:																
Sales to external customers	124,102	106,763	37,425	34,126	133,195	104,571	102,746	—	13,674	54,731	287	1,334	170	362	411,599	301,887
Less: Attributable to discontinued operation	—	—	—	—	—	—	—	—	13,674	54,287	—	—	—	—	13,674	54,287
Sale to external customers from continuing operations	124,102	106,763	37,425	34,126	133,195	104,571	102,746	—	—	444	287	1,334	170	362	397,925	247,600

3 Profit before taxation

Profit before taxation is arrived at after charging:

(a) ***Finance costs***

	(Unaudited) Six months ended 31 December 2008 *HK$'000*	(Unaudited) Six months ended 31 December 2007 *HK$'000*
Interest on bank loans wholly repayable within five years	163	1,499
Interest on convertible notes	172	4,176
Interest on loans from joint venture partners	218	499
Finance charges on obligation under finance leases	—	44
	553	6,218

(b) ***Other items***

	(Unaudited) Six months ended 31 December 2008 *HK$'000*	(Unaudited) Six months ended 31 December 2007 *HK$'000*
Cost of inventories	15,890	2,017
Cost of services provided	150,206	106,114
Depreciation	23,618	15,618
Amortisation of prepaid land lease payments	392	10
Amortisation of film rights	17,747	10,332
Loss on disposal of fixed assets	431	2,406

4 Income tax

Taxation in the consolidated income statement represents:

	(Unaudited) Six months ended 31 December 2008 *HK$'000*	(Unaudited) Six months ended 31 December 2007 *HK$'000*
Continuing operations		
Group		
Current income tax		
Provision for Hong Kong Profits Tax	—	—
Provision for overseas tax	1,477	562
	1,477	562
Jointly controlled entities		
Current income tax		
Provision for overseas tax	6,747	34
Deferred tax — overseas		
Origination and reversal of temporary differences	(1,326)	2,565
	5,421	2,599
	6,898	3,161

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period.

Taxation for overseas subsidiaries and jointly controlled entities is charged at the appropriate current rates of taxation ruling in the relevant countries.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in the profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 31 December 2008. Tax provisions are reviewed regularly to take into account of changes in legislation, practice and status of negotiations.

Share of associate's tax for the six months ended 31 December 2008 of HK$Nil (2007: HK$2,426,000) is included in "Share of profits less losses of associates" on the face of the consolidated income statement.

5 Dividends

	(Unaudited) Six months ended 31 December 2008	(Unaudited) Six months ended 31 December 2007
	HK$'000	*HK$'000*
Special dividend declared and paid during the period of HK$0.1 per share (2007: Nil)	18,327	—

6 Earnings per share

(a) ***Basic earnings per share***

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company from continuing operations and discontinued operation of HK$72,172,000 and HK$1,198,000 respectively (2007: HK$3,467,000 and loss of HK$417,000 respectively) and the weighted average number of 181,025,966 ordinary shares (2007: 127,159,858 ordinary shares) in issue during the period.

(b) ***Diluted earnings per share***

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company from continuing operations and discontinued operation of HK$72,344,000 and HK$1,198,000 respectively (2007: HK$3,467,000 and loss of HK$417,000 respectively) and the weighted average number of ordinary shares of 183,273,990 shares (2007: 127,741,555 shares), calculated as follows:

(i) *Profit attributable to equity holders of the Company (diluted)*

	(Unaudited) Six months ended 31 December 2008	(Unaudited) Six months ended 31 December 2007
	HK$'000	*HK$'000*
Continuing operations		
Profit attributable to equity holders	72,172	3,467
After tax effect of effective interest on the liability component of convertible bonds	172	—
Profit attributable to equity holders (diluted)	72,344	3,467
Discontinued operation		
Profit/(loss) attributable to equity holders	1,198	(417)

(ii) *Weighted average number of ordinary shares (diluted)*

	2008 Number of shares	2007 Number of shares
Shares		
Issued ordinary shares as at 1 July	169,637,627	128,356,537
Effect of convertible notes converted	11,388,339	—
Effect of shares repurchased	—	(1,205,918)
Effect of share options exercised	—	9,239
Weighted average number of ordinary shares in issue during the period used in the calculation of the basic earnings per share	181,025,966	127,159,858
Effect of dilution — weighted average number of ordinary shares:		
Share options *(Note (1))*	—	581,697
Convertible notes *(Note (2))*	2,248,024	—
Weighted average number of ordinary shares (diluted) at 31 Decmeber (Unaudited)	183,273,990	127,741,555

Notes:

(1) The share options had no diluting effect on the basic earnings per share for current period as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during current period.

(2) The convertible notes had no diluting effect on the basic earnings per share for the prior period.

7 Trade receivables

The Group usually grants credit periods ranging from one to three months. Each customer has a credit limit and overdue balances are regularly reviewed by management.

The ageing analysis of trade receivables (net of allowance for doubtful debts) as of the balance sheet date:

	(Unaudited) As at 31 December 2008 *HK$'000*	**(Audited) As at 30 June 2008** *HK$'000*
Current to 3 months	19,418	21,357
Within 4 to 6 months	1,183	3,900
Over 6 months	353	1,788
	20,954	27,045

8 A jointly controlled entity classified as held for sale and disposal of interest in a jointly controlled entity

On 13 February 2008, the Group entered into an agreement to dispose of its entire 50% equity interests in TGV Cinemas Sdn Bhd ("TGV") to its then existing shareholder (the "Transaction"). Details of the Transaction were set out in the Company's circular dated 5 March 2008. TGV is principally engaged in theatre operations in Malaysia.

The disposal of TGV was completed on 31 July 2008 and resulted in a net gain of HK$61,852,000, which was credited to the consolidated income statement in the current period.

The Group's share of results of TGV has been reclassified and presented as discontinued operation in accordance with HKFRS 5, "Non-current assets held for sale and discontinued operations".

	(Unaudited) Six months ended 31 December 2008	**(Unaudited) Six months ended 31 December 2007**
	HK$'000	*HK$'000*
Turnover	13,674	54,287
Cost of sales	(6,164)	(23,299)
	7,510	30,988
Other income	310	1,212
Selling and distribution costs	(5,537)	(26,411)
General and administrative expenses	(344)	(753)
Other operating expenses	—	(3,249)
Profit from operations	1,939	1,787
Finance costs	(124)	(746)
Profit before taxation	1,815	1,041
Income tax	(617)	(1,458)
Profit/(loss) for the period	1,198	(417)

The net cash flows incurred by the discontinued operation were as follow:

Operating activities	1,571	18,900
Investing activities	(874)	(24,595)
Financing activities	(2,908)	2,460
Net cash outflow	(2,211)	(3,235)

9 Trade payables

The ageing analysis of trade payables as of the balance sheet date:

	(Unaudited) As at 31 December 2008 *HK$'000*	(Audited) As at 30 June 2008 *HK$'000*
Current to 3 months	54,586	63,275
Within 4 to 6 months	5,040	193
Within 7 to 12 months	570	1,509
Over one year	4,670	3,632
	64,866	68,609

10 Bank loans

All bank loans were repaid during the six months ended 31 December 2008.

11 Convertible notes

In July and August 2008, convertible notes in aggregate amounts of HK$30,000,000 were converted into the Company's ordinary shares, creating a total of 13,636,363 ordinary shares at a conversion price of HK$2.2 per share.

12 Share capital

	No. of shares	Amount *HK$'000*
Ordinary shares, issued and fully paid:		
At 1 July 2007	128,356,537	128,357
Repurchase of shares *(note (i))*	(1,603,000)	(1,603)
Share options exercised *(note (ii))*	1,975,000	1,975
Conversion of convertible notes *(note (iii))*	40,909,090	40,909
At 30 June 2008 (Audited)	169,637,627	169,638
Conversion of convertible notes *(note (iii))*	13,636,363	13,636
At 31 December 2008 (Unaudited)	183,273,990	183,274

The total number of authorised ordinary shares is 600,000,000 shares (30 June 2008: 600,000,000 shares) with a par value of HK$1 per share (30 June 2008: HK$1 per share).

Notes:

(i) **Purchase of own shares**

During the year ended 30 June 2008, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited at prices ranging from HK$2.9 to HK$4.0 per share for aggregate consideration before expenses of HK$5,155,000.

The repurchased shares were cancelled and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares cancelled of HK$1,603,000 was transferred from the retained profits to the capital redemption reserve. The premium and transaction cost paid on the repurchase of the shares of HK$3,590,000 were charged to the share premium account.

(ii) **Share option scheme**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group, shareholders of the Company, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

During the year ended 30 June 2008, a total of 1,975,000 share options were exercised at exercise prices ranging from HK$2.08 to HK$3.93.

During the six months ended 31 December 2008, no share options were granted to any of directors and employees of the Group.

During the six months ended 31 December 2008, 680,000 share options lapsed and HK$710,000 has been transferred from the share option reserve to retained profits when the options lapsed.

(iii) **Conversion of convertible notes**

During the six months ended 31 December 2008, the note holders exercised their conversion rights to convert notes of HK$30,000,000 into 13,636,363 ordinary shares of the Company at a conversion price of HK$2.2 per share.

13 Commitments

	(Unaudited) As at 31 December 2008	**(Audited) As at 30 June 2008**
	HK$'000	*HK$'000*
Capital commitments in respect of the acquisition of fixed assets:		
Contracted for	15,291	12,433
Authorised but not contracted for	190,644	219,846
	205,935	232,279

Amount included HK$20,070,000 (30 June 2008: HK$44,309,000) attributable to the jointly controlled entities of the Group.

14 Contingent liabilities

The Group did not have any significant contingent liabilities as of 31 December 2008.

15 Material related party transactions

During the six months ended 31 December 2008, the Group entered into transactions amounting to HK$600,000 with two related companies (2007: HK$1,918,000 with five related companies) and HK$350,000 (2007: HK$Nil) with a former director which constituted connected transactions as defined in the Listing Rules. The connected transactions were either properly approved by the independent shareholders or constituted the de minimis transactions as defined in the Listing Rules.

There were no other material related party transactions during the six months ended 31 December 2008, other than in the nature of those as disclosed in the annual report for the year ended 30 June 2008.

16 Comparative figures

The comparative figures of the consolidated income statement have been restated as if the operation discontinued during the current period had been discontinued at beginning of the comparative period (note 8).

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 31 December 2008

Up to the date of issue of these interim consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the six months ended 31 December 2008 and which have not been adopted in these interim consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to have significant impact of the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009

D. INDEBTEDNESS

(a) Borrowings

At the close of business on 30 April 2009, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total borrowings of HK$36.9 million (comprising the combined indebtedness of the Group and Transferred Assets). Details of the total borrowings are summarised below:

	The Enlarged Group
	HK$'000
Secured	
Bank loans	9,415
Unsecured	
Loans from joint venture partners	27,458
Total borrowings	36,873
Analysis of total borrowings	
Repayable within 1 year	36,873

The bank loans of the Enlarged Group were secured by certain time deposits with an aggregate value of HK$6.6 million.

The loans from joint venture partners are unsecured, interest-free and repayable within one year.

(b) Contingent liabilities

As at 30 April 2009, the Enlarged Group did not have any significant contingent liabilities.

(c) Disclaimers

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2009.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2009, up to and including the Latest Practicable Date.

E. WORKING CAPITAL

The Directors are of the opinion that, following Completion of the Acquisition, after taking into account the financial resources available to the Enlarged Group, including internally generated funds, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

The following is the full text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IV, a copy of the following Accountants' Report is available for public inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

25 June 2009

The Board of Directors
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs

INTRODUCTION

We set out below our report on the combined financial information relating to Beijing Chengtian Zhihong Film & TV Production Company Limited (北京橙天智鴻影視製作有限公司) ("Chengtian Zhihong") and the businesses relating to Chinese-language films and television programmes production, investment, marketing and advertising and/or distribution (the "Restricted Business") commonly controlled by the shareholder — Mr. Wu Kebo ("Mr. Wu") (hereinafter collectively referred to as the "Transferred Assets"), including the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Transferred Assets for each of the three years ended 31 December 2006, 2007 and 2008 (the "Relevant Period"), the combined balance sheets of the Transferred Assets as at 31 December 2006, 2007 and 2008, together with explanatory notes (the "Financial Information") for inclusion in the circular of Golden Harvest Entertainment (Holdings) Limited dated 25 June 2009 (the "Circular") in connection with the proposed acquisition of the Transferred Assets.

Pursuant to an equity transfer agreement dated 15 June 2009 (the "Agreement") entered into between Golden Harvest Motion Pictures Company Limited (the "Purchaser"), Mr. Wu, Ms. Wu and Chengtian Entertainment Group (International) Holding Company Limited ("CT"), the Purchaser agreed to acquire the entire equity interest in Chengtian Zhihong and the Restricted Business operated under certain entities commonly controlled by Mr. Wu (the "Acquisition").

Chengtian Zhihong was established in the People's Republic of China (the "PRC") on 9 June 2004 as a limited liability company. The principal activities of Chengtian Zhihong are films and television programmes production, investment, marketing and advertising, distribution and provision of consultancy services. The Restricted Business comprises those entities under common control operating in Chinese-language films and television programmes production, investment, marketing and advertising and/or distribution, which were incorporated/established in the British Virgin Islands/the PRC/Hong Kong.

No audited financial statements of Chengtian Zhihong have been prepared since its date of incorporation as the company is not subject to statutory audit requirements under the relevant accounting rules and regulations applicable to enterprises in the PRC (the "PRC accounting rules and regulations"). We have, however, reviewed all significant transactions of Chengtian Zhihong for each of the three years ended 31 December 2006, 2007 and 2008 for the purpose of this report.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Chengtian Zhihong and management of the Restricted Business based on the unaudited management accounts of Chengtian Zhihong (the "HKFRS management accounts") and the assets, liabilities and business operations of the Restricted Business, on the basis set out in Section B below. For the purpose of this report, the Financial Information conforms with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and related Interpretations issued by HKICPA.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of Chengtian Zhihong and management of the Restricted Business are responsible for the preparation and the true and fair presentation of the Financial Information 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 Information that is 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.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" ("Statement 3.340") issued by the HKICPA. HKSAs require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies comprising the Transferred Assets in respect of any period subsequent to 31 December 2008.

OPINION

In our opinion, for the purpose of this report, on the basis of presentation and in accordance with the accounting policies set out in Section B below, the Financial Information gives a true and fair view of the Transferred Assets' combined results and cash flows for the Relevant Period and the state of affairs of the Transferred Assets as at 31 December 2006, 2007 and 2008.

Without qualifying our opinion, we draw attention to note 2 of Section B below. The Financial Information presents aggregated financial information of Chengtian Zhihong and the Restricted Business. In preparing the Financial Information, overhead costs and income taxes have been allocated to the Restricted Business using the method of allocation described in note 2 of Section B below. The Financial Information may not necessarily be indicative of the financial performance that would have been achieved if the Restricted Business had operated as an independent entity.

A FINANCIAL INFORMATION

1 COMBINED INCOME STATEMENTS

		Year ended 31 December		
		2006	**2007**	**2008**
	Note	*RMB*	*RMB*	*RMB*
Turnover	3	17,615,815	74,333,420	41,614,424
Cost of sales		(484,889)	(35,374,657)	(24,023,617)
Gross profit		17,130,926	38,958,763	17,590,807
Other revenue	4(a)	57,712	193,180	368,018
Other net loss	4(b)	(272,488)	—	—
Selling and distribution expenses		(2,232,931)	(5,293,482)	(7,393,777)
Administrative and other operating expenses		(5,988,471)	(8,823,400)	(5,595,457)
Profit before taxation	5	8,694,748	25,035,061	4,969,591
Income tax	6	—	(6,032,929)	—
Profit for the year from continuing operations		8,694,748	19,002,132	4,969,591
Discontinued operations				
Profit for the year from discontinued operations	7	16,434,957	635,580	3,078,841
Profit for the year		25,129,705	19,637,712	8,048,432

The accompanying notes form part of the Financial Information.

2 COMBINED BALANCE SHEETS

		As at 31 December		
		2006	2007	2008
	Note	*RMB*	*RMB*	*RMB*
Non-current assets				
Fixed assets	11	2,531,854	2,007,825	1,367,237
Current assets				
Production in progress	13	13,378,465	6,293,572	12,813,135
Investments in film production	14	9,689,409	8,919,911	5,538,472
Self-produced programmes	15	—	14,021,031	12,260,655
Trade receivables	16	—	28,600,884	11,545,490
Other receivables, deposits and prepayments	16	27,303,925	29,462,824	17,390,768
Amounts due from related companies	19	6,779,263	2,100,276	8,350,462
Cash and cash equivalents	17	13,603,057	2,350,673	28,379,125
		70,754,119	91,749,171	96,278,107
Assets held for sale	12	8,600,000	—	4,159,618
		79,354,119	91,749,171	100,437,725
Current liabilities				
Trade payables	18	—	631,933	158,000
Other payables and accruals	18	14,857,320	17,588,313	7,598,512
Amounts due to a director	19	1,567,057	1,879,868	—
Amounts due to related companies	19	27,223,071	24,773,587	46,879,963
Amount due to a shareholder	19	350,000	350,000	350,000
Taxation payable	20(a)	—	4,412,753	4,412,753
		43,997,448	49,636,454	59,399,228
Liabilities held for sale	12	750,000	313,047	549,320
		44,747,448	49,949,501	59,948,548
Net current assets		34,606,671	41,799,670	40,489,177
NET ASSETS		37,138,525	43,807,495	41,856,414
Capital and reserves				
Paid-in capital	21	3,000,000	3,000,000	3,000,000
Reserves	22	34,138,525	40,807,495	38,856,414
TOTAL EQUITY		37,138,525	43,807,495	41,856,414

The accompanying notes form part of the Financial Information.

3 COMBINED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB*	Statutory reserve *RMB*	Other reserves *RMB*	Retained profits *RMB*	Total equity *RMB*
At 1 January 2006	3,000,000	—	—	(2,976,285)	23,715
Profit for the year	—	—	—	25,129,705	25,129,705
Transferred to statutory reserve	—	2,628,034	—	(2,628,034)	—
Realisation of other reserve	—	—	11,985,105	—	11,985,105
At 31 December 2006	3,000,000	2,628,034	11,985,105	19,525,386	37,138,525
At 1 January 2007	3,000,000	2,628,034	11,985,105	19,525,386	37,138,525
Profit for the year	—	—	—	19,637,712	19,637,712
Transferred to statutory reserve	—	625,453	—	(625,453)	—
Realisation of other reserve	—	—	(12,968,742)	—	(12,968,742)
At 31 December 2007	3,000,000	3,253,487	(983,637)	38,537,645	43,807,495
At 1 January 2008	3,000,000	3,253,487	(983,637)	38,537,645	43,807,495
Profit for the year	—	—	—	8,048,432	8,048,432
Realisation of other reserve	—	—	(9,999,513)	—	(9,999,513)
At 31 December 2008	3,000,000	3,253,487	(10,983,150)	46,586,077	41,856,414

The accompanying notes form part of the Financial Information.

4 COMBINED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2006 RMB	2007 RMB	2008 RMB
Operating activities				
Profit before taxation				
- from continuing operations		8,694,748	25,035,061	4,969,591
- from discontinued operations	7	16,434,957	948,627	3,078,841
		25,129,705	25,983,688	8,048,432
Adjustments for:				
- Depreciation of fixed assets	11	579,314	917,624	640,588
- Amortisation of self-produced programmes	15	—	31,890,265	13,480,305
- Write-off of production in progress	13	—	—	1,416,994
- Interest income	4(a)	(57,712)	(77,761)	(288,557)
- Loss on disposals of fixed assets	4(b)	272,488	—	—
Operating profit before changes in working capital		25,923,795	58,713,816	23,297,762
(Increase)/decrease in production in progress		(13,378,465)	7,084,893	(7,936,557)
Increase in self-produced programmes		—	(45,911,296)	(11,719,929)
(Increase)/decrease in trade and other receivables, deposits and prepayments		(1,698,779)	(22,159,783)	24,967,832
(Decrease)/increase in trade and other payables and accruals		(32,037,518)	2,612,926	(10,227,461)
(Increase)/decrease in amounts due from related companies		(6,779,263)	(10,357,736)	2,729,841
Increase/(decrease) in amounts due to related companies		30,999,296	(2,001,679)	3,126,836
Increase/(decrease) in amounts due to a director		13,139,409	312,811	(1,879,868)
Cash generated from/(used in) operations		16,168,475	(11,706,048)	22,358,456
Tax paid		—	—	—
Net cash generated from/(used in) operating activities		16,168,475	(11,706,048)	22,358,456
Investing activities				
Interest received		57,712	77,761	288,557
(Increase)/decrease in investments in film production		(2,849,409)	769,498	3,381,439
Payment for the purchase of fixed assets	11	(943,872)	(393,595)	—
Proceeds from disposals of fixed assets		700,000	—	—
Net cash (used in)/generated from investing activities		(3,035,569)	453,664	3,669,996
Net increase/(decrease) in cash and cash equivalents		13,132,906	(11,252,384)	26,028,452
Cash and cash equivalents at 1 January		470,151	13,603,057	2,350,673
Cash and cash equivalents at 31 December	17	13,603,057	2,350,673	28,379,125

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1 Principal activities

The principal activities of the Transferred Assets are the investment, production and distribution of Chinese-language films and television programmes, provision of marketing and advertising services and consultancy services.

2 Principal accounting policies

(a) ***Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The Transferred Assets did not prepare any combined financial statements previously. This is the first HKFRS combined Financial Information of the Transferred Assets prepared on the basis set out in Note 2(b) and HKFRS 1 has been applied.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Transferred Assets have adopted all these new and revised HKFRSs for the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2008. The revised and new accounting standards and interpretations issued but not yet effective until the accounting year beginning 1 January 2009 or later are set out in note 28.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) ***Basis of preparation of the Financial Information***

For the purpose of this report, the Financial Information of the Transferred Assets comprise the underlying financial information of Chengtian Zhihong and the relevant assets, liabilities and business operations of the Restricted Business. Chengtian Zhihong and the Restricted Business were ultimately controlled by Mr. Wu where the control is not transitory. The proposed Acquisition is considered to be a business combination under common control and Accounting Guideline 5, "Merger Accounting for Common Control Combinations" has been applied. The Financial Information has been prepared using the merger basis of accounting as if the Transferred Assets had always been in existence during the Relevant Period. The net assets of Chengtian Zhihong and the Restricted Business have been combined using their historical book values from the controlling party's perspective.

The Financial Information relating to the combined income statements, combined statements of changes in equity and combined cash flow statements of the Transferred Assets as set out in Section A includes the results of operations of Chengtian Zhihong and the Restricted Business now comprising the Transferred Assets for the Relevant Period. The combined balance sheets of the Transferred Assets as at 31 December 2006, 2007 and 2008 as set out in Section A have been prepared to present the combined assets and liabilities of Chengtian Zhihong and the Restricted Business now comprising the Transferred Assets as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

The Restricted Business comprises Chinese-language films and television programmes production and distribution, film advertising and consultancy businesses carried on by CT and its subsidiaries (the "CT Group") which are ultimately controlled by Mr. Wu. The Restricted Business is not operated as a separate independent entity. Other than the financial information of Chengtian Zhihong, the Financial Information of the Transferred Assets includes income, costs, assets and liabilities directly attributable to the Restricted Business together with an allocation of shared overhead costs which are attributable to the activities of the Restricted Business. Amounts that have been allocated to the Restricted Business include shared overhead costs and income tax expenses.

No audited financial statements for the Restricted Business have been previously prepared on a standalone basis as the Restricted Business only constituted part of the entities comprising the CT Group and was not reported on as a distinct business. The underlying financial information of the Restricted Business has been extracted from the financial information used to compile the financial statements of the CT Group and is presented in the Financial Information as if the Restricted Business had been operated on a standalone basis throughout the Relevant Period and that Chengtian Zhihong had carried on its films and television programmes production and distribution business together with the Restricted Business throughout the Relevant Period.

As a result of the above, the Financial Information prepared on the above basis may not be representative of future results, assets or liabilities of the Restricted Business. Certain operating expenses, income tax expenses, assets and liabilities may be significantly different from those presented if the Restricted Business were operated as an independent entity or as a component of Chengtian Zhihong.

Shared overhead costs have been allocated to the Restricted Business on the basis of the proportion of turnover generated by certain entities of the CT Group. These costs include, but are not limited to, rental expenses, property management fees, staff costs, management consultancy fees and general office expenses that are not directly attributable to the Restricted Business. The director believes that the allocation methodology of shared overhead costs is reasonable; however, the costs of these overheads charged to the Restricted Business in the Financial Information are not necessarily indicative of the costs that would have been incurred had the Restricted Business operated as an entity independent of the CT Group.

Income taxes have been determined based on the taxable income and costs of the Restricted Business, measured on the same cost allocation basis as used in the Financial Information, calculated as if the Restricted Business had filed a separate tax return.

Cash at banks is centrally managed at the CT Group level and is not specifically attributable to the Restricted Business or other business operations. No separate bank accounts have been maintained by the Restricted Business and the funds provided to or withdrawn from the CT Group were presented as movements in amounts due from/to entities within the CT Group.

Working capital that is directly attributable to the Restricted Business has been included. Working capital attributable to the shared overhead costs is recorded in the amounts due from/to the CT Group as these shared overhead costs were settled by respective entities within the CT Group which carried on the Restricted Business.

(i) *Basis of measurement*

The Financial Information is presented in Renminbi ("RMB"). The measurement basis used in the preparation of the Financial Information is the historical cost basis.

(ii) *Use of estimates and judgements*

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

(c) ***Fixed assets***

Fixed assets are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 2(f)). Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, on a straight-line method over their estimated useful lives as follows:

- Leasehold improvements	Over the remaining terms of leases
- Office equipment	20%
- Office furniture	20%
- Motor vehicles	20%
- Production equipment	20%

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(d) ***Self-produced programmes and investments in film production***

(i) *Self-produced programmes*

Self-produced programmes are stated at cost, comprising direct expenditure and an attributable portion of direct production overheads, less accumulated amortisation and impairment losses (note 2(f)). Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the sale of the self-produced programmes.

(ii) *Investments in film production*

Investments in film production are stated initially at cost and adjusted thereafter for the net income derived from the investments, and less any accumulated impairment losses (note 2(f)).

(e) ***Production in progress***

Production in progress represents films and television programmes under production and is stated at cost incurred to date, less any identified impairment losses (note 2(f)). Cost is transferred to self-produced programmes upon completion of production.

(f) ***Impairment of assets***

(i) *Impairment of receivables*

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Transferred Assets about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Transferred Assets are satisfied that recovery of an amount receivable is remote, the amount considered irrecoverable is written off against accounts receivable directly and any amounts held in the allowance account relating to that allowance account or written off directly are reversed against the allowance account or directly respectively. Other changes in the allowance account are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets, self-produced programmes, investments in film production and production in progress may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the recoverable amount of the asset is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(f)).

(h) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) ***Trade and other payables***

Trade and other payables are initially recognised at fair value and they are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) ***Employee benefits***

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Transferred Assets. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Contributions to defined contribution retirement plans in the PRC*

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Transferred Assets demonstrably commit itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(k) ***Income tax***

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Transferred Assets have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Transferred Assets intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(l) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Transferred Assets have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) ***Revenue recognition***

Provided it is probable that the economic benefits will flow to the Transferred Assets and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Films and television programmes production and distribution income, and income from investments in film production*

Films and television programmes production and distribution income, and income from investments in film production are recognised at the time when the films or television programmes are ready for delivery or release;

(ii) *Advertising income, agency commission income and consultancy income*

Advertising, agency commission and consultancy income are recognised when the relevant services are provided;

(iii) *Artiste agency and management services income*

Artiste agency and management services income are recognised when the relevant services are provided;

(iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the combined income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(n) ***Translation of foreign currencies***

Items included in the financial statements of each entity in the Transferred Assets are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The Financial Information is presented in RMB ("presentation currency").

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the combined income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. On disposal of an operation outside Mainland China, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(o) ***Discontinued operations***

A discontinued operation is a component of the Transferred Assets' business, the operations and cash flows of which can be clearly distinguished from the rest of the Transferred Assets and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

(p) ***Related parties***

For the purposes of the Financial Information, a party is considered to be related to the Transferred Assets if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Transferred Assets or exercise significant influence over the Transferred Assets in making financial and operating policy decisions, or has joint control over the Transferred Assets;

(ii) the Transferred Assets and the party are subject to common control;

(iii) the party is an associate of the Transferred Assets or a joint venture in which the Transferred Assets is a venture;

(iv) the party is a member of key management personnel of the Transferred Assets or the Transferred Assets' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Transferred Assets or of any entity that is a related party of the Transferred Assets.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(q) ***Segment reporting***

A segment is a distinguishable component of the Transferred Assets that are engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(r) ***Business combinations involving entities under common control***

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling entity.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earlier date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined in the previous balance sheet date or when they first came under common control, whichever is shorter.

Inter-company transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Transferred Assets.

3 Turnover

The Transferred Assets are principally engaged in the investment, production and distribution of Chinese-lauguage films and television programmes, provision of marketing and advertising services and consultancy services. Turnover represents the invoiced sales net of sales discounts, sales returns and sales taxes.

		Years ended 31 December		
		2006	**2007**	**2008**
	Note	*RMB*	*RMB*	*RMB*
Continuing operations				
Films and television programmes production and distribution income		—	47,821,026	8,696,699
Income from investments in film production		1,417,552	238,138	5,104,653
Advertising income (films and television programmes production related)		4,000,000	2,700,000	8,867,300
Agency commission and consultancy income (films and television programmes production related)		13,798,000	25,520,972	20,000,000
Less: Sales taxes and other surcharges		(1,599,737)	(1,946,716)	(1,054,228)
		17,615,815	74,333,420	41,614,424
Discontinued operations				
Artiste agency and management services income (non-film and television programme production related)		2,389,000	—	—
Advertising income (non-film and television programme production related)		25,399,855	—	382,902
Less: Sales taxes and other surcharges		(1,389,443)	—	(19,145)
	7	26,399,412	—	363,757
		44,015,227	74,333,420	41,978,181

4 Other revenue and other net loss

(a) ***Other revenue***

		Years ended 31 December		
		2006	**2007**	**2008**
	Note	*RMB*	*RMB*	*RMB*
Continuing operations				
Interest income from bank deposits		57,712	77,761	288,557
Sundry income		—	115,419	79,461
		57,712	193,180	368,018
Discontinued operations				
Gross rental income		—	948,627	432,716
Forfeiture of rental deposits		—	—	1,656,919
Compensation income receivable from tenant upon early termination of a rental lease		—	—	3,176,800
	7	—	948,627	5,266,435
		57,712	1,141,807	5,634,453

(b) ***Other net loss***

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Continuing operations			
Loss on disposals of fixed assets	272,488	—	—

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
(a) **Staff costs:**			
Salaries, wages and other benefits	3,713,553	5,000,582	4,992,937
Contributions to defined contribution retirement plan	299,169	913,118	876,077
	4,012,722	5,913,700	5,869,014
(b) **Other items**			
Continuing operations			
Depreciation of fixed assets	579,314	917,624	640,588
Amortisation of self-produced programmes	—	31,890,265	13,480,305
Write-off of production in progress	—	—	1,416,994
Operating lease charges	548,216	787,318	853,551
Discontinued operations			
Operating lease charges	—	—	2,551,351
Rental income less direct outgoings	—	(948,627)	(432,716)

6 Income tax

(a) ***Taxation in the combined income statement represents:***

	Note	Years ended 31 December		
		2006	**2007**	**2008**
		RMB	*RMB*	*RMB*
Continuing operations				
Current tax				
Provision for the PRC Enterprise Income Tax		—	4,601,216	—
Provision for Hong Kong Profits Tax		—	1,431,713	—
		—	6,032,929	—
Discontinued operations				
Current tax				
Provision for the PRC Enterprise Income Tax	7	—	313,047	—
Total income tax expense		—	6,345,976	—

Notes:

(i) Pursuant to the rules and regulations of the British Virgin Islands, the Transferred Assets are not subject to any income tax in the British Virgin Islands.

(ii) The provision for Hong Kong Profits Tax for 2007 was calculated at 17.5% of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2006 and 2008, as the operations of the Transferred Assets did not earn any assessable income subject to Hong Kong Profits Tax during those years.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes a reduction in the profits tax rate from 17.5% to 16.5% with effect from the year ended 31 December 2008.

(iii) Pursuant to the income tax rules and regulations in the PRC, companies in the PRC are liable to PRC enterprise income tax at a rate of 33%, of which 30% is attributable to the national enterprise income tax ("EIT") and 3% is attributable to the local municipal income tax for the years ended 31 December 2006 and 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the new Corporate Income Tax ("CIT") Law of the PRC which has taken effect on 1 January 2008. Under the new law, the standard PRC Enterprise Income Tax rate of Chengtian Zhihong is 25% for the year ended 31 December 2008.

Under the Implementation Rules for EIT Law of the PRC ("Implementation Rules"), non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% on income from sources within the PRC, including dividend income. On 22 February 2008, Caishui (2008) No.1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC after 1 January 2008 from the retained earnings as at 31 December 2007 are exempted from withholding tax.

(iv) Pursuant to the approval granted by Dongcheng District, Beijing Local Tax Bureau, Chengtian Zhihong was exempted from EIT for the period from 1 January 2005 to 31 December 2006. Chengtian Zhihong is subject to EIT at the rate of 33% and 25% for the years ended 31 December 2007 and 31 December 2008 respectively. No provision for EIT has been made for Chengtian Zhihong for the year ended 31 December 2008 as the entity did not earn any assessable profit for the year.

(v) As the Restricted Business was not a separate taxable entity, taxation attributable to the businesses have been estimated as set out in the basis of preparation in note 2(b). The applicable rate of the Restricted Business for the year ended 31 December 2007 was 33%. No provision for EIT has been made for the year ended 31 December 2006 and 2008 as the Restricted Business did not earn any assessable profit for these years.

(b) ***Reconciliation between tax expense and profit before taxation at applicable tax rates:***

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Profit before taxation			
- from continuing operations	8,694,748	25,035,061	4,969,591
- from discontinued operations	16,434,957	948,627	3,078,841
	25,129,705	25,983,688	8,048,432
Tax on profit before taxation, calculated at the applicable rates	8,471,152	3,304,581	(2,864,137)
Tax effect of non-deductible expenses	391,442	3,041,395	1,658,030
Tax effect of unused tax losses not recognised	—	—	1,206,107
Tax exemption	(8,862,594)	—	—
Actual tax expense	—	6,345,976	—

7 Discontinued operations

Pursuant to the terms of the Agreement, the non-film and television programme related business would be transferred to CT, thus Chengtian Zhihong would discontinue its operations in the provision of artiste agency and management services, advertising services not related to films and television programmes production, properties rental and related income. The financial results of the discontinued operations for the years ended 31 December 2006, 2007 and 2008 are presented below:

	Years ended 31 December					
	2006		**2007**		**2008**	
	RMB	*Note*	*RMB*	*Note*	*RMB*	*Note*
Turnover	27,788,855		—		382,902	
Less: Sales tax	(1,389,443)		—		(19,145)	
	26,399,412	*(1)*	—		363,757	*(5)*
Cost of sales	(9,964,455)	*(2)*	—		—	
	16,434,957		—		363,757	
Other revenue	—		948,627	*(3)*	5,266,435	*(6)*
Administrative and other operating expenses	—		—		(2,551,351)	*(7)*
Profit before taxation	16,434,957		948,627		3,078,841	
Taxation	—		(313,047)	*(4)*	—	
	16,434,957		635,580		3,078,841	

Note:

(1) The amounts represent artiste agency and management services income of RMB2.4 million and advertising income of RMB25.4 million not derived from films and television programmes production, net of associated business tax.

(2) The amount represents cost of sales related to the discontinued operations in note (1).

(3) The amount represents rental income received from a related company, net of associated business tax.

(4) The amount represents PRC EIT related to the profits discontinued in note (3).

(5) The amounts represent advertising income not attributable to films and television programmes production, net of associated business tax.

(6) The amount represents compensation income of RMB3.2 million due to early termination of rental agreement by the tenant, forfeiture of deposit of RMB1.7 million due to early termination of rental agreements by the tenants and RMB0.4 million of rental income, net of associated tax.

(7) The amount represents rental expenses borne by Chengtian Zhihong for office sub-leased to tenants for rental income as mentioned in note (6).

The net cash flows of the discontinued operations were as follows:

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Operating activities	8,584,957	8,798,627	(3,716,364)

8 Directors' remuneration

No director of Chengtian Zhihong received any emoluments in respect of their services to Chengtian Zhihong for the Relevant Period pursuant to Section 161 of the Hong Kong Companies Ordinance.

No director received any emoluments from Chengtian Zhihong as an inducement to join or upon joining Chengtian Zhihong or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

9 Individuals with the highest emoluments

Details of remuneration paid to the five highest paid individuals of the Transferred Assets are as follows:

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Salaries, allowances and benefits in kind	1,243,572	1,265,296	1,335,398
Discretionary bonuses	30,000	—	—
Retirement scheme contributions	47,685	164,054	194,728
	1,321,257	1,429,350	1,530,126

The emoluments of these individuals are within the following band:

	Years ended 31 December		
	2006	**2007**	**2008**
	Number of individuals	*Number of individuals*	*Number of individuals*
RMB Nil to RMB1,000,000	5	5	5

No emoluments have been paid to these individuals as an inducement to join or upon joining the Transferred Assets or as compensation for loss of office during the Relevant Period.

10 Segment reporting

For the Relevant Period, the Transferred Assets principally have one business segment - the provision of films and television programmes production and advertising related service income. The Transferred Assets mainly operate in the PRC. Accordingly, no business and geographical segment information is presented.

11 Fixed assets

	Leasehold improvements	Office equipment	Office Furniture	Production equipment	Motor Vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:						
At 1 January 2006	—	68,900	218,140	517,800	2,735,655	3,540,495
Additions	250,000	693,872	—	—	—	943,872
Disposals	—	—	—	—	(1,275,000)	(1,275,000)
At 31 December 2006	250,000	762,772	218,140	517,800	1,460,655	3,209,367
At 1 January 2007	250,000	762,772	218,140	517,800	1,460,655	3,209,367
Additions	19,927	373,668	—	—	—	393,595
At 31 December 2007	269,927	1,136,440	218,140	517,800	1,460,655	3,602,962
At 1 January 2008 and 31 December 2008	269,927	1,136,440	218,140	517,800	1,460,655	3,602,962
Accumulated depreciation:						
At 1 January 2006	—	4,327	42,241	112,272	241,871	400,711
Charge for the year	20,833	55,432	41,447	94,620	366,982	579,314
Written back on disposals	—	—	—	—	(302,512)	(302,512)
At 31 December 2006	20,833	59,759	83,688	206,892	306,341	677,513
At 1 January 2007	20,833	59,759	83,688	206,892	306,341	677,513
Charge for the year	229,167	273,800	41,447	94,620	278,590	917,624
At 31 December 2007	250,000	333,559	125,135	301,512	584,931	1,595,137
At 1 January 2008	250,000	333,559	125,135	301,512	584,931	1,595,137
Charge for the year	19,927	216,141	29,809	96,121	278,590	640,588
At 31 December 2008	269,927	549,700	154,944	397,633	863,521	2,235,725
Net book value:						
At 31 December 2006	229,167	703,013	134,452	310,908	1,154,314	2,531,854
At 31 December 2007	19,927	802,881	93,005	216,288	875,724	2,007,825
At 31 December 2008	—	586,740	63,196	120,167	597,134	1,367,237

12 Assets/liabilities held for sale

As at 31 December 2006, 2007 and 2008, the following assets and liabilities were classified as assets/liabilities held for sale pursuant to the terms of the Agreement, which the non-film and television programme related business would be transferred to CT:

		As at 31 December		
		2006	**2007**	**2008**
	Note	*RMB*	*RMB*	*RMB*
Assets held for sale				
Accounts receivable	(1)	8,600,000	—	—
Other receivables, deposits and prepayments	(2)	—	—	4,159,618
		8,600,000	—	4,159,618
Liabilities held for sale				
Accounts payable	(1)	750,000	—	—
Other payables and accruals	(3)	—	—	236,273
Taxation payable	(4)	—	313,047	313,047
		750,000	313,047	549,320

Note:

(1) The amount in 2006 represents accounts receivable and payables related to non-film and television programme production related advertising income.

(2) The amount in 2008 represents RMB3.3 million compensation income receivable from tenant regarding early termination of lease, RMB0.4 million receivable from non-film and television programme production related income and RMB0.4 million rental income receivable from tenant.

(3) The amount in 2008 represents business tax payable associated with income arising from the discontinued operations during the year.

(4) The amount represents RMB0.3 million income tax payable derived from the discontinued operations during the year.

(5) Taking into account of the transfer of the discontinued operations of the non-film and television programme business and the consideration payable of the assets from the Restricted Business, the adjusted net assets of the Transferred Assets (excluding assets and liabilities held for sale) at 31 December 2008 are as follows:

	31 December 2008
	RMB
Net assets	41,856,414
Less: assets and liabilities held for sale	3,610,298
	38,246,116

13 Production in progress

Production in progress in the balance sheets comprises:

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Production in progress, at cost	13,378,465	6,293,572	14,230,129
Less: Write-off of production in progress	—	—	(1,416,994)
	13,378,465	6,293,572	12,813,135

At 31 December 2006, 2007 and 2008, the director of the Transferred Assets reviewed the recoverable amount of the production in progress based on the present values of estimated discounted future cash flows from the production in progress. The write-off of RMB1.4 million for the year ended 31 December 2008 represents accumulated production costs of abandoned projects.

14 Investments in film production

Investments in film production represent funds advanced to licensed production houses for co-financing of the production of films and/or television programmes, which are freely to be exploited by the production houses.

The investments are governed by the relevant investment agreements entered into between the Transferred Assets and the production houses whereby the Transferred Assets are entitled to benefits generated from the distribution of the related films and/or television programmes. The amounts will be recoverable by the Transferred Assets from a pre-determined share of the sales proceeds of the respective co-financed films or television programmes, resulting from their distribution to be confirmed by the relevant production houses.

When it is probable that the total amount of funding advanced in respect of a film undertaking will exceed the total revenue arising from such undertaking, or when the outcome of the investments cannot be estimated reliably, the respective expected losses and advances are recognised as expenses in the period in which they are incurred.

The director reviewed the film production projects as at 31 December 2006, 2007 and 2008 based on the present values of estimated future cash flows from these investments. No impairment loss for the investment in film production was recognised for the years ended 31 December 2006, 2007 and 2008.

15 Self-produced programmes

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
At 1 January	—	—	14,021,031
Additions	—	45,911,296	11,719,929
Amortisation	—	(31,890,265)	(13,480,305)
At 31 December	—	14,021,031	12,260,655

Amortisation of self-produced programmes is included in the "cost of sales".

16 Trade receivables/Other receivables, deposits and prepayments

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Trade receivables	—	28,600,884	11,545,490
Other receivables, deposits and prepayments:			
Advances to film and television programme production houses	12,045,009	15,147,609	2,784,300
Advances to employees	3,035,793	8,882,695	60,600
Other advances	12,060,635	4,805,409	6,814,157
Deposits and prepayments	162,488	627,111	7,731,711
	27,303,925	29,462,824	17,390,768

As at 31 December 2006, 2007 and 2008, the amount of the Transferred Assets' other receivables, deposits and prepayments are expected to be recovered or recognised as an expense within one year.

(a) ***Ageing analysis***

An ageing analysis of trade receivables is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Within 30 days	—	28,600,884	4,885,354
31 days to 90 days	—	—	691,840
91 days to 180 days	—	—	5,500
More than 180 days	—	—	5,962,796
	—	28,600,884	11,545,490

All of the trade receivables are expected to be recovered within one year.

The Transferred Assets normally request payment before or on the date when services are performed. Further details on the Transferred Assets' credit policy are set out in note 26(a).

(b) ***Impairment of trade receivables***

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Transferred Assets are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

As at 31 December 2006, 2007 and 2008, none of the Transferred Assets' trade receivables were individually determined to be impaired. Consequently, no specific allowances for doubtful debts were recognised.

(c) ***Trade receivables that are not impaired***

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Transferred Assets. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Transferred Assets do not hold any collateral over these balances.

17 Cash and cash equivalents

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Cash at bank	13,554,152	2,345,914	28,293,452
Cash in hand	48,905	4,759	85,673
Cash and cash equivalents in the combined balance sheets and combined cash flow statements	13,603,057	2,350,673	28,379,125

As at 31 December 2006, 2007 and 2008, all of the cash and cash equivalents are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 Trade payables/Other payables and accruals

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Trade payables	—	631,933	158,000
Other payables and accruals:			
Receipt in advance from film distributors	12,390,000	16,457,423	5,505,915
Other payables and accruals	465,490	265,143	1,733,633
Other tax payable	2,001,830	865,747	358,964
	14,857,320	17,588,313	7,598,512

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables of the Transferred Assets is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Within 30 days	—	473,933	—
31 days to 90 days	—	—	—
91 days to 180 days	—	—	—
More than 180 days	—	158,000	158,000
	—	631,933	158,000

19 Amounts due from/to related companies, amounts due to a director and amount due to a shareholder

The amounts are unsecured, interest-free and have no specific repayment terms.

20 Taxation in the balance sheets

(a) ***Taxation payable in the combined balance sheets represents:***

		As at 31 December		
	Note	**2006**	**2007**	**2008**
		RMB	*RMB*	*RMB*
At 1 January		—	—	4,725,800
Provision for the year				
Continuing operations				
- PRC Enterprise Income Tax		—	4,601,216	—
- Hong Kong Profits Tax		—	1,431,713	—
		—	6,032,929	—
Discontinued operations				
- PRC Enterprise Income Tax	7	—	313,047	—
		—	6,345,976	4,725,800
Less:				
Taxation payable remitted to CT				
- PRC Enterprise Income Tax		—	188,463	—
- Hong Kong Profits Tax		—	1,431,713	—
Taxation payable		—	4,725,800	4,725,800
Represented by:				
Taxation payable				
- Current liabilities		—	4,412,753	4,412,753
- Liabilities held for sale	7	—	313,047	313,047
		—	4,725,800	4,725,800

(b) ***Deferred tax assets not recognised***

The Transferred Assets have not recognised the deferred tax assets of RMB Nil, RMB Nil and RMB1.2 million attributable to the future benefit of tax losses sustained in the operations as the availability of future taxable profits against which the assets can be utilised is not considered probable at 31 December 2006, 2007 and 2008 respectively. The tax losses arising from the PRC operations expire five years after the relevant accounting year end date.

21 Paid-in capital

The paid-in capital in the combined balance sheets as at 31 December 2006, 2007 and 2008 represents the registered capital of Chengtian Zhihong.

22 Reserves

(a) ***PRC statutory reserve***

PRC statutory reserve was established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising of the Transferred Assets which are incorporated in the PRC. Transfers to the reserve were approved by the respective boards of directors.

Chengtian Zhihong is required to appropriate 10% of their profits after taxation (after offsetting prior year losses), as determined under the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the respective registered capital. The amounts allocated to this reserve are determined by the respective boards of directors and must be made before distribution of a dividend to equity holders.

For the entity concerned, the statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital by issuing additional capital to the equity holders in proportion to the equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(b) ***Other reserve***

As no separate bank accounts have been maintained by the Restricted Business, the net funds remitted to CT have been presented as other reserve.

(c) ***Distributable reserves***

The aggregate amounts of distributable reserves as at 31 December 2006, 2007 and 2008 of the Chengtian Zhihong were RMB20.7 million, RMB26.3 million and RMB20.5 million respectively.

(d) ***Capital management***

The Transferred Assets' primary objectives when managing capital are to safeguard the businesses' ability to continue as going concerns, so that they continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Transferred Assets actively and regularly review and manage its capital to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions.

23 Operating lease commitments

As at 31 December 2006, 2007 and 2008, the total future minimum lease payments of the Transferred Assets under non-cancellable operating leases were payable as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB	*RMB*	*RMB*
Within 1 year	—	7,083,333	7,083,333
After 1 year but within 5 years	—	32,583,333	34,000,000
After 5 years	—	119,000,000	110,500,000
	—	158,666,666	151,583,333

The Transferred Assets lease a number of properties under an operating lease. The lease runs for a period of 19 years and does not include contingent rentals.

Pursuant to the Agreement, Mr. Wu and CT undertake to procure the lease agreement such that Chengtian Zhihong will cease to be the representative of the tenants upon the completion of the Acquisition.

24 Contingent liabilities

At 31 December 2006, 31 December 2007 and 31 December 2008, the Transferred Assets have no material contingent liabilities.

25 Material related party transactions

In addition to the transactions and balances disclosed in note 19 to the Financial Information, the Transferred Assets entered into the following related party transactions during the Relevant Period.

(a) ***Material related party transactions***

		Year ended 31 December		
		2006	**2007**	**2008**
	Note	*RMB*	*RMB*	*RMB*
Advertising income (films and television programmes production related)	(i)	4,000,000	2,000,000	—
Advertising income (non-film and television programme production related)	(i)	15,000,000	—	—
Commission fee	(ii)	887,000	—	—
Gross rental income	(iii)	—	998,555	—

Notes:

(i) Advertising income is received from a company which is 50% owned by Mr. Wu. It is charged at a pre-determined rate.

(ii) Commission fee represents artiste agency expense paid for advertisement productions charged at a pre-determined rate to a company which is wholly owned by Mr. Wu.

(iii) Gross rental income is received for sub-letting office premises to a company controlled by Mr. Wu.

(b) Details of the amounts due to a director, amount due to a shareholder and amounts due from/(to) related companies are set out in note 19 to the Financial Information.

(c) Key management personnel receive compensation in the form of salaries, wages, housing and other allowances, benefits in kind and contributions to defined contribution plan. Details of key management personnel emoluments are disclosed in notes 8 and 9. Total remuneration is included in "staff costs" as disclosed in note 5(a).

26 Financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Transferred Assets' business. These risks are limited by the Transferred Assets' financial management policies and practices described below.

(a) ***Credit risk***

The Transferred Assets' credit risk is primarily attributable to investments in film production and trade and other receivables.

The Transferred Assets minimise its credit risks associated with the investments in film production by contracting only with major licensed industry players, which are mostly state-owned enterprises. Investment balances are closely monitored on an ongoing basis and management considers the Transferred Assets' exposure to irrecoverability is not significant. As a result, there is no requirement for collateral.

In respect of trade and other receivables, management usually requests payment before or on the date when services are performed. Credit evaluations are performed on all customers, which focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally the Transferred Assets allow credit terms of 30-90 days to its customers that have long-term relationships with the Transferred Assets and have significant financial strength and track record of corporate performance. Management also assesses the creditworthiness of these customers on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. The Transferred Assets do not provide any guarantees which would expose the Transferred Assets to credit risk.

(b) ***Liquidity risk***

The Transferred Assets' policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains adequate cash inflows from operations and sufficient reserves of cash to meet its debt obligations as they fall due.

The following table details the remaining contractual maturities at the balance sheet date of the Transferred Assets' non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Transferred Assets can be required to pay:

The Transferred Assets

	As at 31 December 2006					
	Carrying amount	**Total contractual undiscounted cash flow**	**Repayable within 1 year or on demand**	**Repayable more than 1 year but less than 2 years**	**Repayable more than 2 years but less than 5 years**	**Repayable more than 5 years**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Other payables and accruals	14,857,320	14,857,320	14,857,320	—	—	—
Amounts due to a director	1,567,057	1,567,057	1,567,057	—	—	—
Amounts due to related companies	27,223,071	27,223,071	27,223,071	—	—	—
Amount due to a shareholder	350,000	350,000	350,000	—	—	—
	43,997,448	43,997,448	43,997,448	—	—	—

	As at 31 December 2007					
	Carrying amount	**Total contractual undiscounted cash flow**	**Repayable within 1 year or on demand**	**Repayable more than 1 year but less than 2 years**	**Repayable more than 2 years but less than 5 years**	**Repayable more than 5 years**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Trade payables	631,933	631,933	631,933	—	—	—
Other payables and accruals	17,588,313	17,588,313	17,588,313	—	—	—
Amounts due to a director	1,879,868	1,879,868	1,879,868	—	—	—
Amounts due to related companies	24,773,587	24,773,587	24,773,587	—	—	—
Amount due to a shareholder	350,000	350,000	350,000	—	—	—
	45,223,701	45,223,701	45,223,701	—	—	—

	As at 31 December 2008					
	Carrying amount	Total contractual undiscounted cash flow	Repayable within 1 year or on demand	Repayable more than 1 year but less than 2 years	Repayable more than 2 years but less than 5 years	Repayable more than 5 years
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Trade payables	158,000	158,000	158,000	—	—	—
Other payables and accruals	7,598,512	7,598,512	7,598,512	—	—	—
Amounts due to related companies	46,879,963	46,879,963	46,879,963	—	—	—
Amount due to a shareholder	350,000	350,000	350,000	—	—	—
	54,986,475	54,986,475	54,986,475	—	—	—

(c) ***Interest rate risk***

The Transferred Assets are exposed to interest rate risk through the impact of rates changes on income-earning financial assets. The following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Transferred Assets

	As at 31 December					
	2006		2007		2008	
	Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB*	*%*	*RMB*	*%*	*RMB*
Cash and cash equivalents	1%	13,554,152	1%	2,345,914	2%	28,293,452

At 31 December 2006, 31 December 2007 and 31 December 2008, the Transferred Assets have no outstanding bank borrowings.

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Transferred Assets' profit or loss for the years ended 31 December 2006, 2007 and 2008 and there is no material impact on the Transferred Assets' equity.

(d) ***Foreign currency risk***

(i) *Transactions*

As most of the Transferred Assets' monetary assets and liabilities are denominated in RMB and the Transferred Assets conduct its business transactions principally in RMB and Hong Kong dollars ("HKD"), the exchange rate risk of the Transferred Assets is not significant.

The Transferred Assets have not entered into any financial instruments for hedging purpose.

(ii) *Exposure to currency risk*

The following table details the Transferred Assets' exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December		
	2006	**2007**	**2008**
	HKD	*HKD*	*HKD*
Trade and other receivables	—	4,246,011	5,400,000

(iii) *Sensitivity analysis*

The following table indicates the approximate changes in the Transferred Assets' profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Transferred Assets have significant exposure at the balance sheet date. The sensitivity analysis includes balances between related companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

The Transferred Assets

	Year ended 31 December					
	2006		**2007**		**2008**	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits**
	%	*RMB*	*%*	*RMB*	*%*	*RMB*
Hong Kong dollars	5	—	5	206,048	5	238,113
	(5)	—	(5)	(206,048)	(5)	(238,113)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the related companies' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the related companies' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for the years ended 31 December 2006, 2007 and 2008.

(e) ***Fair values***

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2006, 2007 and 2008.

The carrying values of trade and other receivables, cash and cash equivalents, payables and accruals, amounts due from/to related parties, and short term interest-bearing borrowings are estimated to approximate their fair values based on the nature or short-term maturity of these instruments.

27 Significant accounting estimates and judgements

Key sources of estimation uncertainty

Note 26 contains information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Impairment of trade receivables*

The Transferred Assets estimate impairment losses for bad and doubtful debts resulting from inability of the customers to make the required payments. The Transferred Assets base the estimates on the ageing of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(ii) *Impairment of investments in film production*

Fair values of investments in film production are estimated based on their projected future revenue to be derived from all applicable territories and windows less cost of disposal, taking into account historical performance of films and television programmes with comparable budgets, casts, or other relevant qualities. Impairment provisions are made for the carrying amounts that are in excess of the expected future revenue to be generated by these films and television programmes.

(iii) *Impairment of production in progress and self-produced programmes*

Production in progress is stated at cost less any impairment provisions while self-produced programmes are stated at cost less amortisation and impairment provisions. Both production in progress and self-produced programmes take into account the current market conditions, the project status, and estimated realisable value. If revenue actually generated were to fall short of the forecasts, or the production was to cease, impairment provision may need to be made to reduce the carrying value of individual television programmes or films to their realisable amounts.

(iv) *Assessment of impairment of non-current assets*

The director assesses the recoverable amount of non-current assets based on their value in use or on their net selling price (by reference to market prices), taking into account the anticipated future plans for the non-current assets. Estimating the value in the use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

(v) *Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Transferred Assets review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during the Relevant Period. The useful lives are based on the Transferred Assets' historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(vi) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Transferred Assets carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 December 2008

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2008 and which have not been adopted in the Financial Information:

HKAS 1 (Revised) (1)	Presentation of Financial Statements
HKAS 23 (Revised) (1)	Borrowing Costs
HKAS 27 (Revised) (2)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised) (2)	Business Combinations
HKFRS 8(1)	Operating Segments
HK(IFRIC) 13(2)	Customer Loyalty Programmes

(1) Effective for annual periods beginning on or after 1 January 2009

(2) Effective for annual periods beginning on or after 1 July 2009

The Transferred Assets are in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far, it has concluded that while the adoption of the Revised HKAS 1 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Transferred Assets' results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Transferred Assets in respect of any period subsequent to 31 December 2008.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

Market Outlook and Highlights

Supported by the strong spending power of the increasingly affluent population, the PRC film and TV media industry has been demonstrating significant growth over the past few years. In 2008 for film industry alone, due to success of films such as *Painted Skin* ("畫皮") and *Red Cliff* ("赤壁"), China marked box office takings of RMB4.3 billion which indicated a 30% growth against the previous year. At the same time, Chinese-language contents are seen to be more and more influential and well-received in the international film arena. They have started to become spotlight titles during important world film festivals also. For titles like *Red Cliff* ("赤壁"), it has been showing outstanding performance in the Asian market over the past year and it is about to be released in the Western world in the months to come.

The Transferred Assets, with its main businesses in the investment, production (either by itself or through cooperation with other entities and foreign producers), distribution and marketing of Chinese-language films and television programmes in the PRC, focuses on developing and distributing Chinese-language contents in the PRC, covering both films and TV programmes. Seeing the huge growth potential of Chinese-language contents for both international and local markets, the Transferred Assets have been focusing its efforts in both blockbuster titles as well as smaller ones tailored to local consumers' tastes and demand.

Aiming to maximise return in a safe mode, the Transferred Assets have selected to engage in either investing together with others in big Chinese blockbuster titles or leading production of low-budget programmes which can recoup costs in short timeframe. In addition, the Transferred Assets have built a team with solid distribution and marketing capabilities to ensure titles are effectively promoted and sold.

From a more macro perspective, the culture, arts, media and creative industries (the development of which have long-time been driven by the state policies and also are among the last sectors to be opened up to foreign investors) are gaining higher regards from state to local government authorities, and being put as one of the priority industries to develop. In addition to various encouraging polices and incentives offered, domestic banks are becoming more active in approving and granting support to the culture, arts, media and creative industries. As a locally based contents development, distribution and marketing enterprise, the Transferred Assets enjoy and are expected to benefit from the favourable business environment which promotes sustainable industry growth.

Business Review

Film business

Benefited from the rapid economic growth within the PRC, the cultural and entertainment market further grew and prospered. The Transferred Assets' film business has maintained a growing momentum since its establishment. Since the development of film business from 2006, the Transferred Assets managed to develop a good foundation and business network in the industry within 3 instead of 5 years generally to achieve the same.

Thanks to the alliance strategy articulated and implemented, which the Transferred Assets have established various partnerships along the value chain covering investment, production as well as distribution. Through cooperating with different leading film and TV groups/companies, the Transferred Assets have involved profitably in a number of titles and programmes. Locally aside, the Transferred Assets are also active in working with Hong Kong and Taiwan film and TV companies such as Mega-Vision Pictures and Three Dots Entertainment for developing Chinese-language contents, such as *Bullet & Brain* ("神槍手與智多星") and *My DNA Says I Love You* ("基因決定我愛你"), jointly for their respective markets.

In its continuous endeavour in promoting Chinese-language films overseas, the Transferred Assets have also actively assisted in locating foreign fund sources for supporting local film investment, as well as gradually distributing PRC titles in selected markets overseas.

From 2006 to date, the Transferred Assets have planned, invested and produced about 20 films, including certain commercial Chinese-language blockbusters. Since 2007, the Transferred Assets have invested in a total of 5 movies at over RMB50 million. The movies *Red Cliff* ("赤壁") and *The Warlords* ("投名狀") jointly produced with China Film Group have brought considerable revenue to the Transferred Assets. On average, the Transferred Assets cautiously select 1 to 2 bigger titles to get involved in every year to ensure its investment participated in a protected manner. As to production of smaller budget films, the Transferred Assets keep on looking for and developing good titles actively. To name a few of them, *I am Liu Yue Jin* ("我叫劉躍進"), *Dangerous Games* ("棒子老虎雞") and *Shooting Star* ("逆轉流星") have all been generating satisfactory box office receipts. For instance, *I am Liu Yue Jin* ("我叫劉躍進") attained a box office locally at approximately RMB11 million while *Dangerous Games* ("棒子老虎雞"), featuring Eric Tsang (曾志偉) and Gigi Leung (梁詠琪) etc., registered one over RMB 8 million. Both local titles enjoyed an encouraging commercial success for smaller budget films.

TV programme business

The Transferred Assets have continuously working closely with prominent TV stations/media in investing, planning, developing, producing, distributing, and/or marketing TV drama series. The TV drama series filmed and distributed by the Transferred Assets cover a wide range of topics, from modern dramas featuring young pop idols to re-filming of classic titles. Among these series include *Make Sure Be Happy* ("你一定要幸福"), *Stage Sisters* ("舞台姐妹"), *Bald Beautiful Woman* ("光頭美女"), *The Second Elder Brother* ("二哥"), *Magic Square* ("魔方") and *The Line* ("生死線").

Popular ones such as *Make Sure Be Happy* ("你一定要幸福") achieved a good rating — it was ranked the 8th in the combined TV viewership in the southern region, recorded a top viewership rate of 9.3 in Shanghai in the year it was released, and attained an impressive average viewership of 6.7 in Xiamen as well. Besides, the *Stage Sisters* ("舞台姐妹") was a classic re-filming title and its average viewership in Shanghai reached 4.5.

Some of these series have not just been released impressively locally in the PRC, they are also being marketed and sold successfully to other Southeast Asian / Chinese dominated markets.

Meanwhile, one advantage which the Transferred Assets possess is that it can leverage on CT's pool of talents and artists managed and represented. Such is providing good support during the promotion of the Transferred Assets' TV drama series.

Content marketing and advertising business

The Transferred Assets have successfully recruited advertisers and sponsors to support its content marketing and advertising business via the "entertainment marketing" concept. Since the beginning of 2007, the Transferred Assets have been continuously planning and implementing different integrated entertainment marketing campaigns for its content products, namely films and TV programmes, which encompass among other concepts effective product placement programs, premiere shows, screen/film advertising and copyrighted program development.

Specifically for example, the Transferred Assets have achieved in getting 7 advertising commercials with the blockbuster *Red Cliff* ("赤壁") at approximately RMB 20 million. In the year of 2007/08, the Transferred Assets planned and implemented a successful new product launch campaign for ZTE via product placement program within the film *Dangerous Games* ("棒子老虎雞"), which was also well-received in cinemas.

The Transferred Assets have, through these years, built an efficient entertainment marketing team containing not just professionals from 4A advertising companies, but also specialist marketers with rich experience in films and TV entertainment industry. Such team renders comprehensive advertising planning and implementation services to a number of satisfactory clients.

Prospects

Film business

Contrary to the deteriorating global economic trend in 2009, the film industry in the PRC has prospered upstream with a rosy outlook. In addition to being an affordable entertainment product, movie-going in the PRC represents a lifestyle activity also. Moreover, as Chinese films are delivering increasingly impressive results in the international market, the Transferred Assets see a fast-growing fan base for local Chinese-language titles, be they blockbusters or smaller productions.

Locally produced films have for some consecutive years accounted for more than 60% market share by box office receipts in the PRC. In terms of performance, in 2008, there were 8 locally produced titles achieving box office receipts of over RMB 100 million, which together represented approximately 34% of the total box office of the year. Hence, locally produced blockbusters remain as favourites of the market producing high box office income. Medium scale movies with box office receipts ranging from RMB 50 to 100 million are becoming increasingly popular also. With better distribution and marketing planned, the Transferred Assets expect to see an improving market share of medium scale titles in the coming years.

Looking ahead, the Transferred Assets will continue to focus on investing, producing and distributing good Chinese-language titles domestically, and taking them further to promote and unlock their potential in Asian and international markets. While the Transferred Assets will make careful investments in commercial Chinese-language blockbusters produced by reliable casts, the Transferred Assets will explore actively different business opportunities in relation to lower-budget productions which can deliver higher profitability potential with lower risk.

One example is the Transferred Assets' recent self-developed, produced and distributed film *One Night in Supermarket* ("夜店") (formerly known as *Supermarket* ("超市")). It is planned to be launched on 24 July 2009. Despite being a lower-budget production, *One Night in Supermarket* ("夜店") is nominated this year as a candidate for the Media Prize of the Shanghai International Film Festival ("SIFF"), China's biggest movie festival showcase, and it has been selected as the movie shown at the grand opening ceremony. Apart from the Media Prize, it is also nominated to be competing for a number of awards at the SIFF including among others the Top Media Attention Award for Best Director and Best Movie Song. The main actor who is also an artist from the CT Group, Qiao Renliang, is nominated to compete for the Top Media Attention Award for Best New Actor. It is thus expected that *One Night in Supermarket* ("夜店") will succeed and contribute positively to the Transferred Assets' reputation and profitability.

The Storm Warriors II ("風雲2"), a jointly invested and distributed film with the Group, is seen to be a key Christmas title in coming December. The Transferred Assets have already secured the distribution right of *The Storm Warriors II* ("風雲2") in the PRC.

TV programme business

While striving to become a major supplier of Chinese-language TV drama series locally and in the region, the Transferred Assets will adopt a more cautious approach in growing its library in 2009 after the outbreak of global financial crisis since end of 2008 which to certain extent affects the advertising and television businesses in general. The Transferred Assets will continue to its partnership strategy in developing TV programmes, which proves to be effective in growing the portfolio profitably.

In view of the slowing global economy, the Transferred Assets will take extra measures to reduce the potential business risks attached thereto including cash and receivable management. For instance, the big TV drama series of the year *The Line* ("生死線") is under production. The Transferred Assets, however, have already completed the pre-sale of its showing successfully at over RMB 5 million across a number of satellite TV stations including the Chongqing TV station, Yunnan TV station, Guizhou TV station and Zhejiang TV station.

Content marketing and advertising business

"Entertainment marketing" opportunities are becoming increasingly popular among advertisers and marketers due to their nature of allowing more integrated soft selling within contents. Following its international counterparts, many 4A advertising companies in the PRC are planning aggressively to grow their pie in "entertainment marketing" business and thus setting up new units or departments to charter the growth and take care of their clients' needs in this respect. Having pioneered and engaged in this business for some years, the Transferred Assets have not just only developed credible credentials and experienced professionals for the business, they have also got the most direct resources and thus most proactive control to serve advertisers' needs.

The upcoming opportunity linked with *The Storm Warrior II* ("風雲2") allows the Transferred Assets to further grow the business at its high time; and the team is working diligently towards the goal of becoming one of the most creative and successful entertainment marketing group in the PRC in 5 years' time.

Financial Performance

Year ended 31 December 2008 compared to year ended 31 December 2007

Turnover

For the year ended 31 December 2008, turnover from the Transferred Assets was approximately RMB 41,614,000, representing a decrease of 44% as compared to approximately RMB 74,333,000 for the year ended 31 December 2007, due mainly to impact of consecutive incidents during 2008 on entertainment business in the PRC including snowstorm disaster, Sichuan earthquake and the Olympic Games.

For the year ended 31 December 2008, gross turnover from the Transferred Assets primarily included films and television programmes production and distribution income of approximately RMB 13,801,000, films and television programmes production related advertising and consultancy income of approximately RMB 8,867,000 and RMB 20,000,000 respectively.

Gross profit and cost of sales

For the year ended 31 December 2008, gross profit from the Transferred Assets amounted to approximately RMB 17,591,000, representing a decrease of 55% as compared with approximately RMB 38,959,000 for the year ended 31 December 2007. Cost of sales was RMB 24,024,000, representing a decrease of 32% as compared with RMB 35,375,000 of 2007.

The decrease in gross profit was mainly due to the drop in revenue, for reasons stated above. The management of the Transferred Assets, in response to the change in overall market environment, promptly reviewed its own business advantages and market demand carefully and grasped opportunities of new projects. The Transferred Assets are thus expected to be able to achieve a better revenue in budgeting 2009 and the years after. The Transferred Assets will also strengthen its measures in strict cost control. The management will control its expenses strictly so as to boost profits, which will in turn ensure that the Transferred Assets will secure a satisfactory overall financial performance.

Other revenue

For the year ended 31 December 2008, the Transferred Assets recorded other revenue of approximately RMB 368,000, which was mainly interest income from bank deposits.

Selling and distribution expenses

For the year ended 31 December 2008, selling and distribution expenses were approximately RMB 7,394,000, which mainly included staff cost of approximately RMB 3,670,000 and the cost for hiring professional audio and visual planning companies (as cooperation partners) to jointly seek and develop movies and television projects for production and distribution. Such expenses amounted to approximately RMB 2,181,000.

Since the business of the Transferred Assets was affected by the overall environment in 2008, the management devoted more efforts in developing film and television projects which were suitable for immediate production. Therefore, selling and distribution expenses for 2008 accounted for a larger proportion of income.

Administrative and other operating expenses

For the year ended 31 December 2008, administrative and other operating expenses amounted to approximately RMB 5,595,000, which mainly included staff cost of approximately RMB 2,199,000, office rent of approximately RMB 813,000 and general office expenses of approximately RMB 2,583,000. Administrative and other operating expenses accounted for approximately 13% of the Transferred Assets' total income during the year.

Year ended 31 December 2007 compared to year ended 31 December 2006

Turnover

For the year ended 31 December 2007, gross turnover from the Transferred Assets was approximately RMB 74,333,000, representing an increase of 322% as compared with approximately RMB 17,616,000 for the year ended 31 December 2006, due mainly to the pipeline developed during 2006, the initial business development period for the Transferred Assets. The Transferred Assets also developed more new projects in 2007 and achieved remarkable results in revenue.

For the year ended 31 December 2007, gross turnover from the Transferred Assets primarily included films and television programmes production and distribution income of approximately RMB 48,059,000, and films and television programmes production related advertising income and agency commission of approximately RMB 28,221,000.

Gross profit and cost of sales

For the year ended 31 December 2007, gross profit from the Transferred Assets amounted to approximately RMB 38,959,000, representing an increase of 127% as compared with approximately RMB 17,131,000 for the year ended 31 December 2006. Cost of sales for the year ended 31 December 2007 was RMB 35,375,000.

The increase in gross profit was mainly due to more focused use of management resources in developing business as well as tightened control over direct costs incurred.

Other revenue

For the year ended 31 December 2007, the Transferred Assets recorded other revenue of approximately RMB 193,000 which was mainly interest income from bank deposits.

Selling and distribution expenses

For the year ended 31 December 2007, selling and distribution expenses were approximately RMB 5,293,000, which mainly included staff cost of approximately RMB 3,082,000. Selling and distribution expenses accounted for 7% of turnover, which remained at a rather low level.

Administrative and other operating expenses

For the year ended 31 December 2007, administrative and other operating expenses were approximately RMB 8,823,000, which mainly included staff cost of approximately RMB 2,832,000 and general office costs. In 2007, administrative and other operating expenses accounted for approximately 12% of the Transferred Assets' total income.

Financial Resources and Liquidity

The registered capital of the Transferred Assets was RMB 3,000,000.

During the year ended 31 December 2008, total assets, excluding assets held for sale, of the Transferred Assets amounted to approximately RMB 97,645,000. The Transferred Assets had current assets, excluding assets held for sale, of approximately RMB 96,278,000, which mainly included cash and bank deposits of approximately RMB 28,379,000. Cash at bank were deposited as RMB deposits in major banks in the PRC. As at 31 December 2007, total assets of the Transferred Assets were approximately RMB 93,757,000. The Transferred Assets had current assets, excluding assets held for sale, of approximately RMB 91,749,000. As at 31 December 2006, total assets, excluding assets held for sale, of the Transferred Assets were approximately RMB 73,286,000. The Transferred Assets had current assets, excluding assets held for sale, of approximately RMB 70,754,000.

As at 31 December 2008, the Transferred Assets had current liabilities, excluding liabilities held for sale, of approximately RMB 59,399,000. As at 31 December 2007, the Transferred Assets had current liabilities, excluding liabilities held for sale, of approximately RMB 49,636,000. As at 31 December 2006, the Transferred Assets had current liabilities, excluding liabilities held for sale, of approximately RMB 43,997,000.

For each of the three years ended 31 December 2008, the Transferred Assets did not engage in any financial leverage, thus the gearing ratio was nil. There was no pledge of assets of the Transferred Assets at each of the three years ended 31 December 2008. The management will continue to monitor the gearing structure and make adjustments when necessary in response to the development and economic conditions of the Transferred Assets.

On 26 March 2009, the Transferred Assets and the Bank of Beijing entered into a loan agreement and obtained bank borrowings of RMB 4,500,000 at an interest rate of 5.31% per annum for a term of one year.

Cash Flows and Capital Structure

For the year ended 31 December 2008, total net cash generated from operating activities was approximately RMB 22,358,000. For the year ended 31 December 2007, total net cash used in operating activities was approximately RMB 11,706,000. The difference in cash inflows and outflows for these two years was mainly due to the substantial cash injections in a number of film and television projects in 2007 whereas 2008 was an output year with recovery of cash.

For the year ended 31 December 2008, net cash generated from investing activities was approximately RMB 3,670,000, which was mainly due to the returns generated in 2008 from the projects developed and invested in 2007.

The assets and liabilities of the Transferred Assets are primarily denominated in RMB and the exchange rate risk exposure is minimal. The director will continue to assess the exchange risk exposures, and will consider possible hedging measures in order to minimise the risk at reasonable cost.

The Transferred Assets adopted prudent capital and financial policies for its overall business operations and deposits in RMB were maintained.

Contingent Liabilities

For each of the three years ended 31 December 2008, the Transferred Assets did not have any significant contingent liabilities.

Employees

For the year ended 31 December 2008, the Transferred Assets had 28 staffs and staff costs were approximately RMB 5,869,000.

For the year ended 31 December 2007, the Transferred Assets had 26 staffs and staff costs were approximately RMB 5,914,000.

For the year ended 31 December 2006, the Transferred Assets had 25 staffs and staff costs were approximately RMB 4,013,000.

The remuneration and benefits structure was determined by general reference to market management and overall business results. The management and director conducted regular remuneration reviews in accordance with performance appraisals and other relevant factors. Staff benefits provided by the Transferred Assets included among others transportation and meal allowances and medical benefits.

Interest Rate Risk

Currently, the Transferred Assets have not adopted any derivatives to manage its interest rate risk.

Exchange Risk

For each of the three years ended 31 December 2008, the financial assets and liabilities of the Transferred Assets were not affected by foreign currency risk. Major transactions were denominated in RMB with operations only in the PRC, therefore the exchange rate fluctuations of RMB relative to foreign currencies would almost have no effect on the operating results of the Transferred Assets.

With relatively low exchange risk exposure, the Transferred Assets did not enter into any hedging transactions as at each of the years ended 31 December 2008.

The following is the full text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IV, a copy of this report is available for inspection.

KPMG

8th Floor
Prince's Building
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Central
Hong Kong

25 June 2009

The Board of Directors
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Golden Harvest Entertainment (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and Beijing Chengtian Zhihong Film & TV Production Company Limited (北京橙天智鴻影視製作有限公司) ("Chengtian Zhihong") and the businesses relating to Chinese-language films and television programmes production, investment, marketing and advertising and/or distribution (the "Restricted Business") commonly controlled by the shareholder — Mr. Wu Kebo ("Mr. Wu") (hereinafter collectively referred to as the "Transferred Assets") (together with the Group collectively referred to as the "Enlarged Group"), in relation to the proposed acquisition of the entire equity interest in Chengtian Zhihong and the Restricted Business operated under certain entities commonly controlled by Mr. Wu (the "Acquisition"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Acquisition of the Transferred Assets might have affected the financial information of the Group, for inclusion in Appendix III of the circular of the Company dated 25 June 2009 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction thereto.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work 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. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which 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 purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of this hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP AFTER THE TRANSACTION

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition on the assets and liabilities of the Group, as if the Acquisition had taken place on 31 December 2008, and is based on the historical consolidated balance sheet of the Group and the historical combined balance sheet of the Transferred Assets as at 31 December 2008.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2008 or any future date.

The historical consolidated balance sheet of the Group and the historical balance sheet of the Transferred Assets as at 31 December 2008 have been extracted from the published unaudited interim report of the Group for the period ended 31 December 2008 and the Accountants' Report on the Transferred Assets as set out in Appendix II to this Circular, respectively.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

As at 31 December 2008

	The Group	Transferred Assets	Transferred Assets	Pro forma adjustments		The Enlarged Group
	HKD'000	*RMB'000*	*HKD'000*	*HKD'000*	*Note*	*HKD'000*
	(Unaudited)	*(Audited)*	*(Audited)*	*(Unaudited)*		*(Unaudited)*
	Note 1	*Note 2(a)*	*Note 2(b)*			
Non-current assets						
Fixed assets	326,651	1,367	1,559			328,210
Investment property	1,952	—	—			1,952
Amounts due from jointly controlled entities	22,387	—	—			22,387
Prepaid rental	6,742	—	—			6,742
Club memberships	3,590	—	—			3,590
Rental and other deposits	50,867	—	—			50,867
Trademarks	79,421	—	—			79,421
Goodwill	—	—	—	49,440	*5*	49,440
Deferred tax assets	1,547	—	—			1,547
Pledged bank deposits	12,258	—	—			12,258
	505,415	1,367	1,559			556,414
Current assets						
Inventories	2,497	—	—			2,497
Film rights	27,916	—	—			27,916
Self-produced programmes	—	12,261	13,978			13,978
Production in progress	—	12,813	14,607			14,607
Investment in film production	—	5,538	6,313			6,313
Trade receivables	20,954	11,546	13,162			34,116
Other receivables, deposits and prepayments	59,086	17,391	19,826			78,912
Amounts due from related companies	—	8,350	9,519			9,519
Amounts due from jointly controlled entities	13,110	—	—			13,110
Deposits and cash	349,868	28,379	32,352	(38,896)	*4*	343,324
	473,431	96,278	109,757			544,292
Assets held for sale	—	4,160	4,742	(4,742)	*6*	—
	473,431	100,438	114,499			544,292

	The Group HKD'000 (Unaudited) Note 1	Transferred Assets RMB'000 (Audited) Note 2(a)	Transferred Assets HKD'000 (Audited) Note 2(b)	Pro forma adjustments HKD'000 (Unaudited)	Note	The Enlarged Group HKD'000 (Unaudited)
Current liabilities						
Trade payables	64,866	158	180			65,046
Other payables and accruals	117,268	7,599	8,663			125,931
Amount due to a shareholder	—	350	399			399
Amounts due to related companies	—	46,880	53,443			53,443
Customer deposits	6,497	—	—			6,497
Loans from joint venture partners	12,500	—	—			12,500
Taxation payable	15,450	4,413	5,031			20,481
	216,581	59,400	67,716			284,297
Liabilities held for sale	—	549	626	(626)	*6*	—
	216,581	59,949	68,342			284,297
Net current assets	256,850	40,489	46,157			259,995
Total assets less current liabilities	762,265	41,856	47,716			816,409
Non-current liabilities						
Convertible notes	—	—	—	40,460	*3*	40,460
Loans from joint venture partners	15,137	—	—			15,137
Loan from minority shareholder	471	—	—			471
Deposits received	3,837	—	—			3,837
Deferred tax liabilities	15,343	—	—			15,343
	34,788	—	—			75,248
NET ASSETS	727,477	41,856	47,716			741,161

Notes:

1 The net asset statement of the Group is extracted from the consolidated balance sheet of the Group as at 31 December 2008 as included in the published unaudited interim report of the Group for the six months ended 31 December 2008.

2 a. The net asset statement of the Transferred Assets is extracted from the Accountants' Report set out in Appendix II to this Circular.

b. The net asset statement of the Transferred Assets is translated at the closing rate at the balance sheet date of RMB1:HK$1.14 from RMB to HKD.

3 Pursuant to an equity transfer agreement dated 15 June 2009 (the "Agreement") entered into between Golden Harvest Motion Pictures Company Limited, (the "Purchaser"), Mr. Wu, Ms. Wu and Chengtian Entertainment Group (International) Holding Company Limited ("CT"), the Purchaser agreed to acquire the entire equity interest in Chengtian Zhihong and the Restricted Business operated under certain entities commonly controlled by Mr. Wu.

The maximum aggregate consideration payable by the Purchaser is up to RMB80 million (equivalent to approximately HK$90.2 million), which will be partly satisfied by cash of RMB32.0 million (equivalent to approximately HK$36.1 million) and by the issue of the first tranche of the convertible notes by the Company to CT of RMB8.0 million (equivalent to approximately HK$9.0 million) upon completion. The remaining up to RMB40 million (equivalent to approximately HK$45.1 million) will be satisfied by the issue of the second tranche convertible notes by the Company to CT in accordance with the Deferred Consideration Arrangement set out below:

(i) In the event that the audited consolidated profit after taxation and minority interests (but excluding any extraordinary or exceptional or non-recurring items that is outside its ordinary course of business) of or derived from the Transferred Assets ("Aggregate Net Profits") for 2009 and 2010 are equal to or more than RMB20 million, a sum equal to RMB40 million (equivalent to approximately HK$45.1 million) should be payable by the Purchaser to CT by procuring the Company to issue the convertible notes within 15 Business Days from 30 April 2011.

(ii) In the event that the Aggregate Net Profits for 2009 and 2010 are positive but less than RMB20 million, a sum equal to the Aggregate Net Profits multiplied by a factor of two shall be payable by the Purchaser to CT by procuring the Company to issue the convertible notes within 15 Business Days from 30 April 2011. No amount shall be payable by the Purchaser where the Aggregate Net Profits are equal to or less than zero.

For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the directors of the Company considered that it is probable that Chengtian Zhihong will meet the Aggregate Net Profits for 2009 and 2010. Accordingly, it is expected that the second tranche Convertible Notes of RMB40 million (equivalent to approximately HK$45.1 million) will be issued by the Company to CT. The directors of the Company estimate that the fair value of the liability portion and the conversion option of the convertible notes to be approximately HK$40.4 million and HK$13.7 million, respectively, which are separately recorded as financial liabilities and equity.

On the issuance of the convertible notes, the fair value of liability portion and conversion option of the convertible notes will have to be reassessed. In accordance with HKAS 32, as a result of the reassessment, their respective fair values may be different from the estimated amounts as shown above.

4 The adjustment represents the cash payment of RMB32.0 million (equivalent to approximately HK$36.1 million) to CT as part of the aggregate consideration of the Acquisition. The remaining balance of HK$2.8 million represents the provision of professional costs incurred that are directly attributable to the Acquisition.

5 The estimated goodwill is computed, based on the financial information of the Transferred Assets as set out in Appendix II of the Circular, as follows:

	RMB'000	*HK$'000*
Consideration payable by the Group (note 3)	80,000	90,240
Add: transaction costs (note 4)		2,800
		93,040
Less: combined net assets of the Transferred Assets (excluding assets and liabilities held for sale)	38,246	43,600
Estimated goodwill (note (a))		49,440

Note (a)

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the estimated goodwill is based on the consolidated net assets of the Transferred Assets (excluding assets and liabilities held for sale) of HK$43,600,000 at 31 December 2008 and no fair value adjustments have been taken into account in respect of the identifiable assets and liabilities of the Transferred Assets which would arise upon the completion of the proposed Acquisition.

The final amount of goodwill (or negative goodwill) will be determined based on the final consideration paid by the Group and the Group's interest in the fair value of the identifiable assets and liabilities of the Transferred Assets on the date of completion in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" ("HKFRS 3") issued by Hong Kong Institute of Certified Public Accountants. The Group will apply the purchase method to account for the proposed Acquisition in the consolidated financial statements of the Group.

Any fair value adjustments arising from the proposed Acquisition will affect the carrying amounts of the relevant assets and liabilities of the Transferred Assets to be consolidated in the financial statements of the Group upon the completion of the proposed Acquisition.

The final amount of goodwill, which may be different to the amount presented above, will be recorded by the Group on completion of the proposed Acquisition.

Goodwill arising from the Acquisition will be subject to annual impairment testing under HKFRS 3. Negative goodwill arising from the excess of the Group's interest in the fair value of the Transferred Assets' identifiable assets and liabilities over the cost of the consideration payable will be recognised immediately in the income statement.

6 The adjustment represents the elimination of assets and liabilities in respect of the non-film and television programme production related business of the Transferred Assets which will be transferred to CT by the Group upon the completion.

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 collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. INTEREST IN SECURITIES

(a) Interests and short positions of Directors and chief executive in shares and debentures

As at the Latest Practicable Date, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and the details of any right to subscribe for shares in the Company, which had 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 which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Capacity	*Note*	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of shareholding in the Company
Mr. Wu	Interest of controlled corporations	1	137,223,472(L) 40,871,599(S)	– –	137,223,472(L) 40,871,599(S)	74.87% 22.30%
George Huang Shao-Hua	Beneficial Owner	2	–	100,000(L)	100,000(L)	0.05%

Notes:

1. Mr. Wu was deemed to be interested in long positions of 137,223,472 Shares and short positions of 40,871,599 Shares by virtue of his 100% beneficial holding in each of Skyera International Limited ("Skyera"), Mainway Enterprises Limited ("Mainway"), Cyber International Limited ("Cyber"), and 80% beneficial holding in CT. Of these Shares, (a) long positions in 40,553,060 Shares were held by CT; (b) long positions in 37,798,813 Shares were held by Skyera; (c) long positions in 40,871,599 Shares and short positions in 40,871,599 Shares were held by Mainway; and (d) long positions in 18,000,000 Shares were held by Cyber.

2. These underlying Shares represented the Shares which will be issued upon the exercise of the share options granted by the Company under the share option scheme of the Company adopted by the shareholders of the Company at the special general meeting held on 28 November 2001 (the "Share Option Scheme").

Name	Date of grant of share option	Exercise price *HK$*	Exercise period	Number of share options outstanding as at 31 December 2008
George Huang Shao-hua	12 April 2007	3.93	1 July 2007 to 30 October 2011	100,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position 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) and the details of any right to subscribe for shares in the Company which had 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 the Director and the chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Notifiable interests and short positions of substantial shareholders and other persons in Shares

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company in accordance with disclosure by the substantial shareholders under Part XV of the SFO, the following substantial shareholders of the Company within the meaning of the Listing Rules and other persons (in each case other than the Directors and chief executive of the Company) had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	*Note*	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of shareholding in the Company
Skyera International Limited	Beneficial Owner		37,798,813(L)	–	37,798,813(L)	20.62%
Mainway Enterprises Limited	Beneficial Owner		40,871,599(L) 40,871,599(S)	– –	40,871,599(L) 40,871,599(S)	22.30% 22.30%
CT	Beneficial Owner		40,553,060(L)	–	40,553,060(L)	22.13%

Name of shareholder	Capacity	*Note*	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of shareholding in the Company
Wu King Shiu Kelvin	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
Chang Tat Joel	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
AID Partners Ltd.	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
AID Partners GP1, L.P.	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
AID Partners Capital 1, L.P.	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
AID Partners Asset Management Ltd.	Interest of controlled corporations	1	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
Billion Century Group Limited	Interest of controlled corporations	1, 2	164,223,472(L)	20,435,799(L)	184,659,271(L)	100.76%
NEC Corporation	Beneficial owner		36,000,000(L)	–	36,000,000(L)	19.64%
Cyber International Limited	Beneficial owner		18,000,000(L)	–	18,000,000(L)	9.82%

Notes:

1. Each of Mr. Wu King Shiu Kelvin and Mr. Chang Tat Joel were deemed to be interested in these 164,223,472 Shares and 20,435,799 underlying Shares by virtue of their direct or indirect beneficial holdings as to 60% and 40% respectively, in each of AID Partners Ltd., AID Partners GP1, L.P., AID Partners Capital I,L.P., AID Partners Assets Management Ltd. and Billion Century Group Limited ("BCG").

2. Of these 184,659,241 Shares, BCG was deemed to be interested in 123,351,873 Shares interested by Mr. Wu by virtue of the subscription agreement entered into between Mr. Wu and Mainway with BCG pursuant to which BCG had agreed to subscribe for and Mainway had agreed to issue exchangeable note into shares of Mainway to BCG for the funding arrangement in relation to the mandatory unconditional cash offer made by Somerley Limited on behalf of Skyera and Mainway for all outstanding convertible notes, share options of the Company and all the Shares (other than those already owned or agreed to be acquired by Skyera and Mainway and parties acting in concert with any of them).

Abbreviations:

"L" stands for long position

"S" stands for short position

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any substantial shareholder of the Company within the meaning of the Listing Rules or other person (in each case other than a Director or chief executive of the Company) who had, as at the Latest Practicable Date, an interest or a short position in Shares or underlying Shares which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

(c) Directors' employment with substantial shareholder

Mr. Wu is a director of CT, which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(d) Interests in 10% or more of shares in subsidiaries

As at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a member of the Group or a Director or chief executive of the Company) who was, as at the Latest Practicable Date, 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 subsidiaries of the Company or in any options in respect of such capital.

3. DIRECTORS' SERVICE CONTRACTS

Mr. Wu entered into a service agreement with the Company as an Acting Managing Director for a period of one year from 1 January 2009 to 31 December 2009. The annual remuneration of Mr. Wu is nil. Mr. Wu is entitled to housing allowance, motor vehicle allowance and bonus subject to the discretion of the Company by reference to his individual and the Company's performance and the profitability of the Company.

Ms. Fiona Chow Sau Fong ("Ms. Chow") entered into a service agreement with the Company as an Executive Director for a term of one year from 1 January 2009 to 31 December 2009. The annual remuneration of Ms. Chow is HK$1,400,000 and she is entitled to bonus subject to the discretion of the Company by reference to her individual and the Company's performance and the profitability of the Company.

Ms. Chan Suet Yin Winnie ("Ms. Chan") entered into a service agreement with the Company as the Chief Financial Officer for a term of one year from 1 September 2009 to 31 August 2010. The annual remuneration of Ms. Chan is HK$1,500,000 and she is entitled to bonus subject to the discretion of the Company by reference to her individual and the Company's performance and the profitability of the Company.

Save as disclosed above, none of the other directors have entered into any service contracts with the Company.

4. COMPETING INTERESTS

Save and except for Mr. Wu's interest in CT and Mr. Li Pei Sen, the non-executive director of the Company, being the associate chairman of CT, as at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group; and

(b) save and except for the respective equity interests of Mr. Wu and Ms. Wu in Chengtain Zhihong, none of the Directors had any direct or indirect interest in any assets which had been, since 30 June 2008 (the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

6. MATERIAL CONTRACT

The following contract, not being contract in the ordinary course of business, have been entered into by members of the Group, within the two years preceding the Latest Practicable Date and are or may be material:

The share and purchase agreement dated 13 February 2008 between Golden Harvest Cinemas Holding Limited, Global Entertainment and Management Systems Sdn Bhd (both are wholly-owned subsidiaries of the Company) and Tahjong Entertainment Sdn Bhd in respect of the disposal of an aggregate of 2,500,000 shares in TGV Cinemas Sdn Bhd ("TGV") for a consideration of approximately HK$96.5 million and the payment of a shareholders' loan in the sum of approximately HK$25.9 million by TGV.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2008, the date to which the latest published audited financial statements of the Company were made up.

8. LITIGATION

a. Golden Harvest (Shenzhen) Cinemas Co. Ltd. ("GH Shenzhen"), a wholly-owned subsidiary of the Company has filed an arbitration claim in the PRC against Shenzhen Coastal Estate Development Co. Ltd. ("Shenzhen Coastal Estate") for losses and damages in the sum of approximately HK$9,000,000 by reason of breach of the cinema management agreement by Shenzhen Coastal Estate and Shenzhen Coastal Estate disputed GH Shenzhen's claim and counterclaimed for a sum of approximately HK$9,000,000. The arbitration is still in progress. Based on legal advice provided by PRC lawyer, the Group has assessed the counterclaim and considers that the final outcome of the counterclaim will not have any material effect on the financial position of the Group.

b. Fu Wo Contracting Co. Ltd. has initiated legal proceeding against Golden Harvest Entertainment Co. Ltd. ("GHECL"), a wholly-owned subsidiary of the Group, claiming for the outstanding renovation costs of approximately HK$6,000,000 which are being disputed and defended by GHECL. The legal proceeding is still in progress. Based on the advice provided by the Group's legal adviser and upon assessment of the proposed claim, the Group considers that the claim will not have any material effect on the financial position of the Group.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

9. EXPERT AND CONSENT

(a) The following are the qualification of the experts who have given their opinions or advice which are contained in this circular:

Name	Qualification
OSK	a corporation licensed to carry out Type 1 (dealing in securities), and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountant

(b) As at the Latest Practicable Date, OSK and KPMG had no shareholding in any member of the Group and did not have 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) As at the Latest Practicable Date, OSK and KPMG had no direct or indirect interest in any assets which had been, since 30 June 2008 (the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

(d) OSK and KPMG have given and have not withdrawn their written consent to the issue of this circular with inclusion of their respective letters and the reference to their respective names included herein in the form and context in which they respectively appear.

10. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Cheung Wing Leung, solicitor of Hong Kong.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

(c) The principal place of business and head office of the Company in Hong Kong is at 16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsimshatsui, Kowloon, Hong Kong.

(d) The principal share registrar of the Company is Butterfield Fulcrum Group (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, HM08, Bermuda.

(e) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

11. GENERAL

In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company at 16th Floor, The Peninsula Office Tower from the date of this circular up to and including 20 July 2009:

(a) the bye-laws of the Company;

(b) the Agreement;

(c) the annual reports and the accounts of the Company for each of the two years ended 30 June 2007 and 2008 and the interim report and accounts of the Company for the six months ended 31 December 2007 and 2008;

(d) the accountants' report on Transferred Assets set out in Appendix II of this circular;

(e) the report from KPMG on the unaudited pro forma financial information of the Group dated 25 June 2009 as set out in Appendix III of this circular;

(f) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 23 of this circular;

(g) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 24 to 48 of this circular;

(h) the written consent referred to in the section headed "EXPERT AND CONSENT" in this appendix;

(i) the material contracts referred to in the section headed "MATERIAL CONTRACTS" in this appendix; and

(j) the service contracts referred to in the section headed "DIRECTORS' SERVICE CONTRACTS" in this appendix.

Golden Harvest Entertainment (Holdings) Limited
嘉禾娛樂事業(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code : 1132)

NOTICE IS HEREBY GIVEN that a special general meeting of Golden Harvest Entertainment (Holdings) Limited (the "**Company**") will be held at Jade Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong on Monday, 20 July 2009 at 2:30 p.m. for the following purposes:

ORDINARY RESOLUTION

1. As special business, to consider and, if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution of the Company:

"**THAT**:

(a) subject to the passing of the resolution numbered (b) set out below as an ordinary resolution, the Agreement (terms defined in the circular to the shareholders of the Company dated 25 June 2009 have the same meanings when used in this resolution), a copy of which marked "A" is produced at the meeting and signed by the Chairman of the meeting for the purpose of identification, and all transactions, matters and amendments contemplated thereby, and the execution, performance and implementation of the Agreement and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified;

(b) any director of the Company be and is hereby authorised on behalf of the Company to execute, perfect and deliver all such documents and do all such acts and things and any two directors or any director and the company secretary of the Company be and are hereby authorised to affix the Company's seal to all such documents and deliver the same as deeds of the Company, in any such case as may be necessary or desirable to implement or give effect to the terms of the Agreement and the transactions and ancillary agreements or documents contemplated thereunder (including without limitation, the execution of any deeds and/or documents and the exercise or enforcement of any right thereunder) and to make and agree such variations to the terms of the Agreement and ancillary agreements or documents contemplated thereunder as he, in his absolute discretion, may consider to be desirable, appropriate or necessary and in the interests of the Company;

(c) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the Conversion Shares to be issued pursuant to the Convertible Notes, the issuance of the Convertible Notes be and is hereby approved;

(d) any Director be and is hereby authorised to do all such acts and execute all such documents to effect the issuance of the Convertible Notes; and

(e) the Directors be and are hereby authorised, subject to compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to exercise all the powers of the Company to allot, issue and deal with the Conversion Shares pursuant to the issuance of the Convertible Notes."

By order of the Board
Cheung Wing Leung
Company Secretary

Hong Kong, 25 June 2009

Notes:

(a) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company but must attend the meeting in person to represent the appointing member.

(b) The instrument appointing a proxy and the power of attorney (if any) or other authority (if any), under which it is signed, or a certified copy thereof, must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.