**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or otherwise transferred** all your shares in BIG Media Group Limited, you should at once hand this document to the purchaser(s) or transferee(s) or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).



# BIG MEDIA GROUP LIMITED

# 天下媒體集團有限公司*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8167)**

# (I) SUBSCRIPTION OF NEW SHARES
# (II) APPLICATION FOR THE WHITEWASH WAIVER
# (III) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL
# (IV) CONTINUING CONNECTED TRANSACTIONS

**Financial adviser to BIG Media Group Limited**

**South China Capital Limited**

**Independent financial adviser to the Independent Board Committee and the Independent Shareholders**

**WALLBANCK BROTHERS**
**Securities (Hong Kong) Limited**

A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in respect of the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps is set out on page 27 of this document.

A letter from Wallbanck Brothers Securities (Hong Kong) Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps is set out on pages 28 to 54 of this document.

A notice convening an extraordinary general meeting of BIG Media Group Limited to be held at Conference Room, 5th Floor, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong on Thursday, 25 January 2007 at 3:00 p.m. is set out on pages 95 to 97 of this circular. A form of proxy for use at the extraordinary general meeting is also enclosed. Whether or not you are able to attend the extraordinary general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

* *for identification purposes only*

8 January 2007

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

# CONTENTS

*Page*

*In this circular, the following expressions have the meanings set out below unless the context otherwise requires:*

| | |
|---|---|
| "Announcement" | the announcement issued by the Company dated 27 November 2006 relating to the matters contained in this circular |
| "associate" | has the meaning ascribed to it under the GEM Listing Rules |
| "Board" | the board of Directors |
| "Business Day" | a day (other than any Saturday, Sunday or gazetted public holiday in Hong Kong) on which banks generally are open for business in Hong Kong |
| "Company" | BIG Media Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM |
| "Completion" | completion of the Subscription Agreements |
| "concert party(ies)" | has the meaning ascribed to it under the Takeovers Code |
| "connected person" | has the meaning ascribed to it under the GEM Listing Rules |
| "Continuing Connected Transactions" | the continuing connected transactions constituted by the Tenancy Agreement and the Distribution Agreement |
| "controlling shareholder" | has the meaning ascribed to it under the GEM Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Distribution Agreement" | the agreement dated 17 November 2006 entered into between the Company and Mei Ah Development Company Limited pursuant to which Mei Ah Development Company Limited is appointed as the sales agent of the Films |

| | |
|---|---|
| "EGM" | the extraordinary general meeting of the Company to be convened on Thursday, 25 January 2007 for the purposes of considering, among other things, (i) the Subscription Agreements, including the Share Subscription and the Whitewash Waiver; (ii) the proposed increase in authorized share capital of the Company; and (iii) the Distribution Agreement and its annual caps |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director |
| "Films" | the film library of 104 titles possessed by the Company and future titles to be acquired, produced, co-produced or controlled by the Company |
| "First Subscriber" or "Fintage" | Fintage Asia Corporation, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Mei Ah |
| "First Subscription Agreement" | the subscription agreement dated 17 November 2006 entered into between the Company and Fintage pursuant to which the Company agreed to issue and allot and Fintage agreed to subscribe 150,000,000 Subscription Shares for an aggregate consideration of HK$30,000,000 in cash |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Group" | the Company and its subsidiaries from time to time |
| "Hanny" | Hanny Holdings Limited (Stock code: 275), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |

| | |
|---|---|
| "Independent Board Committee" | the independent committee of the Board, comprising the independent non-executive Directors, namely Messrs. Lam Kin Kau, Mark, Law Kwok Leung, Fung Wing Keung, established for the purpose of advising the Independent Shareholders on the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps |
| "Independent Shareholders" | Shareholders who are not involved in, or interested in the Share Subscription, the Whitewash Waiver and the Continuing Connected Transactions (as the case may be) and who are not required to abstain from voting at the EGM on the resolutions to approve the Share Subscription and the Whitewash Waiver |
| "Independent Third Party(ies)" | person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is/are third party(ies) independent of the Company and its connected person(s) |
| "Latest Practicable Date" | 5 January 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular |
| "Mei Ah" | Mei Ah Entertainment Group Limited (Stock code: 391), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| "PRC" | People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan |
| "Premise" or "Property" | portion on 3/F, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong |
| "Second Subscriber" or "Richeast" | Richeast Holdings Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Hanny |

| | |
|---|---|
| "Second Subscription Agreement" | the subscription agreement dated 17 November 2006 entered into between the Company and Richeast pursuant to which the Company agreed to issue and allot and Richeast agreed to subscribe 38,000,000 Subscription Shares for an aggregate consideration of HK$7,600,000 in cash |
| "SFC" | the Securities and Futures Commission |
| "SFO" | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.20 each in the issued share capital of the Company |
| "Shareholder(s)" | the holder(s) of the Shares |
| "Share Subscription" | the subscription of the Subscription Shares by the Subscribers upon and subject to the terms and conditions of the Subscription Agreements |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscribers" | the First Subscriber, the Second Subscriber and the Third Subscriber |
| "Subscription Agreements" | the First Subscription Agreement, the Second Subscription Agreement and the Third Subscription Agreement |
| "Subscription Price" | the subscription price of HK$0.20 per Subscription Share |
| "Subscription Share(s)" | 225,000,000 new Shares to be issued by the Company to the Subscribers pursuant to the Subscription Agreements |
| "subsidiary" | has the meaning ascribed to it under the GEM Listing Rules |
| "substantial shareholder" | has the meaning ascribed to it under the GEM Listing Rules |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |

| | |
|---|---|
| "Tenancy Agreement" | the tenancy agreement dated 17 November 2006 entered into between Big Pictures Limited and Mei Ah Investment Company Limited |
| "Third Subscriber" or "Mr. Ma" | Mr. Ma Ho Man, Hoffman, an Independent Third Party |
| "Third Subscription Agreement" | the subscription agreement dated 17 November 2006 entered into between the Company and Mr. Ma pursuant to which the Company agreed to issue and allot and Mr. Ma agreed to subscribe 37,000,000 Subscription Shares for an aggregate consideration of HK$7,400,000 in cash |
| "Wallbanck Brothers" | Wallbanck Brothers Securities (Hong Kong) Limited, a licensed corporation under the SFO to carry on Types 4, 6 and 9 regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps |
| "Whitewash Waiver" | the waiver from the Executive pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "%" | per cent. |

# BIG MEDIA GROUP LIMITED
# 天下媒體集團有限公司*

*(incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8167)**

*Executive Directors:*
Mr. Lee Man Kwong
Ms. Xiong Jingling
Mr. Chan Kwok Sun, Dennis
Mr. Law Kwok Keung

*Independent non-executive Directors:*
Mr. Lam Kin Kau, Mark
Mr. Fung Wing Keung
Mr. Law Kwok Leung

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal Place of Business in Hong Kong:*
5/F, Fook Hing Factory Building
33 Lee Chung Street
Chaiwan
Hong Kong

8 January 2007

## (I) SUBSCRIPTION OF NEW SHARES
## (II) APPLICATION FOR THE WHITEWASH WAIVER
## (III) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL
## (IV) CONTINUING CONNECTED TRANSACTIONS

*To the Shareholders*

Dear Sir/Madam,

**INTRODUCTION**

In the Announcement, the Company announced that the Company entered into the Subscription Agreements on 17 November 2006 with the Subscribers whereby the Company agreed to issue and allot to the Subscribers and the Subscribers agreed to subscribe the Subscription Shares at the Subscription Price. Moreover, since the Subscribers and their concert parties will together hold approximately 77.41% of the enlarged issued share capital of the Company upon the issue and allotment of the Subscription Shares, the Subscribers and their concert parties will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive. The Subscribers and their concert parties have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the granting of which will be conditioned on the approval of the Independent Shareholders taken by way of poll at the EGM.

* *for identification purposes only*

It was also announced that the Directors propose to increase the Company's authorized share capital from HK$30,000,000 to HK$200,000,000, to be divided into 1,000,000,000 Shares, by the creation of an additional 850,000,000 unissued Shares.

In addition, the Company also announced the entering into of the Continuing Connected Transactions in the Announcement. On 17 November 2006, Big Pictures Limited and Mei Ah Investment Company Limited entered into the Tenancy Agreement for the lease of an office premise at the Premise. The Tenancy Agreement is for a term of thirty months at a monthly rental of HK$25,290. Upon Completion and after the Place Down (as will be defined in the section headed "RESTORATION OF PUBLIC FLOAT" in this circular), the Company will be owned as to approximately 30.63% by Mei Ah. As the applicable percentage ratios (except for the profits ratio and the equity capital ratio which is not applicable) for the Tenancy Agreement on an annual basis are, and are expected to be, less than 25% and the annual consideration for each of the three years ending 30 June 2007, 2008 and 2009 will not be higher than HK$10,000,000, the Tenancy Agreement is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules and are exempt from the independent shareholders' approval requirement pursuant to Chapter 20 of the GEM Listing Rules. On 17 November 2006, the Company also entered into the Distribution Agreement with Mei Ah Development Company Limited. Under the Distribution Agreement, Mei Ah Development Company Limited is appointed as the sole distributor of the Films. As aforementioned, Mei Ah will become a connected person of the Company upon Completion. Therefore, the Distribution Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors who are independent and not acting in concert with the Subscribers and their concert parties, namely Messrs. Lam Kin Kau, Mark, Fung Wing Keung, and Law Kwok Leung, has been formed to advise the Independent Shareholders in relation to the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps.

Wallbanck Brothers has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is:

(a) to provide you with further details of the Share Subscription, the Whitewash Waiver, the proposed increase in authorized share capital, and the Continuing Connected Transactions;

(b) to set out the recommendations of the Independent Board Committee to the Independent Shareholders; and

(c) to set out the advice of Wallbanck Brothers to the Independent Board Committee and the Independent Shareholders.

A notice for convening the EGM is set out on pages 95 to 97 of this circular.

**THE SUBSCRIPTION AGREEMENTS**

**(1) The First Subscription Agreement**

**Date:** 17 November 2006

**Issuer:** the Company

**Subscriber:** Fintage Asia Corporation, an indirect wholly-owned subsidiary of Mei Ah

Fintage, being the First Subscriber, is independent of and not connected with (under the GEM Listing Rules) any of the directors, chief executives, substantial shareholders and management shareholders of the Company, or any of its subsidiaries or their respective associates.

**(2) The Second Subscription Agreement**

**Date:** 17 November 2006

**Issuer:** the Company

**Subscriber:** Richeast Holdings Limited, an indirect wholly-owned subsidiary of Hanny

Richeast, being the Second Subscriber, is independent of and not connected with (under the GEM Listing Rules) any of the directors, chief executives, substantial shareholders and management shareholders of the Company, or any of its subsidiaries or their respective associates.

**(3) The Third Subscription Agreement**

**Date:** 17 November 2006

**Issuer:** the Company

**Subscriber:** Mr. Ma Ho Man, Hoffman

Mr. Ma, being the Third Subscriber, is independent of and not connected with (under the GEM Listing Rules) any of the directors, chief executives, substantial shareholders and management shareholders of the Company, or any of its subsidiaries or their respective associates.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the First Subscriber, the Second Subscriber and the Third Subscriber are independent of and not connected (under the GEM Listing Rules) with each other.

**THE SHARE SUBSCRIPTION**

Pursuant to the Subscription Agreements, the Company agreed to issue and allot to the Subscribers and the Subscribers agreed to subscribe a total of 225,000,000 Subscription Shares for an aggregate consideration of HK$45,000,000 in cash in the following manner:

**The First Subscription Agreement**

| | Number of Subscription Shares | Consideration *(HK$)* |
|---|---|---|
| The First Subscriber | 150,000,000 | 30,000,000 |

**The Second Subscription Agreement**

| | Number of Subscription Shares | Consideration *(HK$)* |
|---|---|---|
| The Second Subscriber | 38,000,000 | 7,600,000 |

**The Third Subscription Agreement**

| | Number of Subscription Shares | Consideration *(HK$)* |
|---|---|---|
| The Third Subscriber | 37,000,000 | 7,400,000 |

The Subscription Shares represent 225% of issued share capital of the Company as at the Latest Practicable Date and approximately 69.23% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares.

The Subscription Shares will rank pari passu in all respects among themselves and with all existing Shares, including the right to receive all future dividends and distributions declared, made or paid by the Company on or after the date of the issue and allotment of the Subscription Shares.

An application will be made to the Stock Exchange for the listing of, and permission to deal in the Subscription Shares.

**Subscription Price**

The Subscription Shares will be issued at par at HK$0.20 per Subscription Share. The Subscription Price represents:

(a) a discount of approximately 6.1% to the closing price of the Shares of HK$0.213 as quoted on the Stock Exchange as at the Latest Practicable Date;

(b) a premium of approximately 70.94% over the closing price of the Shares of HK$0.117 as quoted on the Stock Exchange on 17 November 2006, being the last trading day prior to the date of the Announcement;

(c) a premium of approximately 44.93% over the average closing price of the Shares of HK$0.138 as quoted on the Stock Exchange for the last 10 trading days up to and including 17 November 2006; and

(d) a premium of approximately 29.87% over the average closing price of the Shares of HK$0.154 as quoted on the Stock Exchange for the last 30 trading days up to and including 17 November 2006.

As at 30 June 2006, the Group's audited net liabilities per Share were amounted to approximately HK$0.12.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscribers, after taking into account of the Group's audited net liability position of approximately HK$11.97 million as at 30 June 2006, the loss incurred by the Company during the years ended 30 June 2005 and 30 June 2006 of approximately HK$55.29 million and HK$3.16 million respectively and the current operating and financial position of the Group. The Board, including the independent non-executive Directors, is of the view that the terms of the Subscription Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, as advised by the Subscribers, despite of the Group's net liability position as at 30 June 2006 and its net loss position in the recent two financial years as aforementioned, the Subscribers are of the view that there would be synergy effect in respect of the Company's film library and Mei Ah's distribution network and the value of the Company's films would be further enhanced and utilized. The Subscribers believe that those value of the Company's assets have not been fully reflected in the historical financial results of the Group. Furthermore, making use of the funds raised through the Share Subscription, the Subscribers believe that the working capital and the financial position of the Group would be strengthened and the Company would be able to operate in a more effective manner. In light of the above, the Subscribers are confident that the business performance of the Group would be enhanced in the coming future and hence consider that it is commercially justifiable in the long run to invest in the Company.

**Conditions Precedent**

Completion is conditional upon the fulfillment of the following conditions:

(a) the obtaining of the approval of the Independent Shareholders by way of poll at the EGM for the approval of the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Subscribers or their respective nominees in accordance with the terms and subject to the conditions of the Subscription Agreements;

(b) the obtaining of the approval of the Shareholders at the EGM entitled to vote for the proposed increase in the authorized share capital of the Company as detailed in the section headed "PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL" of this circular;

(c) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Subscription Shares;

(d) the Shares remaining listed and traded on GEM at all times prior to and on Completion, save for any temporary suspension not exceeding ten consecutive trading days (or such longer period as the Subscribers may reasonably accept in writing) or any temporary suspension in connection with the clearance by the Stock Exchange and the SFC of the Announcement;

(e) the granting of all other necessary approvals by relevant governmental and regulatory authorities and third party consents, approvals and filings in relation to the execution of the Subscription Agreements or the transactions contemplated thereunder; and

(f) if so required, approval being granted by the registrar of Cayman Islands for the proposed increase in the authorized share capital of the Company as detailed in the section headed "PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL" of this circular and the subsequent issue of the Subscription Shares.

None of the conditions above would be waived by the Subscribers and if any of the conditions precedent of the Subscription Agreements is not fulfilled on or before 31 January 2007 (or such longer period as the Subscribers may reasonably accept in writing), the Subscription Agreements will lapse.

In addition, the completion of the First Subscription Agreement is conditional upon the granting by the Executive of the Whitewash Waiver. While the completion of the Second Subscription Agreement and the Third Subscription Agreement is conditional upon the completion of the First Subscription Agreement, the completion of the First Subscription Agreement is not conditional on the completion of both of the Second Subscription Agreement and the Third Subscription Agreement.

**Completion**

The completion of the First Subscription Agreement will take place within three Business Days after fulfillment of all the conditions precedent of the First Subscription Agreement.

The completion of the Second Subscription Agreement and the Third Subscription Agreement will take place within three Business Days after the completion of the First Subscription Agreement and the fulfillment of all the conditions precedent of the Second Subscription Agreement and the Third Subscription Agreement respectively.

In any event, Completion shall not be later than 31 January 2007 (or such longer period as the Subscribers may reasonably accept in writing).

**REASONS FOR THE SHARE SUBSCRIPTION AND THE USE OF PROCEEDS**

As at 30 June 2006, the Group's audited net liabilities and net current liabilities were amounted to approximately HK$11.97 million and HK$10.32 million respectively. The Group's gearing ratio, as expressed as the ratio of total borrowings to total assets, was as high as approximately 186%. The Directors consider that the Share Subscription could strengthen the working capital and the liquidity of the Group and believe that the Share Subscription could better position the Group to encounter for the challenges of the existing operating environment. In addition, the shareholder base of the Company would also be broadened.

The gross proceeds from the Share Subscription would be approximately HK$45 million. The Company estimated the expenses related to the Share Subscription to be approximately HK$0.5 million. As such, the net proceeds from the Share Subscription would be approximately HK$44.5 million (equivalent to HK$0.198 per Subscription Share). The Company plans to use approximately HK$30 million of the cash injection for film production and the remaining of approximately HK$14.5 million for general working capital. The Directors may or may not utilize the net proceeds of approximately HK$14.5 million from the Share Subscription for repayment of the Group's borrowings depending on the liquidity position of the Group. Regarding film production, the Company plans to produce five to eight films each year, and currently two films are in the pre-production stage. As just mentioned, it is the intention of the Company to use the net proceeds from the Share Subscription for film production but the Company considers it to be impractical to estimate the number of films to be produced from the said net proceeds because the earnings from one film could be utilized to produce another film.

## CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a table showing the Company's shareholding structure (i) prior to the completion of the Subscription Agreements; (ii) subsequent to the completion of the Subscription Agreements and prior to the Place Down (as defined in the section headed "Restoration of public float" that follows); and (iii) subsequent to the completion of the Subscription Agreements and after the Place Down:

| | Prior to the completion of the Subscription Agreements | | Immediately subsequent to the completion of the Subscription Agreements and prior to the Place Down | | Immediately subsequent to the completion of the Subscription Agreements and after the Place Down | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| The First Subscriber | – | – | 150,000,000 | 46.15 | 99,568,349 | 30.63 |
| Shineidea Limited *(Notes 2 & 4)* | 17,081,651 | 17.08 | 17,081,651 | 5.26 | 17,081,651 | 5.26 |
| Millennium Target Holdings Limited *(Notes 3 & 4)* | 9,500,000 | 9.50 | 9,500,000 | 2.92 | 9,500,000 | 2.92 |
| The Second Subscriber *(Note 4)* | – | – | 38,000,000 | 11.69 | 38,000,000 | 11.69 |
| The Second Subscriber and Shineidea Limited and Millennium Target Holdings Limited | 26,581,651 | 26.58 | 64,581,651 | 19.87 | 64,581,651 | 19.87 |
| The Third Subscriber | – | – | 37,000,000 | 11.39 | 37,000,000 | 11.39 |
| Subtotal | 26,581,651 | 26.58 | 251,581,651 | 77.41 | 201,150,000 | 61.89 |
| Sparkle China Development Limited *(Note 1)* | 42,600,000 | 42.60 | 42,600,000 | 13.11 | 42,600,000 | 13.11 |
| Public Shareholders | 30,818,349 | 30.82 | 30,818,349 | 9.48 | 81,250,000 | 25.00 |
| Total | 100,000,000 | 100.00 | 325,000,000 | 100.00 | 325,000,000 | 100.00 |

*Notes:*

(1) Sparkle China Development Limited is a substantial shareholder of the Company prior to and immediately subsequent to Completion and is not a concert party of the Subscribers. As at the Latest Practicable Date, Sparkle China Development Limited is owned as to 70% and 30% by Mr. Lee Man Kwong and Ms. Xiong Jingling respectively.

(2) Shineidea Limited is a wholly-owned subsidiary of See Corporation Limited (Stock code: 491), a company whose shares are listed on the Main Board of the Stock Exchange and is owned as to approximately 17.98% by Hanny.

In addition, Hanny also holds HK$170 million convertible note issued by See Corporation Limited.

According to the annual report of See Corporation Limited, on 11 August 2005, See Corporation Limited entered into a loan agreement with ITC Management Limited ("ITC Management"), a wholly-owned subsidiary of ITC Corporation Limited (Stock code: 372), the substantial shareholder of Hanny, for a loan facility in the principal amount of HK$25,000,000. See Corporation Limited further entered into a supplemental loan agreement with ITC Management, pursuant to which ITC Management has agreed to increase the loan facility by HK$84,000,000 from the initial principal amount of HK$25,000,000 to HK$109,000,000.

The aforementioned short-term loan is unsecured, chargeable with interest at 2% over the best lending rate of Hong Kong Dollar and repayable on demand. On 28 July 2006, an amount of HK$109,000,000 was repaid by See Corporation Limited to ITC Management.

(3) Millennium Target Holdings Limited is a wholly-owned subsidiary of Wing On Travel International Limited which in turn is a wholly-owned subsidiary of Wing On Travel (Holdings) Limited ("Wing On") (Stock code: 1189), a company whose shares are listed on the Main Board of the Stock Exchange and is an associate of Hanny.

(4) Both of Shineidea Limited and Millennium Target Holdings Limited are concert parties of the Second Subscriber.

Immediately upon Completion, the Subscribers and their concert parties will together be interested in an aggregate of 251,581,651 Shares, representing approximately 77.41% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares.

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or other securities that are convertible into the Shares.

**RESTORATION OF PUBLIC FLOAT**

It is the intention of the Directors to maintain the listing of the Company on GEM upon Completion. As shown in the table under the section headed "CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY" above, immediately upon Completion, the public float would drop to approximately 9.48%. Accordingly, the First Subscriber has given an undertaking to the Stock Exchange to place down (the "Place Down") part of the Subscription Shares which it held, being a minimum of 50,431,651 Shares in total and representing approximately 15.52% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares, to Independent Third Parties in order to restore the minimum public float of the Company to 25% or more within two Business Days from the date of the Completion. In this regard, Mei Ah and the First Subscriber also confirmed that they have undertaken to the Stock Exchange to approach independent placing agent(s) to arrange for the Place Down within two Business Days from the date of the Completion in order to restore the said minimum public float. After the Place Down takes place and in the event that the First Subscriber places down the minimum of 50,431,651 Shares, the First Subscriber will be holding 99,568,349 Shares, representing approximately 30.63% of the enlarged issued share capital of the Company, and hence will remain as the controlling shareholder of the Company after the Place Down. As confirmed by the directors of Mei Ah, it is their intention that the First Subscriber will be the controlling shareholder of the Company. In addition, the Company has also undertaken to the Stock Exchange that the Company will restore the minimum public float of the Company to 25% or more within two Business Days from the date of the Completion.

The Company will request suspension of trading in the Shares upon Completion pending the release of an announcement in relation to the restoration of the public float of the Company, if necessary.

Moreover, in the event that the Company fails to maintain the minimum public float after the Share Subscription for whatever reasons, the Company will inform the Shareholders by way of an announcement.

In addition, the Stock Exchange has stated that it will closely monitor trading in the Shares on GEM and if, upon Completion, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

– a false market exists or may exist in the trading in the Shares; or

– there are too few Shares in public hands to maintain an orderly market;

then it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

**TAKEOVERS CODE IMPLICATIONS**

The Executive is of the view that the First Subscriber, the Second Subscriber, the Third Subscriber and their concert parties are acting in concert in respect of the control of the Company. Their aggregate shareholding after Completion and prior to the Place Down and after the Place down will be approximately 77.41% and 61.89% respectively.

As just mentioned, upon Completion, the Subscribers and their concert parties will be interested in an aggregate of 251,581,651 Shares, representing approximately 77.41% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares. Accordingly, the Subscribers and their concert parties will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive. The Subscribers and their concert parties have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the granting of which will be conditioned on the approval of the Independent Shareholders taken by way of poll at the EGM.

If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the Subscribers and their concert parties are expected to hold approximately 61.89% of the then enlarged issued share capital of the Company upon Completion and after the Place Down. Therefore, upon Completion and after the Place Down, the Subscribers and their concert parties may increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make an unconditional mandatory general offer.

The Executive has indicated that it would grant the Whitewash Waiver to the Subscribers and their concert parties subject to the condition that the Whitewash Waiver is approved by the Independent Shareholders by way of poll. The granting of the Whitewash Waiver by the Executive is one of the conditions precedent of the First Subscription Agreement which cannot be waived by the First Subscriber. If the Whitewash Waiver is not granted, the First Subscription Agreement will lapse. Since the completion of both of the Second Subscription Agreement and the Third Subscription Agreement is conditional upon the completion of the First Subscription Agreement, in the event that the Whitewash Waiver is not granted, both of the Second Subscription Agreement and the Third Subscription Agreement will lapse and the Share Subscription will not proceed. If the Whitewash Waiver is granted, the Subscribers and their concert parties will not be required to make the mandatory general offer as aforementioned to the Shareholders under Rule 26 of the Takeovers Code resulting from the issue and allotment of the Subscription Shares.

## INFORMATION ON THE GROUP

The Group is principally engaged in the production of movies and distribution of copyright and film rights in respect of movies produced by the Group to overseas countries and in Hong Kong.

The audited consolidated turnover of the Group for the years ended 30 June 2006 and 30 June 2005 were approximately HK$4.10 million and HK$1.76 million respectively. The unaudited consolidated turnover of the Group for the three months ended 30 September 2006 was approximately HK$3.07 million. The audited consolidated net loss attributable to the shareholders of the Company for the years ended 30 June 2006 and 30 June 2005 were approximately HK$3.16 million and HK$55.29 million respectively. The unaudited consolidated net loss attributable to the shareholders of the Company for the three months ended 30 September 2006 was approximately HK$1.14 million.

The audited consolidated net liabilities of the Group as at 30 June 2006 and 30 June 2005 were approximately HK$11.97 million and HK$23.73 million respectively.

## INFORMATION ON THE SUBSCRIBERS

### The First Subscriber

Fintage is a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Mei Ah. The director of Fintage is Mr. Li Kuo Hsing. The principal business of Fintage is investment holding and it has not carried out any business since its incorporation apart from those relating to the Share Subscription.

Mei Ah is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and is principally engaged in distribution and licensing of film and television programme to distributors and television operators in Hong Kong and overseas. Mei Ah also provides satellite and broadband TV services through its wholly-owned subsidiaries, MATV Limited and MATV (Asia) Limited. As at the Latest Practicable Date, the board of directors of Mei Ah comprises Messrs. Li Kuo Hsing, Tong Hing Chi and Chau Kei Leung as executive directors; Mr. Chan Ngan Piu as non-executive director and Mr. Cheung Yui Kai, Warren, Ms. Wang Huarong and Mr. Cheung Ming Man as independent non-executive directors.

**The Second Subscriber**

The Second Subscriber is a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Hanny. The directors of the Second Subscriber are Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard. The principal business of Richeast is investment holding and it has not carried out any business since its incorporation apart from those relating to the Share Subscription.

Hanny is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and is principally engaged in the trading of securities, property investment and trading, holding of vessel for sand mining and other strategic investments. As at the Latest Practicable Date, the board of directors of Hanny comprises Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard as executive directors, and Messrs. Kwok Ka Lap, Alva, Wong King Lam, Joseph and Sin Chi Fai as independent non-executive directors.

Whole Good Limited, an indirect wholly-owned subsidiary of Hanny, is the holder of the convertible notes issued by Mei Ah with the principal amount of HK$50 million and if the convertible notes held by Hanny are being converted into shares of Mei Ah, Hanny will be interested in approximately 12.1% of the issued share capital of Mei Ah as enlarged by the said conversion.

**The Third Subscriber**

Mr. Ma, an Independent Third Party, has been working for Success Securities Limited since 2000 and is now a managing director of the same. He is a representative licensed by the SFC to carry on Type 1 regulated activity.

As advised by Mr. Ma, Success Securities Limited is the securities broker for Hanny and some of its subsidiaries and the respective subsidiaries of Wing On and See Corporation Limited. Success Securities Limited was also the sub-placing agent and the placing agent of Wing On in two of its placing exercises which took place in around February 2005 and March 2006 respectively. Moreover, Success Securities Limited had involved in two equity fund raising exercises of See Corporation Limited as underwriter and placing agent respectively in April 2006.

Mr. Ma is the holder of the convertible bonds issued by Hanny with the principal amount of HK$20,703,000 and if the convertible bonds held by Mr. Ma are being converted into shares of Hanny, Mr. Ma will be interested in approximately 0.9% of the issued share capital of Hanny as enlarged by the said conversion.

In addition, Mr. Ma is holding 1,782,389 shares of See Corporation, 21,053,000 shares of Wing On and 43,019,289 shares of ITC Corporation Limited, representing approximately 1.38%, 3.45% and 2.34% of the issued share capital of these three companies respectively.

**DEALINGS IN THE SHARES IN THE PAST SIX MONTHS**

As at the Latest Practicable Date, the Second Subscriber has no shareholding in the Company whereas its concert parties, namely Shineidea Limited and Millennium Target Holdings Limited, are in aggregate interested in approximately 26.58% of the existing issued share capital of the Company.

Save as disclosed above, other than the Subscription Shares, neither the Subscribers nor their concert parties (including the directors of the Subscribers) was interested in any Shares, options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date, nor had they dealt in any securities of the Company during the six months prior to the date of the Subscription Agreements and up to the Latest Practicable Date.

**FUTURE INTENTIONS OF THE SUBSCRIBERS**

It is the intention of the Subscribers to continue the development of the existing business of the Company in production of films. The Subscribers will conduct a review of the financial position and operations of the Company with a view to further enhancing the future development of the Company. The Subscribers may also explore new investment opportunities for the benefit of the Company as the opportunities arise. As at the Latest Practicable Date, the Subscribers have no plan for any future acquisition or disposal of assets of the Company. The Subscribers have no intention to make any major changes to the business, including redeployment of the fixed assets and employees of the Company or its subsidiaries. As aforementioned, the Subscribers also confirmed that they intend to maintain the listing of the Shares on GEM and that they have no intention to transfer, charge or pledge the Shares to be acquired in pursuance of the Share Subscription to any other person (save as for the restoration of the public float as mentioned in the section headed "RESTORATION OF PUBLIC FLOAT" of this circular.)

**PROPOSED CHANGE OF BOARD COMPOSITION**

Under the terms of the Subscription Agreements, upon Completion or the earliest time permitted under the Takeovers Code or by the Stock Exchange or the SFC, whichever is the latest, the Subscribers are entitled to appoint new Directors into the Board. As at the Latest Practicable Date, the Subscribers do not have any specific plan to appoint new Directors into the Board and no existing Directors will resign from the Board.

## FUND RAISING ACTIVITY OF THE COMPANY CONDUCTED IN THE PAST 12 MONTHS

| Date of announcements | Description of capital raising exercise | Intended use of proceeds | Actual use of proceeds |
|---|---|---|---|
| 7 October 2005/ 7 December 2005 (results announcement) | 80,000,000 rights shares at the subscription price of HK$0.20 per rights shares (in the proportion of four rights shares for every one consolidated share held) | Approximately HK$14.5 million for general working capital | (a) HK$9,850,000 towards repayment of loans (b) HK$4,110,000 towards investments in film (c) HK$952,164 towards expenses on the Company's daily operations |

Save and except for the rights issue as detailed above, the Company has not conducted any equity-related fund raising exercise during the past 12 months immediately prior to the Latest Practicable Date.

## PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorized share capital of the Company is HK$30,000,000, being divided into 150,000,000 Shares of par value of HK$0.20 each. Of the total number of authorized Shares, 100,000,000 Shares have been issued and fully paid or credited as fully paid. In order to facilitate the Share Subscription and to accommodate the future expansion and growth of the Group, the Directors propose to increase the Company's authorized share capital from HK$30,000,000 to HK$200,000,000, to be divided into 1,000,000,000 Shares, by the creation of an additional 850,000,000 unissued Shares.

The increase in the authorized share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

## CONTINUING CONNECTED TRANSACTIONS

The Company intends to conduct the following continuing connected transactions pursuant to the agreements as detailed below:

### (1) TENANCY AGREEMENT DATED 17 NOVEMBER 2006

| | |
|---|---|
| **Landlord:** | Mei Ah Investment Company Limited, a wholly-owned subsidiary of Mei Ah |
| **Tenant:** | Big Pictures Limited, an indirect wholly-owned subsidiary of the Company |
| **Premise:** | Portion on 3/F, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong |
| **Lettable area:** | 2,810 square feet |
| **Term:** | 1 January 2007 to 30 June 2009 (both days inclusive), renewable upon mutual agreement by the landlord and the tenant |
| **Rent:** | HK$25,290 per month (i.e. HK$303,480 per annum). The rental is inclusive of management fees (if any), rates, air-conditioning, electricity charge and exclusive of all other outgoings |
| **Deposit:** | HK$50,580 (equivalent to two months' rent) |

**Annual Caps**

The cap amount is determined by reference to the total rental payments under the Tenancy Agreement and with reference Rule 20.34 of the GEM Listing Rules. The cap amount for the Tenancy Agreement for year ending 30 June 2007 will be HK$151,740 and for each of the years ending 30 June 2008 and 2009 will be HK$303,480. The annual cap for the Tenancy Agreement was determined based on the actual annual rent payable by Big Pictures Limited pursuant to the Tenancy Agreement.

The terms of the Tenancy Agreement were arrived at after arm's length negotiations which are on normal commercial terms. The rent in relation to the Tenancy Agreement was determined by reference to open market rent as at 15 November 2006 as valued by Memfus Wong Surveyors Limited, an independent property valuer. The Directors (including the independent non-executive Directors) consider that the Tenancy Agreement is on normal commercial terms, in the normal course of business, fair and reasonable and in the interests of Company and the Shareholders as a whole.

**Reasons for entering into the Tenancy Agreement**

The Directors are of the opinion that the leasing of the Property is on normal commercial terms and in the usual and ordinary course of business of the Company and is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Currently, overseas and local film buyers always visit Mei Ah and the Premise and thus the Directors believe that it would create opportunities for the Company to meet those buyers to discuss about film co-production and licensing if the Company's operations are set up in the Premise. According to the Directors, the Company would relocate from its existing office to the Premise. Upon Completion and after the Place Down, the Company will be owned as to approximately 30.63% by Mei Ah. In addition, as the applicable percentage ratios (except for the profits ratio and the equity capital ratio which is not applicable) for the Tenancy Agreement on an annual basis are expected to be less than 25% and the annual consideration of the Tenancy Agreement for each of the three years ending 30 June 2007, 2008 and 2009 will not be higher than HK$10,000,000, the Tenancy Agreement is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirement pursuant to Chapter 20 of the GEM Listing Rules.

If in the future any applicable percentage ratio exceeds the then applicable threshold of transactions exempt from independent shareholders' approval, the Company will comply with the then applicable requirements governing connected transactions under the GEM Listing Rules, including but not limited to the independent shareholders' approval requirement.

**(2) DISTRIBUTION AGREEMENT DATED 17 NOVEMBER 2006**

**Parties:** the Company and Mei Ah Development Company Limited ("Mei Ah Development"), a wholly-owned subsidiary of Mei Ah

**Term:** 1 January 2007 to 30 June 2009

**Condition:** The Independent Shareholders approving, confirming and/or ratifying the agreement and the transactions contemplated therein in accordance with the GEM Listing Rules. If the condition thereunder the Distribution Agreement cannot be fulfilled on or before the commencement date of the Distribution Agreement or such later date as the Company and Mei Ah Development may agree in writing, the Distribution Agreement shall terminate on the commencement date or such later date as agreed by the parties and thereafter all rights and obligations of the parties under the Distribution Agreement shall cease and determine.

Pursuant to the Distribution Agreement, Mei Ah Development is appointed by the Company as the sales agent of the Films and is granted the exclusive marketing and distributing rights to market and license the Films now owned or later owned by the Company for a term of thirty months. The Company is principally engaged in the entertainment business specializing in the production of films. Mei Ah is engaged in the business of motion picture and television program production and distribution and therefore Mei Ah has already possessed a well-established distribution and sales agency capability and resources. With such capability and resources, Mei Ah would be able to widen the distribution channel for the Company, therefore, additional revenue and income could be generated under the Distribution Agreement for the Company. The Directors consider that it is fair and reasonable, in the interests of the Company and the Shareholders as a whole and a normal business practice for the Company to enter into such kind of distribution agreement for a considerable period. Accordingly, after arm's length negotiations, the period of the Distribution Agreement is fixed at thirty months. Upon Completion and after the Place Down, the Company will be owned as to approximately 30.63% by Mei Ah. Therefore, the provision of sales agency services by Mei Ah Development to the Company under the Distribution Agreement constitutes a non-exempt continuing connected transaction for the Company under the GEM Listing Rules based on the calculations of the percentage ratio and is therefore subject to the reporting, announcement and independent shareholders' approval requirements as set out in Rules 20.45 to 20.48 of the GEM Listing Rules.

Under the Distribution Agreement, the Company will grant to Mei Ah Development and Mei Ah Development will accept the sole and exclusive rights to distribute the Films worldwide in the following way:

| **The right** | **Agency fee rate** |
|---|---|
| Distribution in respect of theatrical rights, non-theatrical rights, video rights, pay television rights, free television rights, pay per view rights, video on demand rights, hotel rights, ship rights, broadband TV rights, IPTV rights, download to own rights, internet rights, the new media rights, remake, sequel, prequel, spin-off rights, the merchandising rights, the publishing rights, the music rights, the soundtrack rights. | 5% of the gross revenue from licensing of the Films. (No distribution commission will be charged by Mei Ah Development in respect of income from the Hong Kong theatrical box office) |

According to the Company, most of the Company's existing products are tele-features and hence the Company's existing distribution network is limited to smaller size distributors. Upon signing of the Distribution Agreement, Mei Ah Development will become the sole distributor of the Company's films pursuant to the terms of the Distribution Agreement. As confirmed by the Company and the directors of Mei Ah, Mei Ah had represented the Company to distribute some of the Company's films and tele-features during the period from March 2005 to June 2006 and a total commission of approximately HK$828,000, being 20% of the gross revenue from licensing of the films and tele-features, had been paid by the Company to Mei Ah. The provision of sales agency services by Mei

Ah to the Company under the Distribution Agreement is in the ordinary and usual course of business of the Company and Mei Ah. The terms of the Distribution Agreement, including but not limited to the agency fee rate and the term of the Distribution Agreement, were negotiated on arm's length basis and are based on industry practice in Hong Kong.

As required under Rule 20.35(2) of the GEM Listing Rules, an annual cap for the three years ending 30 June 2007, 2008 and 2009 for the Distribution Agreement will be set at HK$1,000,000, HK$3,600,000 and HK$3,700,000 respectively, the annual cap for the Distribution Agreement was determined based on the estimated gross receipts earned by Mei Ah which is in turn derived based on a 5% agency fee of the estimated gross revenue from licensing of the Films excluding Hong Kong theatrical income (which accounts for approximately 15% of the total estimated gross revenue) from films to be produced during the two and a half year period from 1 January 2007 to 30 June 2009. The estimated gross revenue from the films to be produced by the Company was calculated based on the assumption that each film to be produced will make a 15% profit margin on top of the production cost for each film. The second and the third year annual cap is significantly larger than the first year annual cap because the Company plans to produce more films in the two financial years ending 30 June 2009. The Company and the directors of Mei Ah both confirmed that the agency fee rate was negotiated on arm's length basis and is based on industry practice of Hong Kong. In general, distribution commission of similar nature ranges from 5% to 20%, which is comparable to the agency fee rate as stipulated in the Distribution Agreement. In addition, there is a substantial increment of the cap for the Distribution Agreement for the years ending 30 June 2008 and 2009 mainly because the Company expects to produce more new films in 2008 having taken into account the potential synergy effect between the Company and Mei Ah and the improvement in the working capital and financial position as well as the operation of the Group upon Completion as detailed in the section headed "SUBSCRIPTION PRICE" of this circular. However, due to the characteristic of the film production industry, the Company has no concrete film production plan for 2008 as at the Latest Practicable Date.

**Reasons for entering into the Distribution Agreement**

As set out above, Mei Ah is engaged in the business of motion picture and television program production and distribution and therefore Mei Ah has already possessed a well-established distribution and sales agency capability and resources. With such capability and resources, Mei Ah would be able to widen the distribution channel for the Company, therefore, it is expected that additional revenue and income would be generated under the Distribution Agreement for the Company. Accordingly, the Directors (including the independent non-executive Directors) consider that it is fair and reasonable, in the interests of the Company and the Shareholders as a whole and a normal business practice for the Company to enter into the Distribution Agreement.

The entering into the Tenancy Agreement and the Distribution Agreement will not be conditional upon completion of the Share Subscription. Therefore, in the event that the Share Subscription does not proceed and the entering into the Tenancy Agreement and the Distribution Agreement do proceed, these will not constitute Continuing Connected Transactions of the Company.

## ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors shall review annually the Continuing Connected Transactions and confirm in the Company's annual report for the year in question that the Continuing Connected Transactions have been entered into:

(i) in the usual course of business of the Company;

(ii) either on normal commercial terms or, if there is no available comparison, on terms that are no less favorable than terms available to or from Independent Third Parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The auditors of the Company shall review annually the Continuing Connected Transactions and confirm in a letter to the Directors (a copy of which shall be provided to the Stock Exchange) in respect of each relevant financial year, that the Continuing Connected Transactions:

(i) have received the approval of the Directors (including the independent non-executive Directors);

(ii) are in accordance with the pricing policies as stated in the relevant agreements;

(iii) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and

(iv) each of the Continuing Connected Transactions has not exceeded their respective cap amount.

## BUSINESS REVIEW AND PROSPECT OF THE GROUP

As aforementioned, the Group is principally engaged in the production of movies and distribution of copyright and film rights in respect of movies produced by the Group or other movie producer to overseas countries and in Hong Kong.

After the completion of the Share Subscription, the capital base and the liquidity of the Group would be strengthened and the Group would be in a better position to encounter the future challenges of the film industry. With the proceeds of the Share Subscription, the Company plans to produce five to eight films each year. Further, with the joining of Mei Ah, the Company believes that there would be synergy effect in respect of the Company's film library and the Company's distribution network. As such, the value and earning power of the Company's films (both in the present film library and future production) would be further enhanced and the Group's resources would be better utilized.

On top of the above, the working capital and the financial position of the Group would be greatly improved and strengthened, and the Company would be able to operate in a more effective manner.

**EGM**

An EGM will be held to consider and, if thought fit, approve the resolutions by way of poll except for resolution (ii) as listed below, amongst others, in respect of (i) the transactions contemplated under the Subscription Agreements, including the Share Subscription and the Whitewash Waiver; (ii) the proposed increase in authorized share capital of the Company; and (iii) the Distribution Agreement and its annual caps. Mr. Lee Man Kwong, Sparkle China Development Limited, Shineidea Limited and Millennium Target Holdings Limited, their respective associates, and their respective concert parties shall abstain from voting on the resolutions to approve the Share Subscription and the Whitewash Waiver. Since no Shareholders is interested in the Distribution Agreement, no Shareholder shall abstain from voting on the resolution to approve the Distribution Agreement and its annual caps at the EGM.

**POLL PROCEDURE**

Pursuant to Article 66 of the articles of association of the Company, at any general meeting a resolution put to vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

– the chairman of such meeting; or

– at least three Shareholders present in person or in the case of a Shareholders being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

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

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

**RECOMMENDATION**

The Directors (including the independent non-executive Directors) after taking into account the advice from Wallbanck Brothers, are of the opinion that the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps are in the interests of the Company and the Shareholders as a whole and the Directors consider that the terms of the Subscription Agreements and the Distribution Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Directors recommended you to vote in favour of all resolutions to be proposed at the EGM.

Mr. Lee Man Kwong and Ms. Xiong Jingling, the Directors who have interests in the Shares, indicate that they would, in respect of their respective beneficial shareholdings, vote in favour of all the resolutions to be proposed at the EGM other than those who should abstain from voting. The Company has confirmed that Mr. Lee Man Kwong is not directly interested in the Share Subscription and the Whitewash Waiver although he was involved in the negotiations of the same. However, as a Shareholder by virtue of his interests in Sparkle China Development Limited, Mr. Lee Man Kwong is indirectly interested in the Share Subscription and the Whitewash Waiver and accordingly, he is not considered to be an independent shareholder of the Company for the purpose of the voting to approve the Share Subscription and the Whitewash Waiver.

**GENERAL**

Your attention is drawn to the letter from the Independent Board Committee set out on page 27 of this circular and the letter of advice received from Wallbanck Brothers on pages 28 to 54 of this circular. Your attention is also drawn to the additional information set out in the appendices to this circular.

The Board strongly advises the Independent Shareholders to read each of these letters and the appendices before reaching a decision in respect of the resolutions to be proposed at the EGM.

Yours faithfully,
By Order of the Board
**BIG Media Group Limited**
**Mr. Lee Man Kwong**
*Director*

# BIG MEDIA GROUP LIMITED
# 天下媒體集團有限公司*

*(incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8167)**

8 January 2007

*To the Independent Shareholders*

Dear Sir or Madam,

## SUBSCRIPTION OF NEW SHARES
## APPLICATION FOR THE WHITEWASH WAIVER
## THE DISTRIBUTION AGREEMENT AND ITS ANNUAL CAPS

As the Independent Board Committee, we have been appointed to advise you in connection with the Share Subscription, the Whitewash waiver, and the Distribution Agreement and its annual caps, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 8 January 2007, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Subscription Agreements (including the Whitewash Waiver), the terms of the Distribution Agreement and its annual caps and the advice of Wallbanck Brothers in relation thereto as set out on pages 28 to 54 of this circular, we are of the opinion that the Share Subscription, the Whitewash Waiver, and the Distribution Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the resolutions to be proposed at the EGM to approve the Share Subscription, the Whitewash waiver, and the Distribution Agreement and its annual caps.

Yours faithfully,
**Lam Kin Kau, Mark**
**Law Kwok Leung**
**Fung Wing Keung**
*Independent Board Committee*

* *for identification purposes only*

*Set out below is the text of a letter received from Wallbanck Brothers to the Independent Board Committee and the Independent Shareholders regarding the subscription of New Shares, Application for the Whitewash Waiver and the Distribution Agreement and its annual caps prepared for the purpose of inclusion in the Circular.*

**WALLBANCK BROTHERS**
**Securities (Hong Kong) Limited**

1005B, Tower 1, Lippo Centre,
89 Queensway, Central,
Hong Kong

8 January 2007

*To the Independent Board Committee and the Independent Shareholders of BIG Media Group Limited*

Dear Sirs,

**SUBSCRIPTION OF NEW SHARES,
APPLICATION FOR THE WHITEWASH WAIVER,
THE DISTRIBUTION AGREEMENT AND ITS ANNUAL CAPS**

**INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription of New Shares, Application for the Whitewash Waiver, the Distribution Agreement and its annual caps, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular to the Shareholders dated 8 January 2007 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires the otherwise.

On 17 November 2006, the Company entered into three Subscription Agreements with the Subscribers whereby the Company agreed to issue and allot to the Subscribers and the Subscribers agreed to subscribe the Subscription Shares at the Subscription Price. Moreover, since the Subscribers and their concert parties will together hold approximately 77.41% of the enlarged issued share capital of the Company upon the issue and allotment of the Subscription Shares, the Subscribers and their concert parties will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with the relevant rule has been obtained from the Executive. The Subscribers and their concert parties have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the grant of which, if successfully applied for, will be subject to approval by the Independent Shareholders on a vote by way of poll at the EGM.

On 17 November 2006, the Directors announced that, amongst other things, the Distribution Agreement was entered into between the Company and Mei Ah. As they would be, upon the completion of the aforementioned Share Subscription, the Company is owned as to 46.15% by Mei Ah. Therefore, Mei Ah will become a connected person of the Company as in the Distribution Agreement and hence it constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscription of New Shares, Application for the Whitewash Waiver, the Distribution Agreement and its annual caps. We have been appointed by the Independent Board Committee to advise the Independent Board Committee as to: (i) whether the terms of the Subscription of New Shares and Application for the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole; and (ii) whether the Distribution Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole; and further to give our opinions for the Independent Board Committee's consideration in making their recommendation to the Independent Shareholders as to whether or not the Independent Shareholders should approve the Subscription of New Shares, Application for the Whitewash Waiver, the Distribution Agreement and its annual caps at the EGM.

Messrs. Lam Kin Kau, Mark, Fung Wing Keung and Law Kwok Leung, who are all independent non-executive Directors, have confirmed to the Company their nil interests in the Company and that they are independent with respect to the Subscription of New Shares, Application for the Whitewash Waiver, the Distribution Agreement and its annual caps. Accordingly, the Independent Board Committee comprises Messrs. Lam Kin Kau, Mark, Fung Wing Keung and Law Kwok Leung.

**BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in the Circular were true and accurate at the time they were made and will continue to be accurate at the date of the dispatch of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company, or their respective subsidiaries or associated companies.

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision or opportunity or projects undertaken or be undertaken by the Company. Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision or opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinions, we have made reference to analysis on comparables on a non-exhaustive, best knowledge and endeavour basis.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the Latest Practicable Date.

Our opinions are formulated only and exclusively for the purpose of Subscription of New Shares, Application for the Whitewash Waiver, the Distribution Agreement and its annual caps and shall not be used for any comparison purpose in any circumstance nor with any other opinions.

## (I) THE SUBSCRIPTION OF NEW SHARES & APPLICATION FOR THE WHITEWASH WAIVER

**Principal factors and reasons considered**

In arriving at our opinion in respect of the Subscription of New Shares and Application for the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

***(1) Business review of the Group***

The Group is principally engaged in the production of movies and distribution of copyrights and film rights in respect of the movies produced by the Group or other movie producers to overseas countries and in Hong Kong.

Tabularised below is a summary of the audited consolidated financial information of the Group for the two years ended 30 June 2005 and 30 June 2006 respectively:

| | **For the year ended 30 June** | | **Percentage change between the two years ended 30 June 2005 and 2006** |
|---|---|---|---|
| | **2006** | **2005** | |
| | *HK$'000* | *HK$'000* | % |
| Turnover | 4,103 | 1,763 | 132.73 |
| Net loss | (3,161) | (55,286) | (94.28) |

| | **As at 30 June** | | **Percentage change as from 30 June 2005 to 30 June 2006** |
|---|---|---|---|
| | **2006** | **2005** | |
| | *HK$'000* | *HK$'000* | % |
| Net liabilities | (11,973) | (23,725) | (49.53) |
| Cash and cash equivalents | 1,608 | 85 | 1,791.76 |
| Short-term interest bearing borrowings | (13,527) | (13,758) | (1.74) |
| Current ratio (Current assets/ Current liabilities) | 0.41 | 0.17 | 141.18 |
| Gearing ratio (total borrowings/ total assets) | 1.86 | 4.41 | (57.82) |

The audited consolidated turnover of the Group for the year ended 30 June 2006 and the year ended 30 June 2005 were approximately HK$4.10 million and HK$1.76 million respectively. As stated in the 2006 Annual Report, the increase in turnover was mainly due to distribution of film rights from Group's existing film library. During the period, the film rights of 104 movies and telefeatures had been successfully distributed.

The audited consolidated losses of the Group for the year ended 30 June 2006 and the year ended 30 June 2005 were approximately HK$3.16 million and HK$55.29 million respectively. As stated in the 2006 Annual Report, the decrease in loss was mainly due to significant reduction in administrative expense, for approximately 97.03% from HK$49.7 million for the Year 2005 to HK$1.48 million for the Year 2006. Amongst the reduction in administrative expense, approximately HK$44.4 million (92.1%) related to impairment of film rights, provision of bad debts, irrecoverable deposits and prepayments incurred for the Year 2005. The remaining reduction in administrative expense of approximately HK$3.8 million (7.9%) was due to reduction in salary, rentals and other miscellaneous expenses.

The Group's overall business performance was recovering, with the net liability, liquidity and leverage positions have shown signs of improvement. During the year ended 30 June 2006 net liabilities of the Group amounted to approximately HK$11.97 million, representing a decrease of approximately 49.53% comparing with that of HK$23.73 million for the year ended 30 June 2005.

The current ratio of the Group, representing the liquidity position of the Group, was increased to approximately 0.41 for the Year 2006 from approximately 0.17 for the Year 2005. The gearing ratio of the Group, representing the leverage position of the Group, was reduced to approximately 1.86 for the Year 2006 from approximately 4.41 for the Year 2005. The improvement in the net liability position, liquidity and gearing ratios may be due to the fund raised through the rights issue in the Year 2005.

***(2) Alternative financings available to the Group***

As stated in the Board Letter, save and except the rights issue for a funding of approximately HK$14.5 million shown in the Board Letter under the section headed "FUND RAISING ACTIVITY OF THE COMPANY CONDUCTED IN THE PAST 12 MONTHS", the Group has not conducted any equity-related fund raising activities during the past 12 months immediately prior to the date of the Announcement.

In view of unsatisfactory liquidity and high leverage positions of the Group, we have enquired into and were informed by the Directors that they have considered various methods, namely debt financing and equity financing, for fund raising. Nevertheless, in view of that (i) the Group has a net liability position and is still recording loss from its business operations at present; (ii) the high gearing position of the Group; and (iii) the Group lacks valuable assets for pledging against bank borrowings, the Directors believe that the Company would be unable to obtain additional debts/borrowings; and therefore, debt financing is not considered to be practical to the Group.

With regard to equity financing, the Company is a GEM listed company with relatively small market capitalisation. Accordingly, the Directors advised that placing of new Shares under the general mandate granted to the Directors would be rather inadequate. In addition, the Directors also advised that the Company would be unable to secure an underwriter in the case of a rights issue or an open offer due to (i) the present poor business and financial positions of the Group as set forth under the section headed "Business review of the Group" in this letter; and (ii) the low liquidity of the Shares which will be described in more details under the section headed "Historical trading volume of the Shares" in this letter. Even if the Company can succeed in procuring an underwriter, the Shares to be issued in either a rights issue or an open offer are expected to be at a deep discount not to mention that both the two methods will be more time-consuming than the subscription of new shares.

Having taken into account the above reasons, we concur with the Directors that the Share Subscription is one of the most feasible and time effective methods that the Group can reasonably use for fund raising purpose.

***(3) The Subscription Agreements***

It is indicated in the Board Letter that three Subscription Agreements were entered with details as shown below:

*(i) The First Subscription Agreement*

| | |
|---|---|
| Date: | 17 November 2006 |
| Issuer: | the Company |
| Subscriber: | Fintage Asia Corporation, an indirect wholly-owned subsidiary of Mei Ah |

*(ii) The Second Subscription Agreement*

| | |
|---|---|
| Date: | 17 November 2006 |
| Issuer: | the Company |
| Subscriber: | Richeast Holdings Limited, an indirect wholly-owned subsidiary of Hanny |

*(iii) The Third Subscription Agreement*

| | |
|---|---|
| Date: | 17 November 2006 |
| Issuer: | the Company |
| Subscriber: | Mr. Ma Ho Man, Hoffman |

**Information of the Subscribers**

The First, Second and Third Subscribers, are independent of and not connected with (under the GEM Listing Rules) any of the directors, chief executives, substantial shareholders and management shareholders of the Company, or any of its subsidiaries or their respective associates. Set out below is a summary of information on the three subscribers:

*(i) The First Subscriber*

Fintage is a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Mei Ah. The principal business of Fintage is investment holding and it has not carried out any business since its incorporation apart from those relating to the Share Subscription.

Mei Ah is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and is principally engaged in distribution and licensing of film and television programme to distributors and television operators in Hong Kong and overseas. Mei Ah also provides satellite and broadband TV services through its wholly-owned subsidiaries, MATV Limited and MATV (Asia) Limited.

*(ii) The Second Subscriber*

The Second Subscriber is a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Hanny. The principal business of Richeast is investment holding and it has not carried out any business since its incorporation apart from those relating to the Share Subscription.

Hanny is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and is principally engaged in the trading of securities, property investment and trading, holding of vessel for sand mining and other strategic investments.

Whole Good Limited, an indirect wholly-owned subsidiary of Hanny, is the holder of the convertible notes issued by Mei Ah with the principal amount of HK$50 million and if the convertible notes held by Hanny are being converted into shares of Mei Ah, Hanny will be interested in approximately 12.1% of the issued share capital of Mei Ah as enlarged by the said conversion.

*(iii) The Third Subscriber*

Mr. Ma, an Independent Third Party, has been working for Success Securities Limited since 2000 and is now a managing director of the same. He is a representative licensed by the SFC to carry on Type 1 regulated activity.

As advised by Mr. Ma, Success Securities Limited is the securities broker for Hanny and some of its subsidiaries and the respective subsidiaries of Wing On and See Corporation Limited.

**The Share Subscription**

| | **Number of Subscription Shares** | **Consideration** *(HK$)* |
|---|---|---|
| The First Subscriber | 150,000,000 | 30,000,000 |
| The Second Subscriber | 38,000,000 | 7,600,000 |
| The Third Subscriber | 37,000,000 | 7,400,000 |

**Conditions Precedent**

From the Board Letter, the Completion is conditional upon the fulfilment of the following conditions:

(a) the obtaining of the approval of the Independent Shareholders by way of poll at the EGM for the approval of the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Subscribers or their respective nominees in accordance with the terms and subject to the conditions of the Subscription Agreements;

(b) the obtaining of the approval of the Shareholders at the EGM entitled to vote for the proposed increase in the authorized share capital of the Company as detailed in the section headed "PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL" of the Circular;

(c) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Subscription Shares;

(d) the Shares remaining listed and traded on GEM at all times prior to and on Completion, save for any temporary suspension not exceeding ten consecutive trading days (or such longer period as the Subscribers may reasonably accept in writing) or any temporary suspension in connection with the clearance by the Stock Exchange and the SFC of the Announcement;

(e) the granting of all other necessary approvals by relevant governmental and regulatory authorities and third party consents, approvals and filings in relation to the execution of the Subscription Agreements or the transactions contemplated thereunder; and

(f) if so required, approval being granted by the registrar of Cayman Islands for the proposed increase in the authorized share capital of the Company as detailed in the section headed "PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL" of the Circular and the subsequent issue of the Subscription Shares.

**The Shareholders shall be fully aware that none of the conditions above would be waived by the Subscribers and if any of the conditions precedent of the Subscription Agreements is not fulfilled on or before 31 January 2007 (or such longer period as the Subscribers may reasonably accept in writing), the Subscription Agreements will lapse.**

**In addition the completion of the First Subscription Agreement is conditional upon the granting by the Executive of the Whitewash Waiver. While the completion of the Second Subscription Agreement and the Third Subscription Agreement is conditional upon the completion of the First Subscription Agreement, the completion of the First Subscription Agreement is not conditional on the completion of both of the Second Subscription Agreement and the Third Subscription Agreement.**

**Completion**

The completion of the First Subscription Agreement will take place within three Business Days after fulfilment of all the conditions precedent of the First Subscription Agreement.

The completion of the Second Subscription Agreement and the Third Subscription Agreement will take place within three Business Days after the completion of the First Subscription Agreement and the fulfilment of all the conditions precedent of the Second Subscription Agreement and the Third Subscription Agreement respectively.

In any event, Completion shall not be later than 31 January 2007 (or such longer period as the Subscribers may reasonably accept in writing).

**Reasons for the Share subscription and the use of proceeds**

According to the Board Letter, the reasons for the Share Subscription are that the Directors consider that the Share Subscription could strengthen the working capital and the liquidity of the Group and believe that the Share Subscription could better position the Group to encounter for the challenges of the existing operating environment. In addition, the shareholder base of the Company would also be broadened.

Further, the Directors supported the reasons by representing that as at 30 June 2006, the Group's audited net liabilities and net current liabilities amounted to approximately HK$11.97 million and HK$10.32 million respectively. The Group's gearing ratio, as expressed as the ratio of total borrowings to total assets, was as high as approximately 186%.

The Board Letter further indicated that the gross proceeds from the Share Subscription would be approximately HK$45 million. The Company estimated the expenses related to the Share Subscription to be approximately HK$0.5 million. Further, the net proceeds from the Share Subscription would be approximately HK$44.5 million (equivalent to HK$0.198 per Subscription Share). The Company plans to use approximately HK$30 million of the cash injection for film production and the remaining of approximately HK$14.5 million for general working capital. In addition, the Directors represented that the net proceeds of approximately HK$14.5 million from the Share Subscription may or may not be utilized used for repayment of Group's borrowings depending on the liquidity position of the Group. Regarding film production, the Company plans to produce five to eight films each year, and currently two films are in the pre-production stage. In addition, it is the intention of the Company to use the net proceeds from the Share Subscription for film production but the Company considers it to be impractical to estimate the number of films to be produced from the said net proceeds because the earnings from one film could be utilized to produce another film.

***(a) The Subscription Price***

The Subscription Shares will be issued at par at HK$0.20 per Subscription Share. The Subscription Price represents:

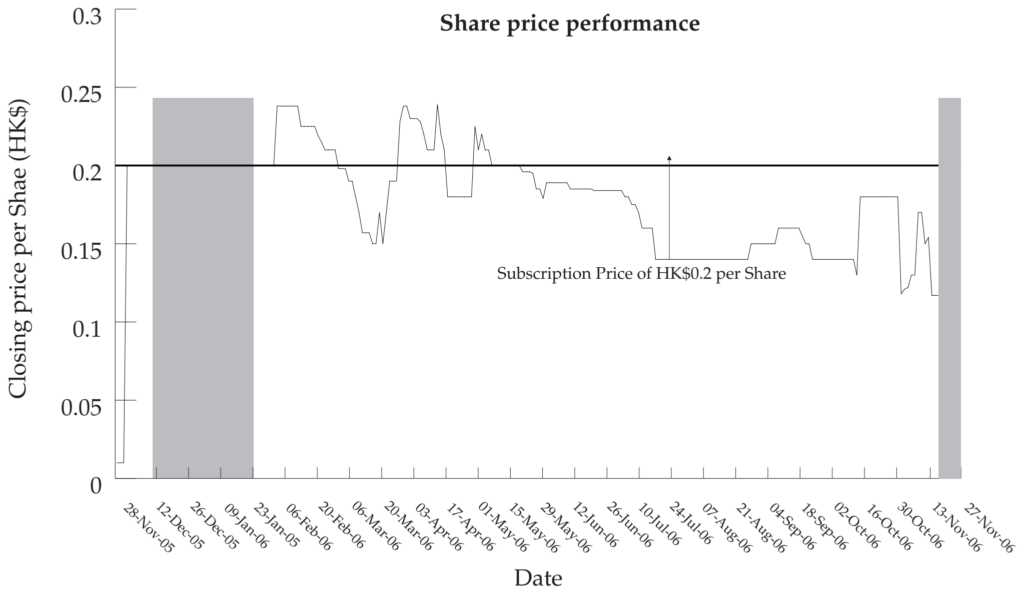
(i) a premium of approximately 70.94% over the closing price of HK$0.117 per Share as quoted on the Stock Exchange on 17 November 2006 (the "Last Trading Day"), the last trading day prior to the release of the Announcement;

(ii) a premium of approximately 44.93% over the average closing price of HK$0.138 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(iii) a premium of approximately 29.87% over the average closing price of the Shares of HK$0.154 as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;

(iv) a premium of approximately 39.86% over the average closing price of HK$0.143 per Share as quoted on the Stock Exchange for the last 5 trading days immediately preceding the date of the Subscription Agreements; and

(v) a discount of approximately 6.10% to the closing price of HK$0.213 per Share as quoted on the Stock Exchange on the Latest Practicable Date.




The above chart shows that the closing price of the Shares hovered around the Subscription Price of HK$0.2 per Share for approximately first half of the year ended 27 November 2006 (being the "Relevant Period" from 27 November 2005 to 27 November 2006) except a falling period from June 2006 to the Last Trading Day and the two suspension periods from 7 December 2005 to 17 January 2006 and 20 November 2006 to 27 November 2006 pending the release of relevant announcements

As stated in the Board Letter, the Subscription Price was determined after arm's length negotiations between the Company and the Subscribers, after taking into account of the Group's audited net liability position of approximately HK$11.97 million as at 30 June 2006, the loss incurred by the Company during the years ended 30 June 2005 and 30 June 2006 of approximately HK$55.29 million and HK$3.16 million respectively, the current operating and financial positions of the Group and with reference to the section headed "Comparison with other share subscriptions or placing exercises". The Board is of the view that the terms of the Subscription Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*(b) Historical trading volume of the Shares*

The average monthly trading volume of the Shares, the percentages of monthly trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Relevant Period, being a full year period prior to the release of the Announcement, were as follows:

| Month | Average trading volume | % of average trading volume for the month to the total number of issued Shares *(Note 1)* | % of average trading volume for the month to the total number of the Shares in Shares in the hand of the public *(Note 2)* |
|---|---|---|---|
| **2005** | | | |
| November | 349,900 | 0.35 | 1.14 |
| December *(Note 3)* | 0 | 0% | 0% |
| **2006** | | | |
| January *(Note 3)* | 250 | 0% | 0% |
| February | 21,940 | 0.02% | 0.07% |
| March | 7,148 | 0% | 0.02% |
| April | 2,059 | 0% | 0.01% |
| May | 26,830 | 0.03% | 0.09% |
| June | 3,706 | 0% | 0.01% |
| July | 8,857 | 0.01% | 0.03% |
| August | 348 | 0% | 0% |
| September | 1,771 | 0% | 0.01% |
| October | 3,230 | 0% | 0.01% |
| November *(Note 3)* | 83,031 | 0.08% | 0.27% |

*Notes:*

1. Based on 100,000,000 Shares in issue as at the Last Trading Day as stated in the Announcement

2. Based on 30,818,349 Shares held in public hands as at the Last Trading Day as stated in the Announcement

3. Trading in the Shares was suspended from 7 December 2005 to 17 January 2006 and 20 November 2006 to 27 November 2006 pending the release of relevant announcements

*Source:* The Stock Exchange website (www.hkex.com.hk)

The table above demonstrates that during the Relevant Period, the trading volume of the Shares on GEM was thin within a range of (i) approximately 0% to 0.35% as to the total number of issued Shares as at the Last Trading Day; and (ii) approximately 0% to 1.14% as to the total number of the Shares held in the hands of the public as at the Last Trading Day. Save and except for the calendar month of November 2005, the trading volume of the Shares on GEM was constantly below 0.27% of the public float. According to the Directors, they were not aware of any reasons for the increase in trading volume of the Shares in November 2005. Besides that, there were 193 days within the 248 trading days during the Relevant Period in which the Shares had no trading, representing approximately 77.82% of the total trading days of the Shares in the Relevant Period. It is reasonable to infer that the trading of the Shares was thin and inactive.

Subsequent to the release of the Announcement, we note that the trading of the Shares on GEM has become relatively more active. However, we consider that such a sudden up rise of market interest in the Shares is mainly attributable to the announcement of the Subscription of New Shares and hence may not be sustainable in the long run.

***(c) Comparison with other share subscriptions or placing exercises***

In order to assess the fairness and reasonableness of the Subscription Price, we have also reviewed the recent transactions announced by the Main Board and GEM's listed companies on the Stock Exchange from 27 September 2006 to 27 November 2006 (being the two calendar months prior to the date of Announcement, as timely information reflecting relevant market sentiment), involving placing and subscription of shares. To the best of our knowledge and based on the information from the Stock Exchange and GEM's websites, we understand that there is no company listed on GEM and the Main Board that is engaged in identical business and with same financial position as the Company. In order to ensure that there is reasonable number of comparable companies even though they are not in similar business with the Company, we have included both the Main Board and GEM listed companies for our comparison purpose and identified 20 such transactions (the "Market Comparables"). The Shareholders shall fully aware that these companies may be profit making, have positive net assets or significantly different in size (total assets, market capitalization etc.). Set out below is a summary of the key terms of the Market Comparables:

| Date of announcement | Name of listed issuer (Stock code) | Transaction type | Placing price/ Subscription price *(HK$)* | Premium on/ (Discounts) to the closing share price of the last trading day before release of the announcement *(%)* | Premium on/ (Discounts) to the average closing share price for the last ten trading days before release of the announcement *(%)* |
|---|---|---|---|---|---|
| 27/09/2006 | Hi Sun Technology (China) Limited (818) | Placing of new shares | 1.5 | 5.63 | 11.86 |
| 27/09/2006 | Shougang Concord Century Holdings Limited (103) | Placing of new shares | 0.65 | (2.99) | (1.22) |
| 28/09/2006 | Qualipak International Holdings Limited (1224) | Placing of new shares | 0.28 | (8.20) | (8.50) |
| 29/09/2006 | Standard Chartered PLC (2888) | Placing of new shares | 1,375 pence HK$202.81 (1 GBP= HK$14.75) (approximate exchange rate at 29/09/2006) | 0.10 | 0.73 |
| 06/10/2006 | Sino Haijing Holdings Ltd. (8065) | Placing of new shares | 0.05 | (13.79) | (20.26) |
| 11/10/2006 | A-Max Holdings Limited (959) | Placing of new shares | 0.0856 | (20.00) | 9.74 |
| 19/10/2006 | 139 Holdings Limited (139) | Placing of new shares | 0.325 | (8.45) | (7.54) |

| Date of announcement | Name of listed issuer (Stock code) | Transaction type | Placing price/ Subscription price *(HK$)* | Premium on/ (Discounts) to the closing share price of the last trading day before release of the announcement *(%)* | Premium on/ (Discounts) to the average closing share price for the last ten trading days before release of the announcement *(%)* |
|---|---|---|---|---|---|
| 26/10/2006 | Beijing Capital Land Limited (2868) | Placing and subscription of new shares | 2.8 | (13.31) | (8.38) |
| 27/10/2006 | Tak Shun Technology Group Limited (1228) | Placing of new shares | 0.089 | (19.09) | (13.51) |
| 01/11/2006 | QUASAR Communication Technology Holdings Ltd. (8171) | Subscription of new shares | 0.1 | 3.09 | 0.30 |
| 06/11/2006 | Pacific Basin Shipping Limited (2343) | Placing of new shares | 4.75 | (5.00) | (5.70) |
| 14/11/2006 | Road King Infrastructure (1098) | Subscription of new shares | 10.96 | (5.03) | (3.15) |
| 17/11/2006 | Lai Sun Development Company Limited (488) | Placing of new shares | 0.36 | (7.69) | (6.25) |
| 17/11/2006 | Seapower Resources International Limited (269) | Subscription of new shares | 0.0882 | (9.07) | (2.54) |
| 21/11/2006 | MP Logistics International Holdings Ltd. (8239) | Subscription of new shares | 0.01 | (90.00) | (89.99) |
| 21/11/2006 | Everbest Century Holdings Limited (578) | Placing of new shares | 0.22 | (12.00) | (14.36) |

| Date of announcement | Name of listed issuer (Stock code) | Transaction type | Placing price/ Subscription price *(HK$)* | Premium on/ (Discounts) to the closing share price of the last trading day before release of the announcement *(%)* | Premium on/ (Discounts) to the average closing share price for the last ten trading days before release of the announcement *(%)* |
|---|---|---|---|---|---|
| 22/11/2006 | FinTronics Holdings Limited (706) | Subscription of new shares | 0.261 | (19.69) | (5.98) |
| 23/11/2006 | Universal Technologies Holdings Ltd. (8091) | Subscription of new shares | 0.15 | (26.83) | (30.20) |
| 23/11/2006 | HKC (Holdings) Limited (190) | Placing of new shares | 1.1 | (9.09) | (1.96) |
| 24/11/2006 | Proactive Technology Holdings Ltd. (8089) | Placing of new shares | 0.24 | (60.00) | (32.11) |
| | | **Mean** | | (16.07) | (11.45) |
| | | **Median** | | (9.08) | (5.98) |
| | | **Range** | | (90.00) to 5.63 | (89.99) to 11.86 |
| 27/11/2006 | The Company (8167) | Subscription of new shares | 0.2 | 70.94 | 44.93 |

*Source:* The Stock Exchange website (www.hkex.com.hk)

The above table shows that (i) the premium on/discount to the closing share prices of the last trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 90.00% to a premium of approximately 5.63% (the "First Comparable Range"), with the median at a discount of approximately 9.08%; and (ii) the premium on/discount to the average closing share prices for the last ten trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 89.99% to a premium of approximately 11.86% (the "Second Comparable Range"), with the median at a discount of approximately 5.98%.

The Subscription Price, being a premium of approximately 70.94% to the closing price of HK$0.117 per Share as quoted on GEM on the Last Trading Day, is the highest among the First Comparable Range and is substantially higher than the mean and median of that of the Market Comparables.

The Subscription Price, being a premium of approximately 44.93% to the average closing price of HK$0.138 per Share as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day, is the highest among the Second Comparable Range and is substantially higher than the mean and median of that of the Market Comparables.

The Subscription Price as compared to (i) the closing price per Share as quoted on GEM on the Last Trading Day; and (ii) the closing price per Share as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day represents a substantial premium to those of the mean and median of the Market Comparables, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned in light of that the Group's audited net liabilities and net current liabilities amounted to approximately HK$11.97 million and HK$10.32 million respectively as at 30 June 2006.

**The Shareholders shall be fully aware that since the said samples consist of positive and negative values, the mean analysis may have net off effect.**

***(4) Proposed change of board composition***

Under the terms of the Subscription Agreements, upon Completion or the earliest time permitted under the Takeovers Code or by the Stock Exchange or the SFC, whichever is the latest, the Subscribers are entitled to appoint new Directors into the new Board. As at the date of the Announcement, the Subscribers do not have any plan to appoint new Directors into the new Board and no existing Directors will resign from the Board.

***(5) Possible financial effects of the Subscription of New Shares***

*(i) Working capital, Liquidity and Leverage*

As at 30 June 2006, the Group's current ratio and gearing ratio were as high as 0.41 and 186% respectively. The net proceeds from the Share Subscription will be approximately HK$44.5 million and the Company plans to use approximately HK$30 million of the cash injection for film production and the remaining of approximately HK$14.5 million for general working capital. It is reasonable to infer that the said net proceeds will increase the said working capital and current ratio and reduce the said gearing ratio of the Group; and hence improve the liquidity and leverage of the Group. We are of the view that the said reasonable inference are in the interest of the Company and the Shareholders as a whole.

*(ii) Net tangible asset value*

At 30 June 2006, the Group's audited net liabilities amounted to approximately HK$11.97 million. The net proceeds from the Share Subscription will be approximately HK$44.5 million. It is reasonable to infer that the said net proceeds will reduce the net liabilities of the Group and hence improve the net asset base of the Group. We are of the view that the said reasonable inference are in the interest of the Company and the Shareholders as a whole.

*(iii) Effect on cash position*

As stated in the 2006 results announcement, the Group had audited cash and bank balances as at 30 June 2006 of approximately HK$1.6 million. The net proceeds from the subscription of new shares of approximately HK$44.5 million is expected to improve the Group's cash position immediately following the completion of the subscription of new shares.

### *(6) Dilution of shareholding*

The full effect of the Share Subscription on the shareholding structure of the Company is illustrated in the chart below:

| | Prior to the completion of the Subscription Agreements | | Immediately subsequent to the completion of the Subscription Agreements and prior to the Place Down | | Immediately subsequent to the completion of the Subscription Agreements and after the Place Down | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| The First Subscriber | – | – | 150,000,000 | 46.15 | 99,568,349 | 30.63 |
| Shineidea Limited *(Note 2 & 4)* | 17,081,651 | 17.08 | 17,081,651 | 5.26 | 17,081,651 | 5.26 |
| Millennium Target Holdings Limited *(Note 3 & 4)* | 9,500,000 | 9.50 | 9,500,000 | 2.92 | 9,500,000 | 2.92 |
| The Second Subscriber *(Note 4)* | – | – | 38,000,000 | 11.69 | 38,000,000 | 11.69 |
| The Second Subscriber and Shineidea Limited and Millennium Target Holdings Limited | 26,581,651 | 26.58 | 64,581,651 | 19.87 | 64,581,651 | 19.87 |
| The Third Subscriber Public Shareholders | – | – | 37,000,000 | 11.39 | 37,000,000 | 11.39 |
| Subtotal | 26,581,651 | 26.58 | 251,581,651 | 77.41 | 201,150,000 | 61.89 |
| Sparkle China Development Limited *(Note 1)* | 42,600,000 | 42.60 | 42,600,000 | 13.11 | 42,600,000 | 13.11 |
| Public Shareholders | 30,818,349 | 30.82 | 30,818,349 | 9.48 | 81,250,000 | 25.00 |
| Total | 100,000,000 | 100 | 325,000,000 | 100 | 325,000,000 | 100 |

*Notes:*

1. Sparkle China Development Limited is a substantial shareholder of the Company prior to and immediately subsequent to Completion and is not a concert party of the Subscribers. As at the Latest Practicable Date, Sparkle China Development Limited is owned as to 70% and 30% by Mr. Lee Man Kwong and Ms. Xiong Jingling respectively.

2. Shineidea Limited is a wholly-owned subsidiary of See Corporation Limited (Stock code: 491), a company whose shares are listed on the Main Board of the Stock Exchange and is owned as to approximately 17.98% by Hanny.

   In addition, Hanny also holds HK$170 million convertible note issued by See Corporation Limited.

   According to the annual report of See Corporation Limited, on 11 August 2005, See Corporation Limited entered into a loan agreement with ITC Management Limited ("ITC Management"), a wholly-owned subsidiary of ITC Corporation Limited (Stock code: 372), the substantial shareholder of Hanny, for a loan facility in the principal amount of HK$25,000,000. See Corporation Limited further entered into a supplemental loan agreement with ITC Management, pursuant to which ITC Management has agreed to increase the loan facility by HK$84,000,000 from the initial principal amount of HK$25,000,000 to HK$109,000,000.

   The aforementioned short-term loan is unsecured, chargeable with interest at 2% over the best lending rate of Hong Kong Dollar and repayable on demand. On 28 July 2006, an amount of HK$109,000,000 was repaid by See Corporation Limited to ITC Management.

3. Millennium Target Holdings Limited is a wholly-owned subsidiary of Wing On Travel International Limited which in turn is a wholly-owned subsidiary of Wing On Travel (Holdings) Limited ("Wing On") (Stock code: 1189), a company whose shares are listed on the Main Board of the Stock Exchange and is an associate of Hanny.

4. Both of Shineidea Limited and Millennium Target Holdings Limited is concert parties of the Second Subscriber.

For easy reference, the Subscribers will collectively become the controlling Shareholders, holding approximately 77.41% of the issued share capital of the Company upon completion of the Subscription Agreements. Accordingly, the shareholding of the public Shareholders in the Company will be reduced from approximately 30.82% to 9.48%.

Having considered the overall positive impact from the Group's financial and liquidity positions as well as the net asset base of the Group, we consider such dilution is justifiable and is in the interest of the Company and the Shareholders as a whole.

### *(7) Maintenance of the listing of the Shares*

As stated in the Board Letter, it is the intention of the Directors to maintain the listing of the Company on GEM upon Completion. As shown in the table under the section headed "Dilution of shareholding" in this letter, immediately upon Completion, the public float would drop to approximately 9.48%. Accordingly, the First Subscriber has given an undertaking to place down part of the Subscription Shares which it held, being a minimum of 50,431,651 Shares in total and representing approximately 15.52% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares, to Independent Third Parties in order to restore the minimum public float of the Company to 25% or more within two Business Days from the date of Completion. In this regard, Mei Ah and the First Subscriber also confirmed that they have undertaken to the Stock Exchange to approach independent placing agent(s) to arrange for the Place Down within two Business Days from the date of the Completion in order to restore the said minimum public float. After the Place Down takes place and in the event that the First Subscriber places down the minimum of 50,431,651 Shares, the First Subscriber will be holding 99,568,349 Shares, representing approximately 30.63% of the enlarged issued capital of the Company, and hence will remain as the controlling shareholder of the Company after the Place Down.

As stated in the Board Letter, it is the intention of the Directors of Mei Ah that the First Subscriber will be the controlling shareholder of the Company. In addition, the Company has also undertaken to the Stock Exchange that the Company will restore the minimum public float of the Company to 25% or more within two Business Days from the date of the Completion.

The Company will request suspension of trading in the Shares upon Completion pending the release of an announcement in relation to the restoration of the public float of the Company, if necessary.

Moreover, in the event that the Company fails to maintain the minimum public float after the Share Subscription for whatever reasons, the Company will inform the Shareholders by way of an announcement.

In addition, the Stock Exchange has stated that it will closely monitor trading in the Shares on GEM and if, upon Completion, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

– a false market exists or may exist in the trading in the Shares; or

– there are too few Shares in public hands to maintain an orderly market;

then it will consider exercising its discretion to suspend trading in the shares until a sufficient public float is attained

***(8) Future intentions of the Subscribers***

As stated in the Board Letter, the Subscribers intend to continue the development of the existing business of the Group in production of films. The Subscribers will conduct a review of the financial position and operations of the Group with a view to further enhancing the future development of the Group. The Subscribers may also explore new investment opportunities for the benefit of the Group as the opportunities arise.

As stated in the Announcement, the Subscribers have no plan for any future acquisition or disposal of assets of the Company. The Subscribers have no intention to make any major changes to the business, including redeployment of the fixed assets and employees of the Company or its subsidiaries. Further, the Subscribers also confirmed that they intend to maintain the listing of the Shares on GEM and that they have no intention to transfer, change or pledge the Shares to be acquired in pursuance of the Share Subscription to any other person (save as for the restoration of the public float).

As stated in the Announcement, in light of the improvement in the Group's working capital and financial position after the Share Subscription, the Subscribers are confident that the business performance of the Group will be enhanced in the continuing future and hence consider that it is commercially justifiable in the long run to invest in the Company through the Share Subscription.

***(9) Application for the Whitewash Waiver***

As stated in the Board Letter, the Executive is of the view that the First Subscriber, the Second Subscriber, the Third Subscriber and their concert parties are acting in concert in respect of the control of the Company. Accordingly, their aggregate shareholding after Completion and prior to the Place Down and after the Place Down will be approximately 77.41% and 61.89% respectively.

Upon Completion, the Subscribers and their concert parties will be interested in approximately 77.41% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares. Therefore, pursuant to Rule 26.1 of the Takeovers Code, the Subscribers and their concert parties will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them.

The Subscribers and their concert parties have made an application to the Executive for a waiver from strict compliance with such obligation and the Executive has agreed, subject to the approval by the Independent Shareholders on a vote taken by way of poll at the EGM, to grant the Whitewash Waiver. Pursuant to the First Subscription Agreement, completion of the First Subscription Agreement is conditional upon, among others, the Executive granting the Whitewash Waiver to the Subscribers. As such, the First Subscription Agreement will lapse if the Independent Shareholders disapprove the Whitewash Waiver at the EGM.

Furthermore, if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the Subscribers and their concert parties are expected to hold approximately 61.89% of the then enlarged issued share capital of the Company upon Completion and after the Place Down. Therefore, upon Completion and after the Place Down, the Subscribers and their concert parties may increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make an unconditional mandatory general offer.

**The Shareholders shall be fully aware that none of the conditions above would be waived by the Subscribers and if any of the conditions precedent of the Subscription Agreements is not fulfilled on or before 31 January 2007 (or such longer period as the Subscribers may reasonably accept in writing), the Subscription Agreements will lapse.**

**In addition the completion of the First Subscription Agreement is conditional upon the granting by the Executive of the Whitewash Waiver. While the completion of the Second Subscription Agreement and the Third Subscription Agreement is conditional upon the completion of the First Subscription Agreement, the completion of the First Subscription Agreement is not conditional on the completion of both of the Second Subscription Agreement and the Third Subscription Agreement.**

The Directors confirm that, based on their best knowledge and belief, the First Subscriber, the Second Subscriber and the Third Subscriber and persons acting in concert with it have not dealt in the Shares during the six months immediately prior to the announcement and up to and including the Latest Practicable Date.

**Conclusion**

Having considered the principal factors and reasons as discussed above and as summarised below:

(i) the poor performance of the Group for the recent two consecutive years 2005 and 2006, especially the repeated loss incurred by the Group for the said two years amounting to approximately HK$55.29 million and HK$3.16 million respectively;

(ii) the high gearing level (total borrowings/total assets) of the Group as 186% as at 30 June 2006;

(iii) the net liabilities of the Group as HK$11.97 million as at 30 June 2006;

(iv) the difficulties for the Group to obtain debt financing due to the repeated losses incurred by the Group for the previous consecutive two years and lack of asset for pledging;

(v) relatively low liquidity of the Shares;

(vi) the improvement to the financial position of the Group, especially the cash position, liquidity and leverage of the Group upon completion of the subscription of new shares;

(vii) the subscription of new shares provides the Group an opportunity to raise equity funds under current improving market conditions instead of debt financing which is expected to increase the Group's gearing;

(viii) the Share Subscription being one of the most viable immediate methods presently available to the Group for fund raising purpose; and

(ix) the premium of the Subscription Price to the aforesaid various closing prices;

(x) the Share Subscription will not affect the business operations of the Company; and

(xi) the Share Subscription will result in positive impact on the financial position of the Group

**Recommendation**

Having considered the above factors and reasons and Directors' representations, on balance, we are of the opinion that in such circumstance the terms of the Subscription of New Shares and Application for the Whitewash Waiver so far as the Independent Shareholders are concerned is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the forthcoming EGM to approve the Subscription of New Shares and Application for the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

**(II) THE DISTRIBUTION AGREEMENT AND ITS ANNUAL CAPS**

**Principal factors and reasons considered**

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Distribution Agreement and its annual caps between the Company and Mei Ah, we have taken the following principal factors and reasons into consideration:

***(1) Background to and reasons for the Distribution Agreement***

The Group is principally engaged in the production of movies and distribution of copyright and film rights in respect of movies produced by the Group to overseas countries and in Hong Kong as shown in the Board Letter. Mei Ah, being a company listed on the Main Board of the Stock Exchange and is principally engaged in distribution and licensing of film and television programme to distributors and television operators in Hong Kong and overseas. Therefore, Mei Ah has already processed a well-established distribution and sales agency capability and resources. Taking into account Mei Ah would be able to widen the distribution channel for the Company, the Directors believe that the entering into of the Distribution Agreement could generate additional revenue and income to the Group and therefore, it is fair and reasonable, in the interests of the Company and the Shareholders as a whole.

The entering into the Distribution Agreement will not be conditional upon completion of the Share Subscription. Therefore, in the event that the Share Subscription does not proceed and the entering into the Distribution Agreement does proceed, these will not constitute continuing connected transaction of the Company.

***(2) Principal terms of the Distribution Agreement***

As shown in the Board Letter, pursuant to the Distribution Agreement, Mei Ah is appointed by the Company as the sales agent of the Films and is granted the exclusive marketing and distributing rights to market and license the Films now owned or later owned by the Company for a term of thirty months from 1 January 2007 to 30 June 2009.

The distribution rights include theatrical rights, non-theatrical rights, video rights, pay television rights, free television rights, pay per view rights, video on demand rights, hotel rights, ship rights, broadband TV rights, IPTV rights, download to own rights, internet rights, the new media rights, remake, sequel, prequel, spin-off rights, the merchandising rights, the publishing rights, the music rights and the soundtrack rights.

Agency fee rate would be calculated as 5% of the gross revenue from licensing of the Films and no distribution commission will be charged by Mei Ah in respect of income from the Hong Kong theatrical box office. The Directors represented that the terms of the Distribution Agreement, including but not limited to the agency fee rate and the terms of the Distribution Agreement, were negotiated on arm's length basis and are based on industry practice in Hong Kong.

***(3) The annual caps***

As shown in the Board Letter, the annual cap for the three years ending 30 June 2007, 2008 and 2009 for the Distribution Agreement will be set at HK$1,000,000, HK$3,600,000 and HK$3,700,000 respectively, based on 5% agency fee of the estimated gross revenue from licensing of the Films excluding Hong Kong theatrical income from films to be produced during the two and a half year period from 1 January 2007 to 30 June 2009. The Company and the directors of Mei Ah both confirmed that the agency fee rate was negotiated on arm's length basis and is based on industry practice of Hong Kong, which ranges from 5% to 20% in general.

We have also discussed with the management of the Company on the underlying principal assumptions, bases and criteria considered in the determination of the annual caps. Concerning the basis for the determination of the percentage of agency fee, the Directors represented that the criteria or assumptions in general shall include: (i) the quality of the film; (ii) the income generated from box office of the film; (iii) the extent of contents of the distribution rights; (iv) the current market condition of the film industry and (v) the Company's estimation of 15% mark up on top of production cost for each film.

In assessing the reasonableness and fairness of the annual caps, we have made enquiries to the Company to ascertain whether the Company has entered into similar Distribution Agreement before. The Directors represented to us that the Company has only entered into one similar distribution agreement with Mel Ah, with 20% commission. The said agreement has been terminated on 30 September 2006. Therefore, we hold the view that the said agreement is unable to form a reliable and sufficient sample size for comparison purpose. In this respect, as the directors of Mei Ah represented to us that Mei Ah is a significant player in the distribution of copyrights and film rights; and Mei Ah has entered into similar distribution agreement frequently. We hold the view that it is reasonable for us to draw comparison on distribution agreements entered by Mei Ah with other third parties as a market practice.

We have reviewed nine transactions entered by Mei Ah, (as confirmed by Mei Ah that those transactions represent all transactions they entered with the Company for the recent two years), the commission rates range from 5% to 10%. Four Transactions had been charged for 5% and another four transactions had been charged for 10% commission rates. The remaining one transaction had been charged at 7%. Therefore, the median was 7% and the mean was 7.44%. Since the Distribution Agreement at issue will be charged at 5% as commission rate, which falls in the lowest rate of the said range, we consider that the said rate is fair and reasonable in determining the annual caps so far as the Company and the Independent Shareholders are concerned and is in the interest of the Company as a whole.

Concerning the 15% mark up on top of production cost for each film, the management of Mei Ah represents that brief statistical reference has been made to their past experience in film making.

However, as the annual caps relate to future events and do not represent forecast of the gross revenue from licensing of the films excluding Hong Kong theatrical income from films to be produced during the thirty months ending 30 June 2009, we therefore express no opinion as to how closely the actual gross revenue of the Distribution Agreement for the thirty months ending 30 June 2009 corresponds with the annual caps.

The annual increment of annual cap from HK$1 million (representing half year period) for Year 2007 to HK$3.6 million (representing whole year period) for Year 2008 indicates an 80% increase. The managements of the Company and Mei Ah represent that the said substantial increment will be arising from the increase in revenue generating from the Distribution Agreement for relevant years according to their relevant said assumptions, forecasts and estimation, which will lead to more capital to be available for film making. The annual increment of annual cap from HK$3.6 million (representing whole year period) for Year 2008 to HK$3.7 million (representing whole year period) for Year 2009 indicates a 3% increase. The managements of the Company and Mei Ah represent that the said slight increment will be due to the adoption of prudent approach by them in making the relevant said assumptions, forecast and estimation in assessing the relevant annual cap, as time be required for evaluating the income generated from box office of relevant films to be produced.

**The Shareholders shall be fully aware that the determination of the said annual caps by the Directors involves future events and uncertainties.**

**Recommendation**

Having considered the above factors and reasons and Directors' representations, on balance, we are of the opinion that in such circumstance the terms of the Distribution Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the forthcoming EGM to approve the Distribution Agreement and its annual caps and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
**Wallbanck Brothers Securities (Hong Kong) Limited**
**Phil Chan**
*Chief Executive Officer*

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of (i) the published results of the Group for the three months ended 30 September 2006 together with the comparative unaudited figures for the corresponding period of 2005 as extracted from the 2006 first quarterly report of the Company dated 13 November 2006; (ii) the published results of the Group for the last three financial years; and (iii) the assets and liabilities of the Group for the last three financial years, both being extracted from the audited financial statements of the Company, is set out below:

**Results**

| | For the three months ended 30 September | | Year ended 30 June | | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** | **2004** |
| | (unaudited) | (unaudited) | (audited) | (audited) | (audited) |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 3,069 | 240 | 4,103 | 1,763 | 20,593 |
| Profit/(Loss) before taxation | (1,144) | (937) | (2,566) | (55,291) | 2,229 |
| Taxation credit/(charged) | – | – | (595) | 5 | (651) |
| Net profit/(loss) for the year | (1,144) | (937) | (3,161) | (55,286) | 1,578 |
| | | | | (restated) | (restated) |
| Profit/(Loss) per share | (1.14 cents) | (4.69 cents) | 4.85 cents | 2.76 dollars | 7.89 cents |
| Dividend per share | Nil | Nil | Nil | Nil | Nil |

**ASSETS AND LIABILITIES**

| | Year ended 30 June | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | 9,140 | 5,615 | 66,221 |
| Total liabilities | (21,113) | (29,340) | (34,660) |
| Net assets/(liabilities) | (11,973) | (23,725) | 31,561 |

*Notes:*

(1) The profit/(loss) per share for the two years ended 30 June 2005 and 30 June 2004 have been restated to the share consolidation on 16 November 2005 pursuant to which every 20 existing Shares of HK$0.01 each be consolidated into one consolidated Share of HK$0.20.

(2) There are no extraordinary items and minority interests in the Group's financial statements.

(3) There has been no restatement on the financial information as extracted above based on the new accounting policies since the new policies are not expected to have material impacts on the financial statements of the Group.

## 2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, balance sheet and notes to the financial statements of the Group as extracted from pages 19 to 46 of the annual report of the Company for the year ended 30 June 2006. References to page number in this appendix are to the page numbers of such annual report of the Company.

**Consolidated Income Statement**
*For the year ended 30 June 2006*

| | *Note* | **2006** *HK$'000* | **2005** *HK$'000* |
|---|---|---|---|
| Sales | *8* | 4,103 | 1,763 |
| Cost of goods sold | | (4,385) | (5,704) |
| **Gross loss** | | (282) | (3,941) |
| Other revenues | *9* | 453 | 262 |
| Selling and marketing costs | | – | (253) |
| Administrative expenses | | (1,478) | (49,700) |
| **Loss from operating activities** | *10* | (1,307) | (53,632) |
| Finance costs | *11* | (1,259) | (1,659) |
| **Loss before income tax** | | (2,566) | (55,291) |
| Income tax expense | *12* | (595) | 5 |
| **Loss for the year attributable to:** | | | |
| Equity holders of the Company | *14* | (3,161) | (55,286) |
| **Loss per share for loss attributable to the equity holders of the Company during the year** | | | Restated |
| – basic | *15* | (HK4.85 cents) | (HK2.76 dollars) |
| – diluted | *15* | N/A | N/A |

**Consolidated Balance Sheet**
*As at 30 June 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | – | – |
| Film rights and films in progress | 19 | 611 | 611 |
| Deferred income tax assets | 18 | 1,235 | 1,830 |
| | | 1,846 | 2,441 |
| **Current assets** | | | |
| Film rights and films in progress | 19 | 2,772 | 2,815 |
| Accounts receivable | 21 | 159 | – |
| Prepayments, deposits and other receivables | | 2,755 | 274 |
| Cash and cash equivalents | | 1,608 | 85 |
| | | 7,294 | 3,174 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Deposits received | | (1,440) | (1,772) |
| Accounts payable | 22 | (457) | (170) |
| Accrued liabilities and other payables | | (2,188) | (2,640) |
| Bank overdrafts, secured | | (1,640) | (6,118) |
| Borrowings | 23 | (11,887) | (7,640) |
| | | (17,612) | (18,340) |
| **Net current liabilities** | | (10,318) | (15,166) |
| **Total assets less current liabilities** | | (8,472) | (12,725) |
| **Non-current liabilities** | | | |
| Borrowings | 23 | (3,501) | (11,000) |
| **Net liabilities** | | (11,973) | (23,725) |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 24 | 20,000 | 4,000 |
| Reserves | | (31,973) | (27,725) |
| | | (11,973) | (23,725) |

**Consolidated Statement of Changes in Equity**
*For the year ended 30 June 2006*

**Group**

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Issued capital | Share premium account | Capital reserves | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 30 June 2004 and 1 July 2004** | 4,000 | 20,027 | 17,590 | (10,056) | 31,561 |
| Loss for the year | – | – | – | (55,286) | (55,286) |
| **At 30 June 2005 and 1 July 2005** | 4,000 | 20,027 | 17,590 | (65,342) | (23,725) |
| Proceeds/issuing expenses from rights issued *(Note 24)* | 16,000 | (1,087) | – | – | 14,913 |
| Loss for the year | – | – | – | (3,161) | (3,161) |
| **At 30 June 2006** | 20,000 | 18,940 | 17,590 | (68,503) | (11,973) |

**Company**

| | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|
| | Issued capital | Share premium account | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 30 June 2004 and 1 July 2004 | 4,000 | 20,027 | (1,610) | 22,417 |
| Loss for the year | – | – | (27,301) | (27,301) |
| At 30 June 2005 and 1 July 2005 | 4,000 | 20,027 | (28,911) | (4,884) |
| Proceeds/issuing expenses from rights issued *(Note 24)* | 16,000 | (1,087) | – | 14,913 |
| Loss for the year | – | – | (16,221) | (16,221) |
| At 30 June 2006 | 20,000 | 18,940 | (45,132) | (6,192) |

**Consolidated Cash Flow Statement**
*For the year ended 30 June 2006*

| | *Note* | **2006** *HK$'000* | **2005** *HK$'000* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (2,566) | (55,291) |
| Adjustments for: | | | |
| Finance costs | *11* | 1,259 | 1,659 |
| Interest income | | (59) | (10) |
| Amortisation of film rights | | 3,073 | 5,295 |
| Depreciation | | – | 17 |
| Impairment losses on film rights and films in progress | | – | 20,474 |
| Loss on disposal of property, plant and equipment | | – | 13 |
| Provision for irrecoverable deposits and prepayments | | – | 15,400 |
| Provision for doubtful debts | | – | 8,556 |
| Operating profit/(loss) before working capital changes | | 1,707 | (3,887) |
| Increase in film rights and films in progress | | – | (63) |
| (Increase)/decrease in accounts receivable | | (159) | 482 |
| Increase in prepayments, deposits and other receivables | | (2,481) | (116) |
| (Decrease)/increase in deposits received | | (332) | 560 |
| Increase in accounts payable | | 287 | 81 |
| (Decrease)/increase in accrued liabilities and other payables | | (452) | 1,704 |
| Decrease in an amount due to a director | | – | (9,046) |
| Increase in other loan | | – | 11,000 |
| **Cash (used in)/generated from operations** | | (1,430) | 715 |
| Hong Kong profits tax paid | | – | (11) |
| **Net cash (outflow)/inflow from operating activities** | | (1,430) | 704 |

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisition of film | *19* | (3,030) | – |
| Interest received | | 59 | 10 |
| **Net cash (used in)/generated from investing activities** | | (2,971) | 10 |
| **Cash flows from financing activities** | | | |
| Proceeds from rights issue | | 16,000 | – |
| Share issue expenses | | (1,087) | – |
| Proceeds from borrowings | | 13,122 | 5,439 |
| Repayments of borrowings | | (16,496) | (3,900) |
| Interest paid | | (1,137) | (1,558) |
| Net cash generated from/(used in) financing activities | | 10,402 | (19) |
| **Net increase in cash and cash equivalents** | | 6,001 | 695 |
| Cash and cash equivalents at beginning of the year | | (6,033) | (6,728) |
| **Cash and cash equivalents at end of the year** | | (32) | (6,033) |
| **Analysis on cash and cash equivalents** | | | |
| Cash and bank deposits | | 1,608 | 85 |
| Bank overdrafts | | (1,640) | (6,118) |
| | | (32) | (6,033) |

**Balance Sheet**
*As at 30 June 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 20 | 1,755 | 295 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | 2,735 | 56 |
| Cash and cash equivalents | | 1,523 | 2 |
| | | 4,258 | 58 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accrued liabilities and other payables | | (1,526) | (1,464) |
| Borrowings | 23 | (10,679) | (3,773) |
| | | (12,205) | (5,237) |
| **Net current liabilities** | | (7,947) | (5,179) |
| **NET LIABILITIES** | | (6,192) | (4,884) |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 24 | 20,000 | 4,000 |
| Reserves | | (26,192) | (8,884) |
| | | (6,192) | (4,884) |

## Notes to the Consolidated Financial Statements

*30 June 2006*

### 1. General information

*(a) Principal Activities*

BIG Media Group Limited (the "Company") and its subsidiaries (together the "Group") involve in the production and sales of videos and films, and the licensing of video and copyrights/film rights. There is no change in the Group's principal activities during the year.

The Company was incorporated in the Cayman Islands on 11 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Company is located at 5/F, Fook Hing Factory Building, 33 Lee Chung Street, Chaiwan, Hong Kong.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 August 2006.

*(b) Going Concern*

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding the fact that the Group had net loss of approximately HK$3,161,000 for the year ended 30 June 2006 and net current liabilities of HK$10,318,000 and deficiency of shareholders' fund of HK$11,973,000 as at 30 June 2006. A substantial shareholder of the Company has agreed to provide financial support to the Group to maintain the Group as a going concern at least up to 30 June 2007. A major creditor of the Group has agreed, upon negotiation, not to demand for repayment of loan of HK$9,750,000 from the Group before 1 July 2007. Consequently, the financial statements have been prepared on a going concern basis. The validity of the Group to carry on its business as a going concern is dependent upon future profitable operations of the Group and the adequate funds being available to the Group.

Should the Group be unable to continue its business as a going concern, adjustments would have been made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments have not been reflected in the financial statements.

### 2. Adoption of new and revised Hong Kong financial reporting standards

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

*2.1 Basis of preparation*

The consolidated financial statements of BIG Media Group Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

*The adoption of new/revised HKFRS*

In the current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 18 | Revenues |
| HKAS 19 | Employee Benefits |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |

The adoption of above HKASs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

**3. Effects of the adoption of new accounting policies**

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors expect that the application of these standards or interpretations will not have any material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures[2] |
| HKAS 39 (Amendment) | The Fair Value Option[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS – Int 4 | Determining whether an Arrangement contains a lease[2] |

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

**4. Principal accounting policies**

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

*(a)* *Basis of Consolidation*

The merger basis of accounting is used to account for the subsidiaries acquired by the Group before 1 January 2005. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries.

The purchase method of accounting is used to account for the subsidiaries by the Group on or after 1 January 2005. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All significant transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

In the opinion of the directors, the consolidated financial statements prepared on the aforesaid basis present more fairly the results and state of affairs of the Group as a whole.

*(b)* *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital or has the power to govern the financial and operating policies.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

*(c)* *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after 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 the asset, the expenditure is capitalized as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| – Office equipment | 4 years |
| – Furniture and fixtures | 4 years |
| – Plant and machinery | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

*(d) Film Rights, Films in progress and Sub-licensing Rights*

(i) Film Rights

Films produced or acquired by the Group are stated at production or acquisition costs less amortization and any foreseeable losses. Costs represent the carrying amount transferred from films in progress upon their completion or the purchase price of the film rights, and are amortized at rates calculated to write off these costs in proportion to the expected revenues from the distribution and licensing of the films. Provisions are made against the carrying amounts of films if the carrying amounts exceed their expected future revenue.

(ii) Films in Progress

Films in progress are stated at cost less impairment losses. Costs include all direct cost associated with the production of films. Provisions are made against costs which are in excess of future revenue expected to be generated by these films. The costs of films in progress are transferred to film rights upon completion.

(iii) Sub-licensing Rights

Licence fees paid to acquire the rights for the sub-licensing of films produced by third parties in specified geographical areas and time periods are accounted for as sub-licensing rights. Upon the release of these purchased films, the relevant portion of the licence fees are charged to the income statement on a systematic basis, in proportion to the expected revenues and the underlying licence periods. Provisions are made against the carrying amounts of the sub-licensing rights if the carrying amounts exceeds their expected future revenue.

*(e) Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

*(f) Accounts receivables and other receivables*

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognized in the income statement.

*(g) Functional and presentation currency*

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

*(h) Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

*(i) Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

*(j) Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

*(k) Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*(l) Employee benefits*

(i) Retirement scheme

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

(ii) Share option scheme

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

*(m) Revenue recognition*

(i) Sales of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) Income from licensing and sub-licensing of distribution rights over films

Revenue is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the master tapes to the customers; and

(iii) Interest income

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

*(n) Provisions and Contingent Liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the 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 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.

*(o) Related Parties*

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

**5. Financial risk management**

*5.1 Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(i) Credit risk

The Group manages its credit risk associated with trade receivables through the application of credit approvals, credit ratings and monitoring procedures.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and credit lines to meet liquidity requirements.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

*5.2 Fair value estimation*

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

**6. Critical accounting estimates and judgements**

*6.1 Critical accounting estimates and assumptions*

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

(i) Estimated impairment of film rights

The Group tests annually whether film rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss, representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the disposal of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

## 7. Segment information

The Group is principally engaged in the production of video and films, the licensing of video and copyrights/film rights. Accordingly, no analysis of business segment, the primary segment, is provided.

In determining the Group's geographical segments, the secondary segment, revenues and results from the sale of videos and video compact discs are attributed to the segments based on the location of the customers and for the distribution of film rights licensing and sub-licensing activities, based on the location of the ultimate markets. As all of the Group's principal activities were carried out in Hong Kong during the year, no analysis of geographical segment assets information is presented.

*Geographical segments*

The following tables present revenue and loss information for the Group's geographical segments.

| | Hong Kong | | Elsewhere in PRC | | Asia excluding Hong Kong and elsewhere in PRC | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| | *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 | 4,103 | 1,456 | – | – | – | 21 | – | 286 | 4,103 | 1,763 |
| Segment results | (1,760) | (51,398) | – | – | – | (4) | – | (2,492) | (1,760) | (53,894) |
| Other revenues | | | | | | | | | 394 | 252 |
| Interests income | | | | | | | | | 59 | 10 |
| Finance costs | | | | | | | | | (1,259) | (1,659) |
| Loss before taxation | | | | | | | | | (2,566) | (55,291) |
| Taxation | | | | | | | | | (595) | 5 |
| Loss attributable to shareholders | | | | | | | | | (3,161) | (55,286) |

## 8. Turnover

Turnover represents licensing and sub-licensing fee income and the net invoiced value of goods sold, net of returns and trade discounts.

## 9. Other revenues

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income | 59 | 10 |
| Others | 394 | 252 |
| | 453 | 262 |

**10. Loss from operating activities**

The Group's loss from operating activities is stated after charging and (crediting) the following items:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Auditor's remuneration | | |
| – current year | 240 | 131 |
| – over provision in prior years | (35) | – |
| | 145 | 131 |
| Cost of film and sub-licensing rights* | 4,385 | 5,686 |
| Cost of inventories sold | – | 18 |
| Depreciation | – | 17 |
| Provision for doubtful debts | – | 8,556 |
| Impairment losses on film rights and films in progress | – | 20,474 |
| Provision for irrecoverable deposits and equipment | – | 15,400 |
| Loss on disposal of property, plant and equipment | – | 13 |
| Staff costs (including directors' remuneration) *(Note 13)* | 910 | 2,384 |
| Minimum lease payments under operating leases in respect of land and buildings to: | | |
| – a related company | – | 100 |

* *The cost of film and sub-licensing rights for the year include amortisation of film rights of approximately HK$3,073,000 (2005: HK$5,295,000).*

**11. Finance costs**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest expense: | | |
| – Interest on bank overdrafts | 354 | 517 |
| – Interest on bank loan | 144 | – |
| – Interest on short term loan and shareholder's loan | 761 | 1,142 |
| | 1,259 | 1,659 |

**12. Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong profits tax | – | – |
| Overprovision in prior years | – | (5) |
| Deferred income tax assets *(Note 18)* | 595 | – |
| | 595 | (5) |

The charge/(credit) for the year can be reconciled to the loss per the income statement as follows:

| | 2006<br>*HK$'000* | 2005<br>*HK$'000* |
|---|---|---|
| Loss before taxation | (2,566) | (55,291) |
| Calculated at a taxation rate of 17.5% (2005: 17.5%) | (449) | (9,675) |
| Tax effect on non-deductible expenses | 121 | 6,800 |
| Tax effect on unused tax losses not recognised | 923 | 2,870 |
| Overprovision in prior years | – | (5) |
| Tax effect on deductible temporary differences not recognised | – | 5 |
| | 595 | (5) |

**13. Staff costs (including directors' emoluments)**

| | 2006<br>*HK$'000* | 2005<br>*HK$'000* |
|---|---|---|
| Wages and salaries | 894 | 2,331 |
| Pension costs – defined contribution plans | 16 | 53 |
| | 910 | 2,384 |

*(a) Directors' and senior management's emoluments*

The directors' remuneration for the year ended 30 June 2006 is set out below:

| Name of Director | Fees<br>*HK$'000* | Salaries, allowances and benefits in kind<br>*HK$'000* | Employer's contribution to pension scheme<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| Mr. Chan Kwok Sun, Dennis | – | 348 | 10 | 358 |
| Mr. Lee Man Kwong | – | 360 | – | 360 |
| Mr. Law Kwok Keung | 15 | – | – | 15 |
| * Mr. Lam Kin Kau, Mark | 15 | – | – | 15 |
| | 30 | 708 | 10 | 748 |

The directors' remuneration for the year ended 30 June 2005 is set out below:

| Name of Director | Fees | Salaries, allowances and benefits in kind | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Siu Luen Fat | – | 280 | 4 | 284 |
| Mr. Siu Kin Fat | – | 60 | 3 | 63 |
| Mr. Siu Kuen Fat | – | 60 | 3 | 63 |
| * Ms. Chiu Kam Hing, Kathy | 10 | – | – | 10 |
| * Mr. Cheung Wai Bun, Charles | 10 | – | – | 10 |
| * Mr. Li Chi Fai | 10 | – | – | 10 |
| | 30 | 400 | 10 | 440 |

*Notes:*

No director waived or agreed to waive any of their emoluments in respect of two years ended 30 June 2006 and 2005.

The directors' emoluments are determined by the Board with reference to their contribution in terms of time, effort and their expertise and will be reviewed on an annual basis.

* *Independent non-executive directors*

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include two (2005: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: four) individuals during the year are as follows:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and allowances | 156 | 1,320 |
| Retirement scheme contributions | 6 | 24 |
| | 162 | 1,344 |

The emoluments of each of the remaining non-director, highest paid employees fell within the band of Nil to HK$1,000,000 for each of the two years ended 30 June 2006 and 2005.

**14. Loss attributable to equity holders of the Company**

The net loss from ordinary activities attributable to equity holders of the Company dealt with in the financial statements of the Company is HK$16,221,000 (2005: net loss of HK$27,301,000).

**15. Loss per share**

The basic loss per share for the year is calculated based on the Group's loss from ordinary activities attributable to shareholders of HK$3,161,000 (2005: HK$55,286,000), and the weighted average of 65,247,725 (restated 2005: 20,000,000 to reflect the effect of share consolidation in November 2005) ordinary shares in issue during the year.

Diluted earnings per share amounts for each of the two years ended 30 June 2006 and 2005 have not been disclosed as no diluting event existed during these years.

**16. Dividends**

No dividend was paid or proposed for the year ended 30 June 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

**17. Property, plant and equipment**

| | Group | | | |
|---|---|---|---|---|
| | **Office Equipment** *HK$'000* | **Furniture and fixtures** *HK$'000* | **Plant and machinery** *HK$'000* | **Total** *HK$'000* |
| **Cost** | | | | |
| At 1 July 2004 | 144 | 198 | 339 | 681 |
| Disposals | (64) | (48) | (12) | (124) |
| At 30 June 2005 | 80 | 150 | 327 | 557 |
| **Accumulated depreciation** | | | | |
| At 1 July 2004 | 127 | 189 | 335 | 651 |
| Change for the year | 4 | 9 | 4 | 17 |
| Written back on disposals | (51) | (48) | (12) | (111) |
| At 30 June 2005 | 80 | 150 | 327 | 557 |
| **Net Book Value** | | | | |
| At 30 June 2005 | – | – | – | – |
| **Cost** | | | | |
| At 1 July 2005 and 30 June 2006 | 80 | 150 | 327 | 557 |
| **Accumulated depreciation** | | | | |
| At 1 July 2005 and 30 June 2006 | 80 | 150 | 327 | 557 |
| **Net Book Value** | | | | |
| At 1 July 2005 and 30 June 2006 | – | – | – | – |

At 30 June 2006 and 30 June 2005, the Company had no property, plant and equipment.

**18. Deferred income tax assets**

The movement on the deferred income tax assets account is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Beginning of the year | 1,830 | 1,830 |
| Transfer to income statement *(Note 12)* | (595) | – |
| End of the year | 1,235 | 1,830 |
| Provided in respect of: | | |
| Accelerated depreciation allowances | 15 | 15 |
| Unused tax losses | 1,220 | 1,815 |
| | 1,235 | 1,830 |

At 30 June 2006 and 30 June 2005, there was no material unprovided deferred income tax. The Group has not taken into account of HK$687,000 (2005: Nil) of deferred income tax assets arising from tax losses as it is not certain that the benefit could be realised in the foreseeable future.

**19. Film rights and films in progress**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Film rights | 2,772 | 2,686 |
| Films in progress | – | 17,241 |
| Sub-licensing rights | 611 | 3,973 |
| | 3,383 | 23,900 |
| *Less*: Impairment losses | – | (20,474) |
| | 3,383 | 3,426 |
| *Less*: Amounts classified as current assets | (2,772) | (2,815) |
| Non-current portion | 611 | 611 |

| | Film Rights | Films in Progress | Sub-licensing Rights | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 30 June 2005 | 2,686 | 17,241 | 3,973 | 23,900 |
| Impairment losses | – | (17,241) | (3,233) | (20,474) |
| Net book value at 30 June 2005 | 2,686 | – | 740 | 3,426 |
| At 1 July 2005 | 2,686 | – | 740 | 3,426 |
| Addition | 3,030 | – | – | 3,030 |
| Amortisation | (2,944) | – | (129) | (3,073) |
| Net book value at 30 June 2006 | 2,772 | – | 611 | 3,383 |

**20. Interests in subsidiaries**

| | Company | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost: | 100 | 100 |
| Amounts due from subsidiaries | 40,912 | 25,263 |
| *Less*: Provision for doubtful debts | (39,000) | (24,500) |
| Amounts due to subsidiaries | (257) | (568) |
| | 1,755 | 295 |

The amount due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the principal subsidiaries as at 30 June 2006:

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital and debt securities | Interest held |
|---|---|---|---|---|
| Best Faith (Hong Kong) Limited (Trading as B&S Films Creation Works House) | Hong Kong, limited liability company | Production and sale of videos and films, and licensing of videos and copyrights/film rights in Hong Kong | 3,000 Ordinary shares of HK$1 each | 100% |
| Fleur Group Limited | British Virgin Island, limited liability company | Holding of copyrights in Hong Kong | 15,000 Ordinary shares of US$1 each | 100% |
| BIG Pictures Limited | Hong Kong, limited liability company | Production of videos and films in Hong Kong | 1 Ordinary share of HK$1 each | 100% |

**21. Accounts receivable**

An aged analysis of the accounts receivable at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Within 30 days | 159 | – |
| Between 31 to 60 days | – | – |
| Between 61 to 90 days | – | – |
| Between 91 to 120 days | – | – |
| Over 120 days | 12,046 | 12,046 |
| | 12,205 | 12,046 |
| *Less*: Provision for doubtful debts | (12,046) | (12,046) |
| | 159 | – |

The credit terms offered by the Group are in accordance with the terms specified in the agreements entered into with the customers. For the customers who have a long established business relationship with the Group and who are assessed to have good creditworthiness, a credit term ranging from 30 to 90 days is offered, subject to the directors' approval.

**22. Accounts payable**

An aged analysis of the accounts payable at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *HK$'000* | *HK$'000* |
| Within 30 days | 365 | 18 |
| Between 31 to 60 days | – | 12 |
| Between 61 to 90 days | – | 48 |
| Over 90 days | 92 | 92 |
| | 457 | 170 |

## 23. Borrowings

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Bank loan, secured | 1,031 | – |
| Other loan, unsecured | 2,470 | 11,000 |
| | 3,501 | 11,000 |
| **Current** | | |
| Bank loan, secured | 936 | – |
| Shareholder's loan, unsecured | 1,201 | 4,640 |
| Short term loan, secured | 9,750 | 3,000 |
| | 11,887 | 7,640 |
| **Total borrowings** | 15,388 | 18,640 |

| | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|
| **Current** | | |
| Shareholder's loan, unsecured | 929 | 773 |
| Short term loan, secured | 9,750 | 3,000 |
| **Total borrowings** | 10,679 | 3,773 |

Other loan is unsecured, interest-free and it is the intention of the lender not to demand for repayment in the foreseeable future.

The bank overdrafts and bank loan were secured by a corporate guarantee from the Company; and the personal guarantees from certain Directors who resigned in prior year but are still in force.

Shareholder's loan is unsecured, interest bearing at 5% per annum and repayable on demand.

As at 30 June 2006, the short term loan was secured by all property and assets, which are mainly film rights, of several subsidiaries of the Group (2005: secured by all property and assets of the Company).

As at 30 June 2006, the Group's borrowings were repayable as follows:

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Within one year | 11,887 | 7,640 |
| In the second year | 3,501 | 11,000 |
| In the third to fifth year | – | – |
| | 15,388 | 18,640 |

The Group would use its internal resources to repay its borrowings which are repayable within one year depending on the then liquidity position of the Group.

**24. Share capital**

| | | Number of ordinary shares of HK$0.2 each | Number of ordinary shares of HK$0.01 each | Value *HK$'000* |
|---|---|---|---|---|
| **Authorised:** | | | | |
| At 1 July 2005 | | – | 3,000,000,000 | 30,000 |
| At 30 June 2006 | *Note (a)* | 150,000,000 | – | 30,000 |
| **Issued and fully paid** | | | | |
| At 1 July 2005 | | – | 400,000,000 | 4,000 |
| Share Consolidation | *Note (a)* | 20,000,000 | – | 4,000 |
| Issue of new shares | *Note (b)* | 80,000,000 | – | 16,000 |
| At 30 June 2006 | | 100,000,000 | – | 20,000 |

*Note (a):* On 16 November 2005, the Company has implemented the Share Consolidation pursuant to which every 20 Existing Shares of HK$0.01 each be consolidated into one Consolidated Share of HK$0.20.

*Note (b):* On 5 December 2005, the Company raised HK$16 million before expenses by issuing 80,000,000 Rights Shares at the Subscription Price of HK$0.20 per Rights Share on the basis of four Rights Shares for every one Consolidated Share. The new shares rank pari passu with the existing shares.

**25. 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 (including independent non-executive Directors), other employees of the Group, and suppliers of goods or services to the Group. The Scheme became effective on 22 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in 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 shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12 month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Exchange closing price of the Company's share for five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares.

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

No share option has been granted by the Company under the scheme up to the date of approval of these financial statements.

**26. Contingent liabilities**

In last financial year, there was a pending litigation against the Group in respect of salaries arrears to the amount of approximately HK$800,000. The Company is of the view that the claims are without merit and has procured appropriate legal actions for counter-claim against the relevant parties for damages for breach of contracts to amount of approximately HK$1,600,000. Therefore, no provision has been made for the claim in the financial statements of the Group for the year ended 30 June 2006 (2005: no provision).

**27. Commitments**

At 30 June 2006 and 30 June 2005, The Group and the Company did not have any significant commitments.

**28. Related-party transactions**

In addition to those transactions and balances disclosed elsewhere in these financial statements, the Group also had the following significant transactions with related parties during the year:

*(i) Operating lease rental*

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Office operating lease rental in respect of land & building: | | |
| – Lightal Limited | – | 100 |

*(ii)* The Group's banking facilities were secured by the unlimited personal guarantees from certain Directors who resigned in 2005.

*(iii) Transactions with a shareholder*

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loan granted | 584 | 5,439 |
| Loan settlement paid | 4,145 | 900 |
| Interest expenses | 167 | 101 |

**29. Comparative figures**

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

## 3. SUMMARY OF UNAUDITED FINANCIAL STATEMENTS

Set out below is the unaudited consolidated results of the Group for the three months ended 30 September 2006 together with comparative unaudited figures for the corresponding period of 2005 as extracted from the 2006 first quarterly report of the Company dated 13 November 2006:

**Consolidated Income Statement**

| | | For the three months ended 30 September | |
|---|---|---|---|
| | | **2006** | **2005** |
| | | (unaudited) | (unaudited) |
| | *Notes* | *HK$'000* | *HK$'000* |
| TURNOVER | *2* | 3,069 | 240 |
| Cost of sales | | (3,045) | (679) |
| Gross profit/(loss) | | 24 | (439) |
| Other revenue | | 3 | – |
| Selling and distribution costs | | (543) | – |
| Administrative expenses | | (339) | (61) |
| LOSS FROM OPERATING ACTIVITIES | | (855) | (500) |
| Finance costs | | (289) | (437) |
| LOSS BEFORE TAXATION | | (1,144) | (937) |
| Taxation | *3* | – | – |
| LOSS ATTRIBUTABLE TO SHAREHOLDERS | | (1,144) | (937) |
| | | | Restated |
| LOSS PER SHARE | | | |
| Basic | *4* | (1.14 cents) | (4.69 cents) |

*Notes:*

**1. Basis of preparation**

The results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The accounting policies and methods of computation adopted in the preparation of their unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 30 June 2006. The Consolidated results are unaudited but have been reviewed by the Company's audit committee.

**2. Turnover and revenue**

Turnover represents licensing income of film rights. The Group is principally engaged in the production of video and films, and licensing of video and copyrights/film rights.

An analysis of the Group's turnover and revenues is as follows:

| | For the three months ended 30 September | |
|---|---|---|
| | **2006** | **2005** |
| | (unaudited) | (unaudited) |
| | *HK$'000* | *HK$'000* |
| Turnover, licensing of film rights | 3,069 | 240 |
| Other revenues | 3 | – |
| Total revenues | 3,072 | 240 |

**3. Taxation**

No Hong Kong profits tax has been provided as there are no assessable profits arising in Hong Kong for the three months ended 30 September 2006 (2005: Nil).

The Group has no material unprovided deferred taxation in respect of the period under review (2005: Nil).

**4. Loss per share**

The basic loss per share for the three months ended 30 September 2006 is calculated based on the unaudited consolidated loss attributable to shareholders of the Company for the three months ended 30 September 2006 of approximately losses of HK$1,144,000 (2005: approximately HK$937,000) and on a weighted average number of 100,000,000 shares in issue during the periods (2005: 20,000,000, restated to reflect the effect of share consolidation in November 2005).

Diluted loss per share for the three months ended 30 September 2006 and 2005 has not been disclosed as no diluting event existed during these periods.

**5. Share premium and reserves**

| | Share premium *HK$'000* | Capital reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| At 1 July 2005 | 20,027 | 17,590 | (65,342) | (27,725) |
| Loss for the period | – | – | (937) | (937) |
| At 30 September 2005 | 20,027 | 17,590 | (66,279) | (28,662) |
| At 1 July 2006 | 18,940 | 17,590 | (68,503) | (31,973) |
| Loss for the period | – | – | (1,144) | (1,144) |
| At 30 September 2006 | 18,940 | 17,590 | (69,647) | (33,117) |

**6. Dividends**

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2006 (2005: Nil).

## 4. QUALIFIED OPINION

No qualified opinion had been issued by the Company's auditors, Hopkins CPA Limited, for the two years ended 30 June 2005 and 30 June 2006, and the Company's ex-auditors, CCIF CPA Limited, for the year ended 30 June 2004.

## 5. INDEBTEDNESS

### Borrowings

As at the close of business day on 31 October 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings and debts of approximately HK$15,244,000, comprising the following:

| | *HK$'000* |
|---|---|
| 1. Bank overdrafts | 1,289 |
| 2. Bank loan | 1,734 |
| 3. Shareholder's loan owed to Sparkle China Development Limited | 1,201 |
| 4. Short-term loan owed to Mei Ah Film Production Company Limited | 9,000 |
| 5. Other loan owed to Mr. Hui Ching Kong, an Independent Third Party | 2,020 |
| | 15,244 |

Bank overdrafts and bank loan were secured by:

1. Guarantees given by the Company of not less than HK$3 million and of maximum exposure of HK$15 million respectively; and

2. Personal guarantee from Mr. Siu Luen Fat, a Director who resigned in prior year. Such guarantee is still in force and the amount of such guarantee shall be not less than HK$3 million.

Short-term loan was secured by all property and assets, which are mainly film rights, of several subsidiaries of the Company. The total book value of the assets being pledged as at 31 October 2006 was approximately HK$3.92 million.

As at 31 October 2006, guarantees were given by the Company for bank overdrafts and bank loan to the extent of approximately HK$18,000,000.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 October 2006, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors also confirmed that there are no material changes in the indebtedness and contingent liabilities position of the Group since 31 October 2006.

## 6. MATERIAL CHANGE

The Directors confirmed that there are no material change in the financial or trading position or outlook of the Group since 30 June 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 7. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account of the internal resources available to the Group and the net proceed to be raised from the Share Subscription, the Group will have sufficient working capital for at least twelve months from the date of this circular.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Group and the Subscribers.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (i) the information contained in this circular (other than information relating to the Subscribers) is accurate and complete in all material respects and not misleading; (ii) there are no other matters (other than information relating to the Subscribers) the omission of which would make any statement in this circular misleading; and (iii) all opinion expressed in this circular (other than those expressed by the Subscribers) have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The director of the First Subscriber, namely Mr. Li Kuo Hsing, accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Company, the Second Subscriber and the Third Subscriber) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Company, the Second Subscriber and the Third Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than information relating to the Company, the Second Subscriber and the Third Subscriber), the omission of which would make any statement in this circular (other than information relating to the Company, the Second Subscriber and the Third Subscriber) misleading.

The directors of the Second Subscriber, namely Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Company, the First Subscriber and the Third Subscriber) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Company, the First Subscriber and the Third Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than information relating to the Company, the First Subscriber and the Third Subscriber), the omission of which would make any statement in this circular (other than information relating to the Company, the First Subscriber, and the Third Subscriber) misleading.

The Third Subscriber, Mr. Ma, accepts full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Company, the First Subscriber and the Second Subscriber) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Company, the First Subscriber and the Second Subscriber) have been arrived at after due and careful consideration and there are no other facts nor information contained in this circular (other than information relating to the Company, the First Subscriber and the Second Subscriber), the omission of which would make any statement in this circular (other than information relating to the Company, the First Subscriber and the Second Subscriber) misleading.

The directors of Mei Ah, namely, the executive directors, Mr. Li Kuo Hsing, Mr. Tong Hing Chi and Mr. Chau Kei Leung, the non-executive director, Mr. Chan Ngan Piu and the independent non-executive directors, Mr. Cheung Yui Kai, Warren, Ms. Wang Huarong and Mr. Cheung Ming Man, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Company, the Second Subscriber, the Third Subscriber and Hanny) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Company, the Second Subscriber, the Third Subscriber and Hanny) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than information relating to the Company, the Second Subscriber, Third Subscriber and Hanny), the omission of which would make any statement in this circular (other than information relating to the Company, the Second Subscriber, the Third Subscriber and Hanny) misleading.

The directors of Hanny, namely, the executive directors, Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard, and the independent non-executive directors, Mr. Kwok Ka Lap, Alva, Mr. Wong King Lam, Joseph, Mr. Sin Chi Fai, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Company, the First Subscriber, the Third Subscriber and Mei Ah) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Company, the First Subscriber, the Third Subscriber and Mei Ah) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than information relating to the Company, the First Subscriber, the Third Subscriber and Mei Ah), the omission of which would make any statement in this circular (other than information relating to the Company, the First Subscriber, the Third Subscriber and Mei Ah) misleading.

**2. SHARE CAPITAL**

**(a) Share Capital**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

| | | |
|---|---|---|
| | | *HK$'000* |
| *Authorised capital:* | | |
| 150,000,000 | shares of HK$0.2 each | 30,000 |
| *Issued capital:* | | |
| 100,000,000 | shares of HK$0.2 each | 20,000 |

All issued Shares rank pari passu with each other in terms of capital, dividend and voting. The Shares in issue are listed on GEM. No Shares have been issued since 30 June 2006, being the date to which the latest published audited financial statements of the Group were made up.

**(b) Share Options**

On 22 July 2002, a share option scheme (the "Scheme") was approved by the Company. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors of the Company or any of its subsidiaries, independent non-executive Directors and employees of the Group, and suppliers of goods or services to the Group.

No share option has been granted by the Company under the Scheme up to the Latest Practicable Date.

In addition, as at the Latest Practicable Date, the Company had no convertible securities, options, derivatives or warrants outstanding and had not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

## 3. DISCLOSURE OF INTERESTS

**(a) Interests of Directors and chief executive**

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

*Long positions in the Shares*

| Name of director | Corporate interest | Percentage of shareholding |
|---|---|---|
| Mr. Lee Man Kwong | 170,400,000* | 42.6% |
| Ms. Xiong Jingling | 170,400,000* | 42.6% |

* Mr. Lee Man Kwong and Ms. Xiong Jingling have beneficial interests of 70% and 30% respectively in Sparkle China Development Limited, which owns 170,400,000 ordinary shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Director or chief executive of the Company had any interests or short position in the Shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

**(b) Interests of substantial shareholders and other persons**

As at the Latest Practicable Date, save as the Subscribers, so far as is known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the Shares or 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, or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

| Name | Number of Shares held | Percentage of shareholding |
|---|---|---|
| Sparkle China Development Limited | 42,600,000 | 42.6% |
| Shineidea Limited (controlled corporation of See Corporation Limited) | 17,081,651 | 17.08% |
| Millennium Target Holdings Limited (controlled corporation of Wing On and Wing On Travel International Limited) | 9,500,000 | 9.5% |

Save as disclosed above, no person who had an interest and/or a short position in the Shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

**(c) Interests of the Subscribers and their concert parties**

As at the Latest Practicable Date, other than the 17,081,651 Shares held by Shineidea Limited and the 9,500,000 Shares held by Millennium Target Holdings Limited, the Subscribers, their respective directors and concert parties had no interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

**(d) Additional disclosure of interests and dealings in the Shares**

(a) None of the Directors had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period commencing on the date six months prior to the date of the Subscription Agreements and up to the Latest Practicable Date (the "Relevant Period").

(b) During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or of any of its subsidiaries, nor South China Capital Limited, Wallbanck Brothers or any other advisers to the Company as specified in class (2) of the definition of "Associate" under the Takeovers Code had any interest in or had dealt for value in any shares, convertible securities, warrants, options of derivatives which carry voting rights of the Company.

(c) As at the Latest Practicable Date,

(i) the Company and the Directors did not have any interest in the shares, convertible securities, warrants, options, or derivatives of the Subscribers and had no dealings in the shares, convertible securities, warrants, options, or derivatives of the Subscribers during the Relevant Period.

(ii) no shareholdings in the Company were managed on a discretionary basis by fund manager connected with the Company nor did any such fund manager deal in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the Relevant Period.

(iii) no persons had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Share Subscription or the Whitewash Waiver.

(iv) no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Subscribers or any of their concert parties, and any other person.

(v) no agreements, arrangements or understandings (including any compensation arrangement) exist between (i) the Subscribers or any of their concert parties; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Share Subscription or the Whitewash Waiver.

(vi) no agreements or arrangements exist between any Director and any other person which is conditional on or dependent upon the outcome of the Share Subscription or Whitewash Waiver or otherwise connected with the Share Subscription or Whitewash Waiver.

(vii) no Shareholders have any obligation or entitlement whereby they have or may have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, either generally or on a case-by-case basis.

(viii) no benefit has been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Share Subscription or the Whitewash Waiver.

(ix) there were no contracts or arrangements subsisting in which a Director is materially interested and which is significant in relation to the business of the Group.

(x) there were no material contracts entered into by the Subscribers or any of their concert parties in which any Director has a material personal interest.

(xi) none of the Directors had any interest in any assets which have been, since 30 June 2006, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(xii) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of "Associate" under the Takeovers Code, or with the Subscribers or their concert parties.

(xiii) there were no agreements or arrangements to which the Subscribers are parties which relate to the circumstances in which they may or may not involve or seek to involve a condition to the Whitewash Waiver.

(xiv) there was no agreement, arrangement or understanding among the Subscribers or any of their concert parties and other persons in relation to the transfer, charge or pledge of the Subscription Shares that may be subscribed by the Subscribers or any of their concert parties under the Subscription Agreements.

## 4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with the Company or any of its subsidiaries or associated companies in force which: (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into the ordinary course of business) have been entered into by members of the Group after the date the two years before the date of the Announcement and up to and including the Latest Practicable Date and which are or may be material:

(i) the underwriting agreement dated 7 October 2005 entered into between the Company and Tai Fook Securities Company Limited in relation to a rights issue; and

(ii) the Subscription Agreements.

## 7. LITIGATION

As at the Latest Practicable Date, there was a pending litigation against the Group in respect of salaries arrears to the amount of approximately HK$800,000. As confirmed by the Company, this Labour Tribunal case was raised by three ex-directors of the Company and was dismissed by the Presiding Office at the hearing on 17 June 2005 and if the three ex-directors would like to proceed with this case, they would have to take it to the appropriate Court of Law. The Company is of view that the claims are without merit and has procured appropriate legal actions for counter-claim against the relevant parties for damages for breach of contracts to amount of approximately HK$1,600,000. As at the Latest Practicable Date, there was no further proceedings in respect of this litigation.

Save as disclosed above, the Directors confirmed that there are no other litigation or claims of material importance pending or threatened against any member of the Group.

## 8. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

| Name | Qualifications |
|---|---|
| Wallbanck Brothers | Wallbanck Brothers Securities (Hong Kong) Limited, a licensed corporation under the SFO to carry on Types 4, 6 and 9 regulated activities. |

Wallbanck Brothers has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respectively appear.

Wallbanck Brothers has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any direct or indirect interests in any assets which have been, since 30 June 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

## 9. MARKET PRICE

The table below shows the closing prices of the Shares on the Stock Exchange at the last trading day of each of the calendar months commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date, on the last trading date before publication of the Announcement and on the Latest Practicable Date:

| **Date** | **Closing Price** *(HK$)* |
|---|---|
| 30 May 2006 | 0.196 |
| 30 June 2006 | 0.184 |
| 31 July 2006 | 0.14 |
| 31 August 2006 | 0.15 |
| 29 September 2006 | 0.14 |
| 31 October 2006 | 0.18 |
| 17 November 2006 (being the last trading date before publication of the Announcement) | 0.117 |
| 30 November 2006 | 0.29 |
| 29 December 2006 | 0.23 |
| Latest Practicable Date | 0.213 |

The highest and lowest closing prices for the Shares recorded on the Stock Exchange during the period between 30 May 2006 (being the date of six months prior to the date of the Announcement) and the Latest Practicable Date were HK$0.315 on 28 November 2006 and HK$0.117 on 15 November 2006, 16 November 2006 and 17 November 2006 respectively.

**10. MISCELLANEOUS**

(a) The company secretary and the compliance officer of the Company is Mr. Lee Man Kwong. Mr. Lee has been practising as a solicitor in Hong Kong for over 21 years and is a partner at Messrs. Chan, Lau & Wai, Solicitors. He is also a solicitor qualified in England and Wales and Singapore.

(b) The qualified accountant of the Company is Mr. Au Yeung Chung Bong. Mr. Au Yeung is a certified practicing accountant of CPA Australia.

(c) The audit committee of the Company comprises all the independent non-executive Directors, namely Mr. Lam Kin Kau, Mark, Mr. Fung Wing Keung, Mr. Law Kwok Leung.

Mr. Lam Kin Kau, Mark is a practicing certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants of United Kingdom. Mr. Lam is also members of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators respectively. He has over 20 years experience in professional auditing, accounting and financial management. Mr. Lam is also an independent non-executive director of Haier Electronics Group Co., Ltd., a company listed on the Main Board of the Stock Exchange.

Mr. Law Kwok Leung holds an honoured Bachelor of Science degree in Mathematics with Operational Research from the University of London and a Master's degree in Business Administration from the University of Greenwich. He has over 20 years of experience in the advanced technology and is the Chief Executive Officer and an executive director of China Chief Cable TV Group Limited.

Mr. Fung Wing Keung has over 16 years of experience in entertainment and video industry. He is currently the General Manager of a video distribution company.

(d) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(e) The principal place of business of the Company is 5/F, Fook Hing Factory Building, 33 Lee Chung Street, Chaiwan, Hong Kong.

(f) The registered office of the First Subscriber is situated at 3/F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands.

(g) The correspondence address of the First Subscriber is 5/F, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong.

(h) The registered office of the Second Subscriber is situated at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.

(i) The correspondence address of the Second Subscriber is 8/F, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(j) The principal place of business of Mei Ah is 5/F, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong.

(k) The registered office of Mei Ah is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(l) The principal place of business of Hanny is 8/F, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(m) The registered office of Hanny is situated at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

(n) The address of Mr. Ma is Room 903-5, 9/F., West Tower, Shun Tak Centre, 200 Connaught Road, Central, Hong Kong.

(o) The principal place of business of South China Capital Limited is 28/F, Bank of China Tower, No. 1 Garden Road, Central, Hong Kong.

(p) The principal place of business of Wallbanck Brothers is 1005B, Tower 1, Lippo Centre, 89 Queensway, Central, Hong Kong.

(q) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 12:30 p.m., and from 2:00 p.m. to 5:30 p.m. between Mondays to Fridays (public holidays excepted) at the principal place of business of the Company in Hong Kong at 5/F, Fook Hing Factory Building, 33 Lee Chung Street, Chaiwan, Hong Kong, the Company's website at www.bs8167.hk and the SFC's website at www.sfc.hk from the date of this circular up to and including the date of the EGM:

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

(b) the annual reports of the Company for the two years ended 30 June 2006;

(c) the 2006 first quarterly report of the Company dated 13 November 2006;

(d) the letter from the Board, the text of which is set out on pages 6 to 26 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on page 27 of this circular;

(f) the letter of advice from Wallbanck Brothers to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 28 to 54 of this circular;

(g) the written consent referred to in the paragraph headed "QUALIFICATIONS AND CONSENT OF EXPERTS" in this appendix;

(h) the material contracts referred to in the paragraph headed "MATERIAL CONTRACTS" in this appendix;

(i) the Tenancy Agreement; and

(j) the Distribution Agreement.

# BIG MEDIA GROUP LIMITED
# 天下媒體集團有限公司*

*(incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8167)**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the "Extraordinary General Meeting") of BIG Media Group Limited (the "Company") will be held at 3:00 p.m. on Thursday, 25 January 2007 at Conference Room, 5th Floor, Mei Ah Centre, 28 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions of the Company.

## ORDINARY RESOLUTIONS

**1. "THAT,**

(a) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Exchange") granting listing of, and permission to deal in, the Subscription Shares (as defined hereinafter), the three conditional subscription agreements all dated 17 November 2006 (the "Subscription Agreements"), copies of which have been produced to the meeting and marked "A" to "C" respectively and initialed by the Chairman of the meeting for the purpose of identification, made between Fintage Asia Corporation, Richeast Holdings Limited, Mr. Ma Ho Man, Hoffman (collectively the "Subscribers") and the Company, pursuant to all of which the Company shall allot and issue a total of 225,000,000 new Shares of HK$0.20 each (the "Subscription Shares") in the share capital of the Company to the Subscribers at HK$0.20 per Subscription Share is hereby approved, confirmed and ratified;

(b) the directors of the Company (the "Directors") be and are hereby authorized to allot and issue the Subscription Shares to the Subscribers pursuant to the Subscription Agreements; and

(c) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the Subscription Agreements."

* *for identification purposes only*

**2.** “**THAT**,

subject to the passing of ordinary resolution no. 1 in the notice convening the extraordinary general meeting at which this resolution is proposed, the grant of a waiver in respect of the obligation of the Subscribers and their concert parties to make a mandatory general offer to the shareholders of the Company in respect of the shares of the Company not already owned or agreed to be acquired by them under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “Whitewash Waiver”) as a result of completion of the Subscription Agreements (as defined in ordinary resolution no. 1 as set out in the notice of the extraordinary general meeting at which this resolution is proposed) be and is hereby approved.”

**3.** “**THAT** the authorized share capital of the Company be and is hereby increased from HK$30,000,000 to HK$200,000,000 by the creation of an additional 850,000,000 new ordinary shares of HK$0.20 each in the capital of the Company.”

**4.** “**THAT**,

the distribution agreement dated 17 November 2006 (the “Distribution Agreement”), a copy of which has been produced to the meeting and marked “B” and initialed by the Chairman of the meeting for the purpose of identification, made between the Company and Mei Ah Development Company Limited, a subsidiary of Mei Ah Entertainment Group Limited (Stock code: 391) pursuant to which Mei Ah Development Company Limited is appointed as the sales agent of the film library of 104 titles possessed by the Company and future titles to be acquired, produced, co-produced or controlled by the Company and an annual cap for the three years ending 30 June 2007, 2008 and 2009 for the Distribution Agreement will be set at HK$1,000,000, HK$3,600,000 and HK$3,700,000 respectively be and are hereby ratified, confirmed and approved.”

By order of the Board
**Lee Man Kwong**
*Chairman*

Hong Kong, 8 January 2007

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal Place of Business in Hong Kong:*
5/F, Fook Hing Factory Building
33 Lee Chung Street
Chaiwan
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the Extraordinary General 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. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.

3. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration as soon as possible and in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not later than 24 hours before the time appointed to the taking of the poll.

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