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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Shaw Brothers (Hong Kong) Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**Shaw Holdings Inc.**

*(incorporated in the Republic of Nauru)*

**Shaw Brothers (Hong Kong) Limited**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00080)**

**PROPOSAL TO PRIVATISE SHAW BROTHERS (HONG KONG) LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 166 OF THE COMPANIES ORDINANCE**

**AND**

**PROPOSED WITHDRAWAL OF LISTING OF  
SHAW BROTHERS (HONG KONG) LIMITED**

**Financial adviser to Shaw Holdings Inc.**



MACQUARIE

**Independent financial adviser to the Independent Board Committee of  
Shaw Brothers (Hong Kong) Limited**



**SOMERLEY LIMITED**

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A letter from the Board is set out on pages 8 to 14 of this document. An Explanatory Statement regarding the Scheme of Arrangement is set out on pages 50 to 65 of this document. A letter from the Independent Board Committee containing its advice to the Minority Shareholders in relation to the Proposal is set out on pages 15 to 16 of this document. A letter from Somerley, being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 17 to 49 of this document.

**The actions to be taken by the Shareholders are set out on pages 61 to 62 of this document.**

Notices of the Court Meeting and the EGM both to be held on Friday, 27 February 2009 are set out on pages 162 to 165 of this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the respective instructions printed thereon, and to deposit them at the registered office of the Company at Lot 220 Clear Water Bay Road, Kowloon, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the section headed "Actions to be taken by the Shareholders" on pages 61 to 62 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged not later than 48 hours before the time appointed for the holding of the EGM. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting or the adjourned meetings.

This document is jointly issued by the Offeror and the Company.

**In the event of any inconsistency, the English language text of this document shall prevail over the Chinese language text.**

3 February 2009

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## DEFINITIONS

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

acting in concert	has the meaning ascribed to it under the Takeovers Code
Announcement Date	means 22 December 2008, being the date of the Joint Announcement
ASB	means Arnhold and S. Bleichroeder Advisers, LLC, a limited liability company established in Delaware, United States of America, which, as at the Latest Practicable Date, held 40,630,550 Undertaking Shares, representing approximately 10.20% of the issued Shares, in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients
associate(s)	has the meaning ascribed to it in the Takeovers Code
Authorisations	means all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals in connection with the Proposal or the implementation of the Scheme of Arrangement
Board	means the board of Directors
Cancellation Consideration	means the consideration of HK\$13.35 in cash for every Scheme Share cancelled
CCASS	means the Central Clearing and Settlement System established and operated by HKSCC
Companies Ordinance	means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
Company	means Shaw Brothers (Hong Kong) Limited, a limited company incorporated in Hong Kong whose Shares are listed on the Stock Exchange (stock code: 00080)
Conditions	means the conditions to which the Proposal is subject, which are set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 52 to 53 of this document

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## DEFINITIONS

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Court Meeting	means a meeting of the Minority Shareholders to be convened at the direction of the High Court for the purposes of approving the Scheme of Arrangement
Director(s)	means the director(s) of the Company
Effective Date	means the date on which the Scheme of Arrangement, if approved, becomes effective in accordance with its terms
EGM	means the extraordinary general meeting of the Company to be held immediately following the Court Meeting for the purposes of, among others, approving the reduction of the issued share capital of the Company, the issue of the New Shares to the Offeror and implementation of the Scheme of Arrangement, notice of which is set out on pages 164 to 165 of this document, or any adjournment thereof
Executive	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Explanatory Statement	means the explanatory statement set out on pages 50 to 65 of this document in compliance with Section 166A of the Companies Ordinance
Group	means the Company and its subsidiaries
High Court	means the High Court of Hong Kong
HK\$	means Hong Kong dollars, the lawful currency of Hong Kong
HKSCC	means Hong Kong Securities Clearing Company Limited
Hong Kong	means the Hong Kong Special Administrative Region of PRC
Independent Board Committee	means an independent committee (comprising Dr. Chow Yei Ching, Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu, being independent non-executive Directors) of the board of Directors established to advise the Minority Shareholders in relation to the Proposal

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## DEFINITIONS

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Irrevocable Undertaking	means the irrevocable undertaking dated 17 December 2008 and given by ASB in favour of the Offeror and Macquarie, pursuant to which ASB has undertaken, amongst other things, to vote (or use commercially reasonable efforts to procure votes) in favour of any resolution to be proposed for the purposes of approving or implementing the Scheme of Arrangement at the Court Meeting and the EGM in respect of the Undertaking Shares
Joint Announcement	means the joint announcement dated the Announcement Date issued by the Company and the Offeror relating to, inter alia, the Proposal
Jones Lang LaSalle	means Jones Lang LaSalle Limited, the independent professional valuer
Last Trading Date	means 12 December 2008, being the last full trading day before the suspension of trading in the Shares pending the publication of the Joint Announcement
Latest Practicable Date	means 30 January 2009, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
Listing Rules	means the Rules Governing the Listing of Securities on the Stock Exchange
Macquarie	means Macquarie Capital (Hong Kong) Limited, a licensed corporation under the SFO, licensed to conduct Type 6 (advising on corporate finance) regulated activity, which is the financial advisor to the Offeror in connection with the Proposal
Minority Shareholders	means Shareholders other than those holding the Shares beneficially owned by the Offeror and parties acting in concert with the Offeror
Ms Fong	means Mona Fong, a Director and a party acting in concert with the Offeror
New Shares	means the new Shares to be issued to the Offeror pursuant to the Scheme of Arrangement, the number of which is equal to the number of the Scheme Shares cancelled

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## DEFINITIONS

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Offeror	means Shaw Holdings Inc., a corporation incorporated in the Republic of Nauru, which is wholly-owned by the Trust
PRC	means the People's Republic of China which, for the purposes of this document, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
Proposal	means the proposed privatisation of the Company by the Offeror by way of the Scheme of Arrangement
Record Time	means 4:00 p.m. Hong Kong time on the trading day immediately preceding the day when the Scheme of Arrangement becomes effective, being the record time for determining entitlements of the Minority Shareholders under the Scheme of Arrangement
Registrar of Companies	means the Registrar of Companies in Hong Kong appointed under the Companies Ordinance
Relevant Authorities	means government, governmental bodies, regulatory bodies, courts or institutions, including the SFC and the Stock Exchange
Relevant Period	means the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date
Scheme of Arrangement	means a scheme of arrangement under Section 166 of the Companies Ordinance for the implementation of the Proposal between the Company and the Minority Shareholders involving the cancellation of all the Scheme Shares, details of which are set out on pages 155 to 161 of this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the High Court
Scheme Share(s)	means the Share(s) in issue at the Record Time, other than those beneficially owned by the Offeror and parties acting in concert with the Offeror
SFC	means the Securities and Futures Commission of Hong Kong
SFO	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

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## DEFINITIONS

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Share(s)	means ordinary share(s) of HK\$0.25 each in the capital of the Company
Shareholder(s)	means the registered holder(s) of the Shares
sq.m.	means square metre(s)
Stock Exchange	means The Stock Exchange of Hong Kong Limited
Somerley	means Somerley Limited, the independent financial adviser to the Independent Board Committee and a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Takeovers Code	means the Hong Kong Code on Takeovers and Mergers
Trust	means The Sir Run Run Shaw Charitable Trust
TVB	means Television Broadcasts Limited, a limited company incorporated in Hong Kong whose shares are listed on the Stock Exchange (stock code: 00511)
Undertaking Shares	means the 40,630,550 Shares held by ASB as at the date of the Irrevocable Undertaking in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients and in respect of which the Irrevocable Undertaking has been given by ASB
%	means per cent.

All references in this document to times and dates are references to Hong Kong times and dates.

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## EXPECTED TIMETABLE

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*The following timetable takes into account the High Court procedures for the Scheme of Arrangement. The expected timetable is indicative only and is subject to change.*

*Hong Kong time*

Latest time for lodging transfers of Shares  
to qualify for attending and voting at  
the Court Meeting and the EGM ..... 4:30 p.m. on Thursday, 19 February 2009

Closure of the register of members of the Company  
for determination of entitlements of the  
Minority Shareholders to attend and vote at the  
Court Meeting and of the Shareholders to attend  
and vote at the EGM (*Note 1*) ..... Friday, 20 February 2009 to  
Friday, 27 February 2009  
(both dates inclusive)

Latest time for lodging forms of proxy in respect of:

the Court Meeting (*Note 2*) ..... 10:00 a.m. on Wednesday, 25 February 2009

the EGM (*Note 2*) ..... 10:30 a.m. on Wednesday, 25 February 2009

Suspension of trading in the Shares ..... 9:30 a.m. on Friday, 27 February 2009

The Court Meeting (*Note 3*) ..... 10:00 a.m. on Friday, 27 February 2009

The EGM (*Note 3*) ..... 10:30 a.m. on Friday, 27 February 2009

or as soon thereafter as  
the Court Meeting shall  
have been concluded or  
adjourned

Announcement of the results of the Court Meeting  
and the EGM posted on the website of  
the Stock Exchange ..... no later than 7:00 p.m. on  
Friday, 27 February 2009

Resumption of trading in the Shares ..... 9:30 a.m. on Monday, 2 March 2009

Latest time for trading in the Shares ..... 4:10 p.m. on Monday, 9 March 2009

High Court hearing of the summons for directions  
in respect of the capital reduction ..... Tuesday, 10 March 2009

Latest time for lodging transfers of Shares to qualify  
for entitlements of the Minority Shareholders under  
the Scheme of Arrangement ..... 4:30 p.m. on Thursday, 12 March 2009



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## EXPECTED TIMETABLE

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Closure of the register of members of the Company for determination of entitlements of the Minority Shareholders under the Scheme of Arrangement .....	From Friday, 13 March 2009 to Tuesday, 17 March 2009 (both dates inclusive)
High Court hearing of the petition to sanction the Scheme of Arrangement .....	Tuesday, 17 March 2009
Record Time .....	4:00 p.m. on Tuesday, 17 March 2009
Announcement of the results of the High Court hearing of the petition to sanction the Scheme of Arrangement .....	no later than 7:00 p.m. on Tuesday, 17 March 2009
Effective Date ( <i>Note 4</i> ) .....	Wednesday, 18 March 2009
Withdrawal of the listing of the Shares on the Stock Exchange becomes effective .....	after close of business on Wednesday, 18 March 2009
Announcement on the Effective Date and withdrawal of listing of the Shares on the Stock Exchange .....	Wednesday, 18 March 2009
Cheques for the payment of the Cancellation Consideration to be despatched .....	on or before Friday, 27 March 2009

**Shareholders should note that the above timetable, which is dependent on all Conditions being fulfilled and/or otherwise waived (as the case may be) and the availability of the dates of the High Court to hear the proceedings for the sanctioning of the Scheme of Arrangement, is subject to change. Further announcement(s) will be made in the event that there is any such change.**

*Notes:*

- 1 The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Minority Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme of Arrangement.
- 2 Forms of proxy should be deposited at the registered office of the Company at Lot 220 Clear Water Bay Road, Kowloon, Hong Kong as soon as possible and by the times and dates stated above. The forms of proxy in respect of the Court Meeting may be handed to the Chairman of the Court Meeting if it is not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting. In the case of any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, or in the case of any beneficial owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, your attention is drawn to the paragraph headed "Shareholders who hold their Shares through trust or CCASS" in the "Explanatory Statement" set out on pages 62 to 63 of this document.
- 3 Both the Court Meeting and the EGM will be held at the Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, Tsim Sha Tsui East, Kowloon, Hong Kong at the time and dates specified above.
- 4 The Scheme of Arrangement will become effective upon all the Conditions being fulfilled and/or otherwise waived (as the case may be).

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## LETTER FROM THE BOARD

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### **Shaw Brothers (Hong Kong) Limited**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00080)**

*Executive Directors:*

Sir Run Run Shaw (GBM) (*Executive Chairman*)

Ms. Mona Fong

*(Deputy Chairperson and Managing Director)*

Mr. Jeremiah Rajakulendran

*Registered Office:*

Lot 220 Clear Water Bay Road

Kowloon, Hong Kong

*Independent Non-Executive Directors:*

Dr. Chow Yei Ching

Ms. Ng Julie Yuk Shun

Mr. Nelson Hon Sang Chiu

3 February 2009

*To the Shareholders*

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE SHAW BROTHERS (HONG KONG) LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 166 OF THE COMPANIES ORDINANCE**

**AND**

**PROPOSED WITHDRAWAL OF LISTING OF  
SHAW BROTHERS (HONG KONG) LIMITED**

#### **INTRODUCTION**

On 22 December 2008, the Company and the Offeror jointly announced that on 18 December 2008, the Offeror requested the Board to put forward to the Minority Shareholders the Proposal which, if approved and implemented, would result in the cancellation of the Scheme Shares, the Company becoming wholly-owned by the Offeror and parties acting in concert with the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange. The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled, the New Shares will be issued as fully paid to the Offeror and the listing of the Shares on the Stock Exchange will be withdrawn in accordance with Rule 6.15 of the Listing Rules.

Following a meeting of the Board on 18 December 2008, the Board has agreed to put forward the Proposal for consideration by the Minority Shareholders.

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## LETTER FROM THE BOARD

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The Offeror has appointed Macquarie as its financial adviser in connection with the Proposal. The Independent Board Committee was formed, comprising Dr. Chow Yei Ching, Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu, who are all independent non-executive Directors, to advise the Minority Shareholders in connection with the Proposal. Other than Dr. Chow Yei Ching who was interested in the Shares as at the Latest Practicable Date as set out in the section headed “Disclosure of Interests under the SFO” in Appendix III to this document, none of the other members of the Independent Board Committee has any interest in the Proposal. Somerley has been appointed, with the approval of the Independent Board Committee, as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with, among other things, further details of the Proposal, the expected timetable, the Explanatory Statement, further information regarding the Company, the recommendations of the Independent Board Committee with respect to the Proposal, the letter from Somerley to the Independent Board Committee and to give you notices of the Court Meeting and the EGM. In this regard, your attention is also drawn to:

- (i) the letter from the Independent Board Committee set out on pages 15 to 16 of this document;
- (ii) the letter from Somerley to the Independent Board Committee set out on pages 17 to 49 of this document;
- (iii) the Explanatory Statement set out on pages 50 to 65 of this document; and
- (iv) the Scheme of Arrangement set out on pages 155 to 161 of this document.

### TERMS OF THE PROPOSAL

Under the Scheme of Arrangement, the holders of the Scheme Shares will receive from the Offeror the Cancellation Consideration as consideration for the cancellation of the Scheme Shares:

HK\$13.35 in cash ..... for every Scheme Share cancelled

As at the Latest Practicable Date, there were 398,390,400 Shares in issue and the Offeror and parties acting in concert with the Offeror were interested in 298,484,872 Shares in aggregate, representing approximately 74.92% of the issued Shares as at the Latest Practicable Date. The Minority Shareholders were interested in 99,905,528 Shares in aggregate, representing approximately 25.08% of the issued Shares as at the Latest Practicable Date.

The Shares owned by the Offeror and parties acting in concert with the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, Dr. Chow Yei Ching, an independent non-executive Director, was interested in 100,000 Shares, representing approximately 0.03% of the issued Shares as at the Latest Practicable Date. Based on his confirmation that he is not acting in concert with the Offeror, he will be entitled to vote at the Court Meeting since his interests under the Scheme of Arrangement will not be different, and his rights under the Scheme of Arrangement will not be affected differently, from those of any of the other Minority Shareholders.

The detailed terms of the Proposal are set out in the Explanatory Statement on pages 50 to 65 of this document.

### COMPARISON OF VALUE

The Cancellation Consideration of HK\$13.35 in cash for each Scheme Share cancelled under the Proposal represents:

- a premium of approximately 64.2% over the closing price of the Shares of HK\$8.13 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 73.5% over the average closing price of the Shares of approximately HK\$7.70 per Share as quoted on the Stock Exchange for the one month ended the Last Trading Date;
- a premium of approximately 54.0% over the average closing price of the Shares of approximately HK\$8.67 per Share as quoted on the Stock Exchange for the three months ended the Last Trading Date;
- a discount of approximately 4.5% to the average closing price of the Shares of approximately HK\$13.98 per Share as quoted on the Stock Exchange for the six months ended the Last Trading Date;
- a premium of approximately 2.7% over the closing price of the Shares of HK\$13.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 163.8% over the audited consolidated net asset value per Share of approximately HK\$5.06 as at 31 March 2008; and
- a premium of approximately 169.7% over the unaudited consolidated net asset value per Share of approximately HK\$4.95 as at 30 September 2008.

As at the Latest Practicable Date, the Company held 113,888,628 shares in TVB, representing approximately 26% of the issued share capital of TVB. Based on the average closing price of HK\$26.29 per ordinary share of TVB for the five trading days ended the Latest Practicable Date, the value of the Company's 26% shareholding in TVB was approximately HK\$2,994 million (or HK\$7.52 per Share).

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## LETTER FROM THE BOARD

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Adopting a direct comparison method, Jones Lang LaSalle valued the Company's direct property interests at a market value of HK\$1,114.6 million (or approximately HK\$2.80 per Share) as at 31 December 2008. Jones Lang LaSalle also adopted a depreciated replacement cost method for valuing an indirect property interest, in which the Company holds a 35% stake, at a market value of HK\$574.7 million (or approximately HK\$1.44 per Share) as at 31 December 2008. The valuations assume that the Company's direct and indirect property interests were sold on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of those property interests.

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK\$5,319 million.

### **Highest and lowest prices**

During the six month period preceding the Last Trading Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$23.50 per Share on 26 June 2008 and HK\$6.00 per Share on 27 October 2008, respectively.

### **CONDITIONS OF THE PROPOSAL**

The Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the other Shareholders subject to the fulfillment or waiver, as applicable, of the Conditions set out in the section headed "Conditions of the Proposal" in the Explanatory Statement on pages 52 to 53 of this document.

All the Conditions will have to be fulfilled or waived, as applicable, on or before 31 March 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), otherwise the Proposal will lapse. If the Proposal is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

**Shareholders and potential investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. The Scheme of Arrangement may or may not become effective. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

### **REASONS FOR THE PROPOSAL**

Your attention is drawn to the section headed "Reasons for the Proposal" in the Explanatory Statement on pages 53 to 54 of this document.

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## LETTER FROM THE BOARD

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### FINANCIAL RESOURCES

#### Total cash consideration

The aggregate Cancellation Consideration payable in cash under the Proposal will be approximately HK\$1,334 million for 99,905,528 Scheme Shares, and will be funded by the internal resources of the Offeror.

#### Confirmation of financial resources

Macquarie is satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

As at the Latest Practicable Date, Macquarie did not hold any voting rights or other rights over Shares.

### IRREVOCABLE UNDERTAKING

The Offeror has obtained the Irrevocable Undertaking from ASB, pursuant to which ASB has undertaken, amongst other things, to vote (or use commercially reasonable efforts to procure votes) in favour of any resolution to be proposed for the purposes of approving or implementing the Scheme of Arrangement at the Court Meeting and the EGM in respect of the Undertaking Shares. ASB has also undertaken in the Irrevocable Undertaking (a) not to sell, transfer, assign or otherwise dispose of any interest in or right attached to any of the Undertaking Shares until such time as the Scheme of Arrangement shall have become effective or the Scheme of Arrangement shall have lapsed or have been withdrawn, provided however that ASB may sell, transfer, assign or otherwise dispose of interests in or rights attached to any Undertaking Shares if such action is necessary for it to fulfil its fiduciary duty to its clients; and (b) not to acquire any interest in or right over shares of the Company after the date of the Irrevocable Undertaking.

The Irrevocable Undertaking will terminate in accordance with its terms on (a) 31 March 2009 or (b) the day after the date on which the Scheme of Arrangement (i) becomes effective, (ii) lapses or (iii) is withdrawn, whichever is the earliest. The Irrevocable Undertaking will also terminate with respect to any Undertaking Shares in the event that the client account for which ASB exercises voting powers and the power to transact purchases and sales of such shares has terminated or in respect of which its authority to so act has been revoked.

In accordance with its terms, the Irrevocable Undertaking will extend to any revised scheme to privatise the Company submitted by the Company at the request of the Offeror to the shareholders of the Company which would result in the Company becoming wholly-owned by the Offeror and parties acting in concert with the Offeror and which represents, on such basis as the Offeror may consider appropriate, no diminution in the value of the Cancellation Consideration or any other material change to the terms of the Scheme of Arrangement (including any change in the form of the Cancellation Consideration but excluding any change in timing).

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## **LETTER FROM THE BOARD**

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As at the Latest Practicable Date, ASB held 40,630,550 Undertaking Shares, representing approximately 10.20% of the issued Shares, in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients. ASB is an investment management firm engaged in the provision of investment advisory services to institutional and individual clients.

### **INFORMATION ON THE COMPANY AND THE OFFEROR**

Your attention is drawn to the sections headed “Information on the Company” and “Information on the Offeror” in the Explanatory Statement on pages 56 to 57 of this document. Your attention is also drawn to the “Financial Information of the Group” in Appendix I to this document and the “Property Valuation” in Appendix II to this document.

### **FUTURE PLANS FOR THE GROUP**

Please refer to the section headed “Future Plans for the Group” in the Explanatory Statement on page 59 of this document.

### **WITHDRAWAL OF LISTING OF THE SHARES**

Upon the Scheme of Arrangement becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules with effect from the date on which the Scheme of Arrangement becomes effective. The Scheme of Arrangement will lapse if any of the conditions described in the section headed “Conditions of the Proposal” has not been fulfilled or waived, as applicable, on or before 31 March 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct). The holders of the Scheme Shares will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

### **THE COURT MEETING AND THE EGM**

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Friday, 27 February 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme of Arrangement (with or without modifications). The Scheme of Arrangement is subject to approval by a majority in number of the Minority Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Minority Shareholders at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by the Minority Shareholders.

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## LETTER FROM THE BOARD

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The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme of Arrangement by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme of Arrangement at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Notices of the Court Meeting and the EGM are set out on pages 162 to 165 of this document. The Court Meeting and the EGM will be held on Friday, 27 February 2009 at the respective times specified in such notices at the Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, Tsim Sha Tsui East, Kowloon, Hong Kong.

### **EXPLANATORY STATEMENT**

Please refer to the Explanatory Statement for detailed information in relation to the Proposal and an explanation of the effects of the Proposal.

### **RECOMMENDATIONS OF THE INDEPENDENT BOARD COMMITTEE**

Your attention is drawn to the letter from the Independent Board Committee on pages 15 to 16 of this document which sets out its recommendations in relation to the Proposal.

### **ADVICE OF SOMERLEY**

Please also refer to the advice of Somerley, set out in the letter from Somerley to the Independent Board Committee on pages 17 to 49 of this document.

### **ADDITIONAL INFORMATION**

Your attention is also drawn to all the appendices to this document set out on pages 66 to 154 of this document, the scheme of arrangement set out on pages 155 to 161 of this document and the notices of the Court Meeting and the EGM set out on pages 162 to 165 of this document.

Yours faithfully,  
On behalf of the Board  
**Jeremiah Rajakulendran**  
*Director/Company Secretary*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### **Shaw Brothers (Hong Kong) Limited**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00080)**

3 February 2009

*To the Minority Shareholders*

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE SHAW BROTHERS (HONG KONG) LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 166 OF THE COMPANIES ORDINANCE**

**AND**

**PROPOSED WITHDRAWAL OF LISTING OF  
SHAW BROTHERS (HONG KONG) LIMITED**

#### **INTRODUCTION**

We refer to the document dated 3 February 2009 jointly issued by the Company and the Offeror in relation to the Proposal (the **Composite Document**) of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires.

On 22 December 2008, the Company and the Offeror jointly announced that on 18 December 2008, the Offeror requested the Board to put forward to the Minority Shareholders a proposal for the privatisation of the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance.

Details of the Proposal are set out in the “Letter from the Board” on pages 8 to 14 of the Composite Document, and the Explanatory Statement on pages 50 to 65 of the Composite Document.

We have been appointed as members of the Independent Board Committee to consider the terms of the Proposal and to advise you as to whether, in our opinion, the terms of the Proposal are fair and reasonable so far as the Minority Shareholders are concerned. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Proposal.

We also wish to draw your attention to (i) the letter from Somerley; and (ii) the additional information set out in the appendices to the Composite Document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATIONS

Having considered the terms of the Proposal, and having taken into account the opinion of Somerley and, in particular, the factors, reasons and recommendations as set out in the letter from Somerley on pages 17 to 49 of the Composite Document, we consider that the terms of the Proposal are fair and reasonable so far as the Minority Shareholders are concerned. Accordingly, we recommend the Minority Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Scheme of Arrangement.

Yours faithfully,  
Independent Board Committee

**Dr. Chow Yei Ching**  
*Independent*  
*non-executive Director*

**Ms. Ng Julie Yuk Shun**  
*Independent*  
*non-executive Director*

**Mr. Nelson Hon Sang Chiu**  
*Independent*  
*non-executive Director*

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## LETTER FROM SOMERLEY

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*The following is the letter of advice from Somerley to the Independent Board Committee, which has been prepared for the purpose of inclusion in this document.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

3 February 2009

*To: The Independent Board Committee of Shaw Brothers (Hong Kong) Limited*

Dear Sirs,

**PROPOSAL TO PRIVATISE SHAW BROTHERS (HONG KONG) LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 166 OF THE COMPANIES ORDINANCE**

**AND**

**PROPOSED WITHDRAWAL OF LISTING OF  
SHAW BROTHERS (HONG KONG) LIMITED**

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal. Details of the Proposal are contained in the document to the Shareholders dated 3 February 2009 (the “**Composite Document**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 22 December 2008, the Company and the Offeror jointly announced that on 18 December 2008, the Offeror requested the Board to put forward to the Minority Shareholders the Proposal which, if approved and implemented, would result in the cancellation of the Scheme Shares, the Company becoming wholly-owned by the Offeror and parties acting in concert with the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange. The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Following a meeting of the Board on 18 December 2008, the Board has agreed to put forward the Proposal for consideration by the Minority Shareholders.

The Board comprises six Directors, three of whom are executive Directors and three of whom are independent non-executive Directors. The Independent Board Committee was formed, comprising Dr. Chow Yei Ching (“**Dr. Chow**”), Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu, who are all independent non-executive Directors, to advise the Minority Shareholders in connection with the Proposal. Other than Dr. Chow who was interested in certain Shares as at the Latest Practicable Date, none of the other members of the Independent Board Committee has any interest in the Proposal. The Independent Board Committee has approved the appointment of Somerley as the independent financial adviser to the Independent Board Committee in connection with the Proposal.

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## LETTER FROM SOMERLEY

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We have worked on two occasions in the past two years for Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (the “**Previous Works**”). We have not been engaged by Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited for any work since March 2007. According to information publicly available to us and as at the Latest Practicable Date, Chevalier International Holdings Limited is beneficially owned as to approximately 56% by Dr. Chow, and Chevalier Pacific Holdings Limited is owned as to approximately 59% by Chevalier International Holdings Limited. As Dr. Chow has been an independent non-executive Director since his appointment in 2001 and as confirmed by the Company, he has not been involved in the daily operations of the Group since his appointment, we are of the view that the Previous Works will not affect our independence in this appointment. Save as disclosed herein, we are not associated or connected with the Company or the Offeror, their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment and other similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them.

In formulating our opinion, we have reviewed, among other things, the annual reports of the Company for each of the preceding three years ended 31 March 2008, the interim report of the Company for the six months ended 30 September 2008 (the “**2008 Interim Report**”), the annual reports of TVB for each of the preceding three years ended 31 December 2007, the interim report of TVB for the six months ended 30 June 2008 (the “**2008 TVB Interim Report**”) and the valuation report of the properties held by the Group prepared by Jones Lang LaSalle Limited (the “**Valuer**”) as set out in Appendix II to this Composite Document (the “**Valuation Report**”).

We have also relied on the information and facts supplied, and the opinions expressed, by the Directors and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the Court Meeting and the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Minority Shareholders regarding the Proposal since these are particular to their individual circumstances. In particular, Minority Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

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## LETTER FROM SOMERLEY

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### PRINCIPAL TERMS OF THE PROPOSAL

Under the Scheme of Arrangement, the holders of the Scheme Shares will receive from the Offeror the Cancellation Consideration as consideration for the cancellation of the Scheme Shares:

HK\$13.35 in cash ..... for every Scheme Share cancelled

As at the Latest Practicable Date, there were 398,390,400 Shares in issue and the Offeror and parties acting in concert with the Offeror were interested in 298,484,872 Shares in aggregate, representing approximately 74.92% of the issued Shares as at the Latest Practicable Date. The Minority Shareholders were interested in 99,905,528 Shares in aggregate, representing approximately 25.08% of the issued Shares as at the Latest Practicable Date. As at the Latest Practicable Date, the Company did not have in issue any outstanding options, warrants, derivatives or convertible securities.

The Shares owned by the Offeror and parties acting in concert with the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

Minority Shareholders are recommended to read carefully the Explanatory Statement, which contains further details of the terms of the Proposal.

#### *Conditions of the Scheme of Arrangement*

The Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the Minority Shareholders subject to the fulfilment or waiver, as applicable, of the Conditions on or before 31 March 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), otherwise the Proposal will lapse. If the Proposal is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn. Details of the Conditions are set out in section headed "Conditions of the Proposal" in the Explanatory Statement of this Composite Document.

Upon the Scheme of Arrangement becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules with effect from the date on which the Scheme of Arrangement becomes effective.

#### *Irrevocable Undertaking from ASB*

The Offeror has obtained the Irrevocable Undertaking from ASB, pursuant to which ASB has undertaken, amongst other things, to vote (or use commercially reasonable efforts to procure votes) in favour of any resolution to be proposed for the purposes of approving or implementing the Scheme of Arrangement at the Court Meeting and the EGM in respect of the Undertaking Shares.

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## LETTER FROM SOMERLEY

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As at the Latest Practicable Date, ASB held 40,630,550 Undertaking Shares, representing approximately 10.20% of the issued Shares, in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients. ASB is an investment management firm engaged in the provision of investment advisory services to institutional and individual clients.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

#### **1. Reasons for and benefits of the Proposal to the Minority Shareholders**

As set out in the Explanatory Statement, the Proposal:

- (a) provides an opportunity for the Minority Shareholders to realise their shareholdings in the Company in return for cash, given the relatively low degree of liquidity of the Shares traded on the Stock Exchange and the currently limited opportunity for the Minority Shareholders to divest their investment in the Company;
- (b) provides the Minority Shareholders with an opportunity to realise their investment in the Company for cash during current poor market conditions, and at a significant premium to the market price prevailing on the Last Trading Date; and
- (c) allows the Minority Shareholders the opportunity to redeploy capital invested in the Company into other investment opportunities that they may consider more attractive in the current market environment.

The Offeror is of the view that given the current market conditions, the ability of the Company to take advantage of its listing status on the Main Board of the Stock Exchange to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is not likely. Accordingly, the Offeror is putting forward the Proposal on the basis that it is not justified for the Company to maintain its listing status taking account of the costs and management resources associated with maintaining such status and the relatively limited benefits that the Company is able to derive from it in the foreseeable future.

We have confirmed with the Company that save for the Proposal, there has not been any privatisation proposal received by the Company and that there will be no material impact on the Group's operation if the Scheme of Arrangement does not become effective.

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## LETTER FROM SOMERLEY

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### 2. Information on the Group and TVB

#### (a) *Histories and developments of the Group and TVB*

The Company was incorporated in 1958 and its shares have been listed on the Main Board of the Stock Exchange since 1971. The Group is principally engaged in investment holdings and investments in the media and entertainment industries.

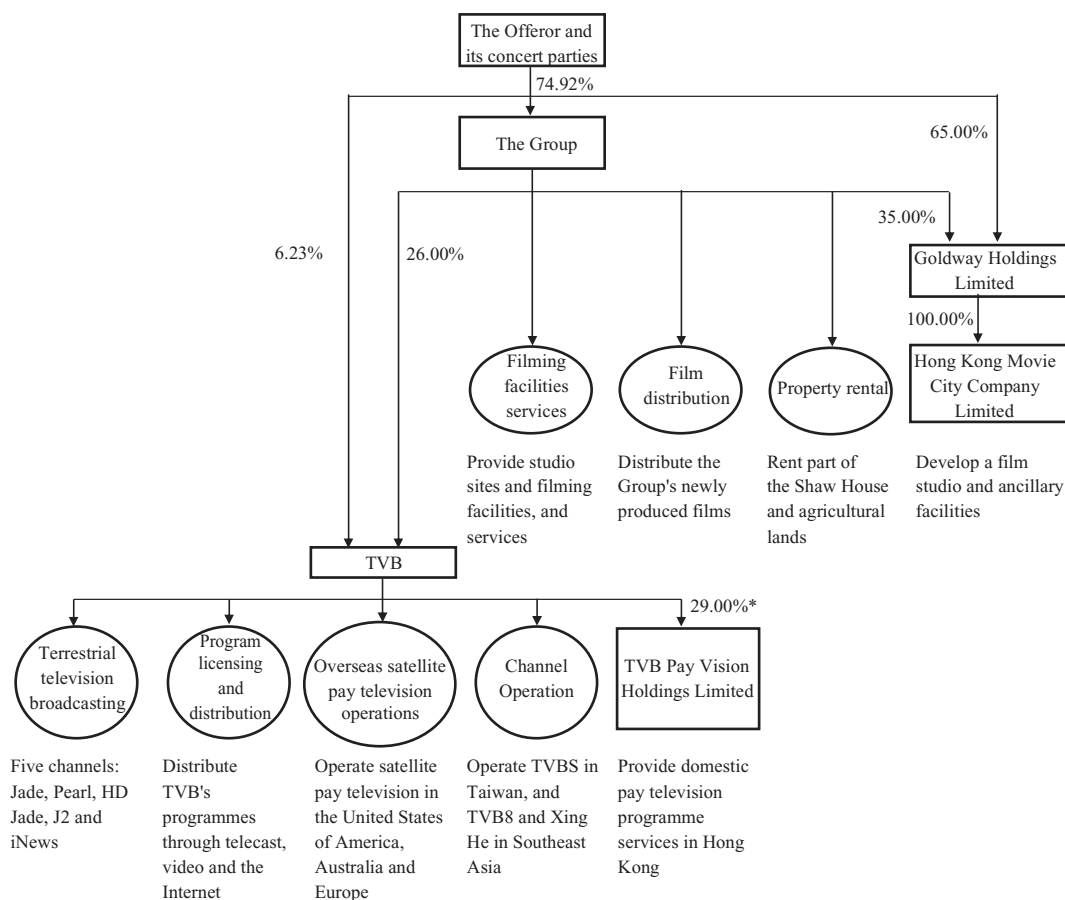
Starting from the 1950's, the Group acquired and developed cinemas throughout Southeast Asia, Japan, Australia, North America, Hawaii and Canada, thereby establishing itself as one of the biggest film production, distribution and exhibition groups in the region. In the 1970's, the size of the Group's theatre line-up exceeded 200 screens, including several 1,000-seat plus flagship houses in Hong Kong. By the mid-1980's, the Group commenced pulling back from feature film production. In April 1995, the Group ceased its cinema operation business. Since then, the Group has been focusing on monitoring the operation of TVB, a company listed on the Main Board of the Stock Exchange and principally engaged in television broadcasting, programme licensing and production, animation production, magazine publishing and other broadcasting related activities. The Group's equity interest in TVB has varied as a result of various acquisitions and disposals of interests in TVB by the Group. As at the Latest Practicable Date, the Group held an approximately 26% equity interest in TVB. The operation of the Group (other than those through the TVB Group) was further scaled down by the disposal of most of the film titles held by the Group to an independent third party in 2000.

On 14 May 2008, the Company issued an announcement that, among other things, the Offeror was in discussion with representatives of interested parties regarding a possible purchase of Shares held by it and/or its subsidiaries (the "**Discussion on Disposal of Shares**"). On 13 August 2008, the Company issued an announcement that, among other things, the proposed disposal of certain agricultural lands to a company controlled by Ms. Mona Fong, Deputy Chairperson and Managing Director of the Company (the "**Proposed Disposal**"). On 2 September 2008, the Company further announced that as the condition precedent to the Proposed Disposal was not fulfilled, the parties to the agreement agreed to terminate the Proposed Disposal. On 14 October 2008, the Company further announced that the Offeror confirmed to the Company that the Discussion on Disposal of Shares had been terminated. On 22 December 2008, the Company and the Offeror jointly announced that on 18 December 2008, the Offeror requested the Board to put forward to the Minority Shareholders the Proposal.

## LETTER FROM SOMERLEY

### (b) *Businesses of the Group and TVB*

Set out below is a simplified organisational chart of the Group and TVB:



\* TVB has a 29% beneficial interest in TVB Pay Vision Holdings Limited ("TVB PVH") but has only 15% voting control in TVB PVH.

#### (i) *Investment in TVB*

For the three years ended 31 March 2008 and the six months ended 30 September 2008, TVB and its subsidiaries (together, the "TVB Group") contributed profits to the Group of approximately HK\$306.8 million, HK\$309.1 million, HK\$328.6 million and HK\$130.7 million respectively, representing almost the Group's entire profits for the period under review. The TVB Group is principally engaged in television broadcasting, programme licensing and production, animation production, magazine publishing and other broadcasting related activities. The Group's interest in TVB had a net book value of approximately HK\$1,357.1 million, representing approximately 62% of the total assets of the Group, as at 30 September 2008. Based on the closing share price of TVB of HK\$27.8 per share as at the Latest Practicable Date, the market value of the TVB Group attributable to the Group amounted to approximately HK\$3,166.1 million.



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## LETTER FROM SOMERLEY

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*(ii) Filming facilities services*

This business segment involves the provision of studio sites and filming facilities, and services in the Shaw Studio in Clear Water Bay, Hong Kong (the “**Old Shaw Studio**”). For the three years ended 31 March 2008 and six months ended 30 September 2008, the business recorded segmental gains of approximately HK\$3.6 million, HK\$2.5 million and HK\$0.7 million, and a segmental loss of approximately HK\$2.5 million, respectively.

*(iii) Film distribution*

Although the Group disposed most of the film titles held by the Group to an independent third party in 2000, the Group is still in the film production business. However, during the year ended 31 March 2008 and the six months ended 30 September 2008, there was no new film under production by the Group. Revenue from film distribution is recognised upon delivery of the films for royalty income and upon release of the films for theatrical income. For the three years ended 31 March 2008 and six months ended 30 September 2008, the business recorded a segmental loss of approximately HK\$0.8 million, segmental loss of approximately HK\$0.6 million, segmental gain of approximately HK\$0.3 million and a segmental loss of approximately HK\$0.7 million, respectively.

*(iv) Property rental*

This business segment relates to the leasing out of part of Shaw House and the agricultural lands owned by the Group.

The Group owns certain parcels of land in Clear Water Bay Road, where the Old Shaw Studio and Shaw House are erected (the “**Clear Water Bay Site**”). The Clear Water Bay Site has a total site area of approximately 45,813 sq.m. in Clear Water Bay Road. Neighbouring developments include residential properties and schools. The parcel of land adjacent to the Clear Water Bay Site (the “**Adjacent Land**”) is owned by Coastline International Limited (“**Coastline**”), a third party independent of the Company and the Offeror.

As discussed with the Directors and disclosed in the Company’s 2008 annual report and the 2008 Interim Report, the Company’s town planning application for redevelopment of the Clear Water Bay Site (as part of a comprehensive redevelopment in conjunction with the Adjacent Land) was approved in principle in April 2008. The Group and Coastline have submitted a joint master layout plan to the Lands Department in relation to redevelopment of the Clear Water Bay Site and the Adjacent Land. If the Lands Department consents to the land exchange to modify the government lease conditions, the Group will redevelop the Clear Water Bay Site on its own. The Company has confirmed that, save as disclosed above, it has not entered into any arrangement with Coastline and/or any other party to jointly redevelop the Clear Water Bay Site.

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## LETTER FROM SOMERLEY

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The Clear Water Bay Site is proposed to be developed for residential and commercial use and mainly consists of two phases. However, the development of the second phase is subject to, among other things, the “dualling” of certain sections of Clear Water Bay Road or subject to further traffic review to be conducted by the Company after full completion of the first phase development to the satisfaction of, the Commissioner for Transport or the Town Planning Board. Details of the planned development and the Clear Water Bay Site are set out in the Valuation Report as set out in Appendix II to this Composite Document. The Clear Water Bay Site had a net book value of approximately HK\$119.1 million as at 30 September 2008 and was appraised at HK\$1,090.0 million as at 31 December 2008 (the “**Clear Water Bay Site Appraised Value**”) by the Valuer.

The Group also owns certain agricultural land lots (the “**Agricultural Lands**”) located in Demarcation District Number 229, Tai Po Tsai, Clear Water Bay, Sai Kung, New Territories with a total site area of approximately 11,430 sq.m.. They are rural in nature, surrounded by a private garden and low-rise houses (both are owned by parties independent of the Company) and are situated in a valley sandwiched between Clear Water Bay Road and Clear Water Bay School. They comprise various agricultural lots clustered together to form an irregular and elongated shape site. There is no direct vehicular access to the Agricultural Lands from the Clear Water Bay Road or any other roads, only a track branching off from Clear Water Bay Road. They were previously principally used for constructing props for film shooting and are currently leased out for nursery use.

Based on discussion with the Valuer, the Agricultural Lands are situated within an area zoned of “Green Belt” uses. According to the “Approved Clear Water Bay Peninsula North Outline Zoning Plan No. S/SK-CWBN/3” issued by the Town Planning Board in November 2006, the planning intention of the “Green Belt” zone is primarily for defining the limits of urban and sub-urban development areas by natural features and to contain urban sprawl as well as to provide passive recreational outlets. There is a general presumption against development within the “Green Belt” zone. The Agricultural Lands are generally restricted to agricultural uses and cannot be used for building purposes without modification of use. The “Green Belt” zone also allows uses such as agricultural use, nature reserve, nature trail, on-farm domestic structure, picnic area and wild animal protection area. Other uses in the zone will require permission from the Town Planning Board.

The Agricultural Lands had a net book value of approximately HK\$15.5 million as at 30 September 2008 and was appraised at HK\$24.6 million as at 31 December 2008 (the “**Agricultural Lands Appraised Value**”) by the Valuer. The Offeror has confirmed that neither it nor its concert parties have any interest in the lands adjoining to the Agricultural Lands and it has no intention to apply for a change in zoning of the Agricultural Lands.

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## LETTER FROM SOMERLEY

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Set out below is the map showing the location of the Clear Water Bay Site and the Agricultural Lands (for reference only):



*Source: Survey and Mapping Office, Lands Department*

For the three years ended 31 March 2008 and six months ended 30 September 2008, the property rental business recorded segmental gains of approximately HK\$5.0 million, HK\$1.6 million, HK\$2.3 million and HK\$1.1 million, respectively.

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## LETTER FROM SOMERLEY

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(v) *Investment in Hong Kong Movie City Company Limited (“HKMCCL”)*

The Group, through Goldway Holdings Limited, has a 35% interest in HKMCCL, which is principally engaged in developing the new Shaw Studio situated in Tseung Kwan O, Hong Kong (the “**New Shaw Studio**”). With a total development cost of approximately HK\$1.4 billion, the new Shaw Studio has a total site area of approximately 48,692 sq.m. and a gross floor area of approximately 76,452 sq.m.. As set out in the 2008 Interim Report, internal fitting-out works of the New Shaw Studio are expected to be completed by first quarter of 2009 and the facilities will be launched for operation thereafter. The New Shaw Studio is dedicated to film production and post-production.

The remaining 65% indirect interest in HKMCCL is owned by Shaw Property Holdings Limited, a company controlled by the Offeror and its concert parties. The Group’s attributable interest in HKMCCL had a net book value of approximately HK\$419.0 million, representing approximately 19% of the total assets of the Group, as at 30 September 2008. For the three years ended 31 March 2008 and the six months ended 30 September 2008, Goldway Holdings Limited and HKMCCL contributed losses to the Group of approximately HK\$3.9 million, HK\$5.1 million, HK\$8.5 million and HK\$4.3 million, respectively. The property interest of HKMCCL had a net book value of approximately HK\$1,134.9 million as at 30 September 2008 and was appraised at HK\$1,642.0 million as at 31 December 2008 (the “**New Shaw Studio Appraised Value**”) by the Valuer.

(c) *Financial results and financial position of the Group*

(i) *Financial results*

Set out in the table below is a summary of the financial results of the Group for the three years ended 31 March 2008 and six months ended 30 September 2007 and 30 September 2008 respectively.

	<b>For the six months ended 30 September</b>		<b>For the year ended 31 March</b>		
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	10,018	21,655	33,457	43,311	54,156
Operating loss	(10,969)	(3,965)	(8,641)	(10,127)	(5,503)
Share of net profit after income tax of associates ( <i>Note</i> )	126,470	123,475	320,041	303,921	302,907
Profit attributable to the Shareholders	115,501	119,510	311,400	293,794	297,404
Dividend per share ( <i>HK\$</i> )	0.05	0.05	0.47	0.45	0.40
Earnings per share ( <i>HK\$</i> )	0.29	0.30	0.78	0.74	0.75

*Note:* Mainly comprised the Group’s 26% associate interest in TVB

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## LETTER FROM SOMERLEY

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Turnover of the Group mainly comprises revenue from filming facilities services fees, which has decreased gradually from approximately HK\$41.8 million for the year ended 31 March 2006 to approximately HK\$29.0 million for the year ended 31 March 2008 and further decreased to approximately HK\$8.2 million for the six months ended 30 September 2008. During the aforesaid review period, the Group has recorded operating losses from its principal business. In spite of recording diminishing turnover and incurring operating losses from its principal operating activities, the Group has achieved net profit in each of the three years ended 31 March 2008 after taking up significant profit contribution from the TVB Group of over HK\$300 million in each year and approximately HK\$131 million for the six months ended 30 September 2008. Furthermore, as HKMCCL has yet to generate any profit to the Group for the three years ended 31 March 2008 and the six months ended 30 September 2008, profits of the Group are chiefly generated from its share of the results of the TVB Group.

During the three years ended 31 March 2008, the Company paid dividends to the Shareholders of approximately HK\$159.4 million (HK\$0.40 per Share), approximately HK\$179.3 million (HK\$0.45 per Share) and approximately HK\$187.2 million (HK\$0.47 per Share) respectively. The dividend payout ratio of the Company ranged from 53% to 61% during these three years. The dividends represented yields of approximately 4.9%, 5.5% and 5.8% for each of the respective years based on the closing Share price of HK\$8.13 as at the Last Trading Date.

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## LETTER FROM SOMERLEY

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(ii) *Financial position*

Set out in the table below is a summary of the balance sheet of the Group as at 31 March 2006, 2007 and 2008, and 30 September 2008.

	<b>As at 30 September 2008</b>	<b>2008</b>	<b>As at 31 March 2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)	(Audited)	(Audited)
<b>Non-current assets</b>				
Property, plant and equipment and leasehold land	153,303	156,843	160,981	178,693
Interests in associates	1,776,084	1,792,869	1,646,749	1,493,348
	<u>1,929,387</u>	<u>1,949,712</u>	<u>1,807,730</u>	<u>1,672,041</u>
<b>Current assets</b>				
Inventories, accounts and other receivables	31,539	27,077	37,904	33,603
Cash and cash equivalents	226,822	48,882	50,711	65,411
	<u>258,361</u>	<u>75,959</u>	<u>88,615</u>	<u>99,014</u>
<b>Total assets</b>	<u><u>2,187,748</u></u>	<u><u>2,025,671</u></u>	<u><u>1,896,345</u></u>	<u><u>1,771,055</u></u>
<b>Total liabilities</b>	<u><u>215,725</u></u>	<u><u>9,489</u></u>	<u><u>12,716</u></u>	<u><u>13,810</u></u>
<b>Total equity/net assets</b>	<u><u>1,972,023</u></u>	<u><u>2,016,182</u></u>	<u><u>1,883,629</u></u>	<u><u>1,757,245</u></u>

During the past three and a half financial years, there were no significant changes in the Group's financial position save for the change in carrying value of the Group's associate interests in TVB and HKMCCL respectively.

(A) *Property, plant and equipment and leasehold land*

Apart from the Group's 26% associate interest in TVB, non-current assets of the Group are (i) property, plant and equipment and leasehold land, which mainly comprise the Clear Water Bay Site housing the Old Shaw Studio and Shaw House, and the Agricultural Lands; and (ii) the Group's 35% associate interest in HKMCCL.

Details of the Clear Water Bay Site, the Agricultural Lands and HKMCCL are set out in the section headed "Businesses of the Group and TVB" above and the Valuation Report as set out in Appendix II to this Composite Document.

The aggregate net book value of the property and leasehold land of the Group was approximately HK\$134.6 million as at 30 September 2008 whilst the valuation was HK\$1,114.6 million as at 31 December 2008, representing a valuation surplus of approximately HK\$980.0 million, based on the Valuation Report as set out in Appendix II to this Composite Document.

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## LETTER FROM SOMERLEY

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We have discussed with the Valuer on the Valuation Report as follows:

*As regard the Clear Water Bay Site*

The valuation methodology is primarily based on direct comparison approach, i.e. by reference to the transactions of properties which have similar redevelopment potential into residential and/or commercial uses. As discussed with the Valuer, the direct comparison approach is commonly used in the valuation of land and properties in Hong Kong. Under the direct comparison approach, the Valuer makes reference to transactions of properties which have potential for redevelopment for alternative uses. The Valuer further explained that the comparable property transactions are transactions of properties which (i) have restricted uses under the government leases mainly for industrial uses; and (ii) are situated in zoning/planning permission area which are allowable for alternative uses (in particular, for residential uses). We are of the view that this selection criteria is reasonable.

The value determined by the aforesaid method is counter checked by another approach under which the Valuer makes reference to property transactions which have no redevelopment potential into residential and/or commercial uses (the “**Before Land Value**”) and then adjusted for the value attributable to the redevelopment potential of the property for residential and/or commercial uses (the “**Hope Value**”). The Hope Value, in other words, represents the market expectation of the potential upside of the valuation of such property upon successful conversion of its usage. This Hope Value varies at different points of time during the land exchange application process and in general will be higher if the chances of successful conversion are higher. In addition, this Hope Value would also depend on, among other things, the prevailing property market condition.

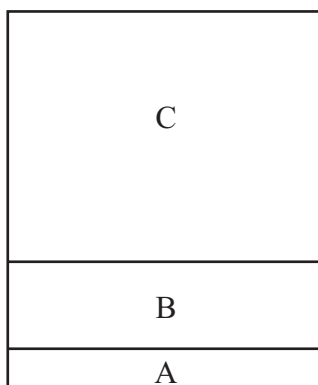
To arrive at the Hope Value, the Valuer (i) assesses the value of the Clear Water Bay Site by assuming the land has been converted into residential and/or commercial use (the “**After Land Value**”) using the direct comparison method; (ii) deducts the Before Land Value from the After Land Value to arrive at the entire redevelopment value of the land (the “**Value Difference**”); and (iii) applies a hope value percentage (the “**Hope Value Percentage**”) to this Value Difference. This Hope Value Percentage is principally based on comparable property transactions. In addition, the Valuer has also considered, among other factors, the current redevelopment progress of the Clear Water Bay Site, including the facts that the land exchange application has not been completed and the unpaid land premium has not been determined by the Lands Department, when arriving at this Hope Value Percentage.

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## LETTER FROM SOMERLEY

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The diagram below summarises the relationships among the Before Land Value, the Hope Value, the Value Difference, the After Land Value and the appraised value:



	<b>Particulars</b>	<b>How it is derived</b>
<b>A</b>	Before Land Value	Based on the direct comparison method with reference to property transactions which have no redevelopment potential into residential and/or commercial uses
<b>B</b>	Hope Value	Value Difference times the Hope Value Percentage
<b>C</b>	Expected unpaid land premium, risk premium in relation to the application for change of usage and other costs to be incurred for the application for change of usage	Value Difference minus the Hope Value
<b>A + B + C</b>	After Land Value	Based on the direct comparison method with reference to property transactions which have confirmed development or redevelopment potential into residential and/or commercial uses
<b>B + C</b>	Value Difference	After Land Value minus the Before Land Value
<b>A + B</b>	appraised value	Before Land Value plus the Hope Value



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## LETTER FROM SOMERLEY

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### *As regard the Agricultural Lands*

The valuation methodology is also based on the direct comparison approach. Under the current situation, the Valuer has made reference to transactions of properties which (i) are in a similar locality; (ii) are of the same or similar zoning; and (iii) subject to a similar level of development potential. The Agricultural Lands Appraised Value was then derived based on the findings from the above method and was adjusted for, amongst others, the market condition, location, zoning, accessibility and redevelopment potential.

We have further discussed with the Valuer if they have applied the second approach which involved the application of Hope Value. The Valuer explained that as (i) the Agricultural Lands are agricultural lands situated within areas zoned “Green Belt” uses which are generally restricted to agricultural uses; (ii) the chance of converting the zoning from Green Belt to residential uses is remote under the current government policy; (iii) the Company has not applied, and has no intention to apply, for any application for change of zoning for the Agricultural Lands; and (iv) the value of the Agricultural Lands as derived from the method described above has already taken into account of any redevelopment potential of the Agricultural Lands, it is not necessary to apply for the second approach which involves the application of Hope Value in valuing the Agricultural Lands. In considering the development potential of the Agricultural Lands, the Valuer confirmed that it has carried out with due regard to the existing government lease provisions and town planning zoning, bearing in mind that prior planning approval and modification of government lease conditions (with payment of land premium) will be required to undertake any form of development on the Agricultural Lands.

### *As regard the New Shaw Studio*

The valuation methodology is based on the depreciated replacement cost approach, i.e. by reference to the transactions of lands which are subject to similar development restrictions and then adjusted for the development cost required for the owner to develop a similar property on such parcel of land. We have discussed with the Valuer on the basis of using this depreciated replacement cost approach instead of applying the more commonly used direct comparison approach. The Valuer is of the view that the New Shaw Studio is a specialised nature of property and that the Group cannot acquire a comparable property in the open market, as such it is not practicable to prepare a reliable valuation based on the direct comparison approach. Accordingly, the depreciated replacement cost approach has been adopted.

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## LETTER FROM SOMERLEY

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### *General*

Based on the above, we consider that the valuation methodology, and basis and assumptions for the valuation of the relevant property and lands of the Group and of HKMCCL adopted by the Valuer are reasonable.

### *(B) Interests in associates*

The interests in associates consist of the Group's 26% interest in TVB and 35% indirect interest in HKMCCL. The Group's interests in associates are accounted for using the equity method of accounting. Accordingly, the Group's share of its associates' profits or losses is recognised in the income statement. Detailed analysis of the business and financial information on TVB are set out in the paragraphs headed "Investment in TVB" above and "Financial results and position of TVB" below respectively. Details of HKMCCL are set out in the paragraph headed "Investment in Hong Kong Movie City Company Limited" above.

### *(C) Current assets*

The Group's current assets as at 30 September 2008 mainly comprised cash of approximately HK\$226.8 million, of which HK\$167.3 million is reserved for the payment of final dividend for the year ended 31 March 2008. The balance comprised inventories, accounts receivable, prepayments, deposits and other receivables.

### *(D) Liabilities*

As at 30 September 2008, the Group had current liabilities of HK\$215.7 million, which chiefly comprised a dividend payable of HK\$167.3 million. The dividend was subsequently paid on 23 October 2008. The remaining balance represented accounts payable, other payables and accruals.

### *(E) Net asset value*

The net asset value (the "NAV") of the Group has gradually increased throughout the above review period mainly due to the share of profits contributed by TVB. As at 30 September 2008, the Group's NAV stood at approximately HK\$1,972.0 million. Based on 398,390,400 Shares in issue as at the Latest Practicable Date, the NAV per Share was approximately HK\$4.95 as at 30 September 2008.

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## LETTER FROM SOMERLEY

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*(d) Financial results and financial position of TVB*

*(i) Financial results*

Set out in the table below is a summary of the financial results of the TVB Group for the three financial years ended 31 December 2007 and for the six months ended 30 June 2007 and 2008 respectively:

	For the six months ended 30 June		For the year ended 31 December		
	2008	2007	2007	2006	2005
	<i>HK\$</i> <i>million</i>	<i>HK\$</i> <i>million</i>	<i>HK\$</i> <i>million</i>	<i>HK\$</i> <i>million</i>	<i>HK\$</i> <i>million</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	2,073.5	1,918.8	4,325.8	4,201.2	4,176.6
Gross profit	1,111.4	1,077.6	2,561.8	2,422.8	2,385.0
<i>Gross profit margin</i>	<i>53.6%</i>	<i>56.2%</i>	<i>59.2%</i>	<i>57.7%</i>	<i>57.1%</i>
Profit before taxation	605.3	603.2	1,549.5	1,435.6	1,419.6
Profit attributable to equity holders	502.7	497.3	1,263.7	1,188.6	1,180.0
Dividend per share (HK\$)	0.30	0.30	1.80	1.70	1.55

Turnover of the TVB Group from the year ended 31 December 2005 to the year ended 31 December 2007 has shown a cumulative annual growth rate of approximately 1.8%. As set out in the 2008 TVB Interim Report, turnover of the TVB Group for the six months ended 30 June 2008 increased by around 8.1% when compared with the corresponding period in previous year, mainly due to revenue growth in Hong Kong and Taiwan. As set out in 2007 annual report of TVB (the “**2007 TVB Annual Report**”), cost of sales (which include costs of programmes, films rights, movies and stock) did not increase significantly with the increase in revenue. Accordingly, gross profit margin of the TVB Group improved slightly from approximately 57.1% for the year ended 31 December 2005 to approximately 59.2% for the year ended 31 December 2007. However, gross profit margin of TVB dropped to 53.6% for the six months ended 30 June 2008 from 56.2% for the six months ended 30 June 2007. As set out in the 2008 TVB Interim Report, such decrease was mainly due to the higher cost of production and programming contents for the new digital channels. Profit attributable to equity holders also increased slightly from approximately HK\$1,180.0 million for the year ended 31 December 2005 to approximately HK\$1,263.7 million for the year ended 31 December 2007, mainly due to the increase in gross profit and reduction of interest in TVBPPVH from 49% to 29% during the financial year ended 31 December 2007. TVBPPVH has been loss making for the periods under review. Profit attributable to equity holders for the six months ended 30 June 2008 marginally increased when compared with that of the corresponding period in previous year, which was mainly due to the full period effect on the reduction of interest in TVBPPVH during the six months ended 30 June 2008.

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## LETTER FROM SOMERLEY

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(ii) *Financial position*

Set out in the table below is a summary of the balance sheet of the TVB Group as at 31 December 2007, 2006 and 2005, and 30 June 2008.

	<b>As at 30 June 2008</b>	<b>As at 31 December</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<i>HK\$ million</i> (Unaudited)	<i>HK\$ million</i> (Audited)	<i>HK\$ million</i> (Audited)	<i>HK\$ million</i> (Audited)
<b>Total assets</b>				
Property, plant and equipment, and leasehold land	2,624.1	1,907.7	1,915.1	2,084.5
Intangible assets	170.7	163.0	162.2	161.0
Other non-current assets	67.0	161.4	181.9	276.6
Cash and cash equivalent	1,604.7	2,008.9	1,559.1	944.7
Programmes, film rights and movies	473.8	460.7	442.3	452.6
Trade and other receivables, prepayments and deposits	1,389.0	1,405.7	1,372.3	1,354.0
Other current assets	153.8	143.3	54.2	48.9
	<u>6,483.1</u>	<u>6,250.7</u>	<u>5,687.1</u>	<u>5,322.3</u>
<b>Total liabilities</b>	<u>1,238.6</u>	<u>881.9</u>	<u>818.8</u>	<u>917.2</u>
<b>Shareholders' equity</b>				
Share capital	21.9	21.9	21.9	21.9
Reserves	<u>5,197.3</u>	<u>5,322.1</u>	<u>4,823.2</u>	<u>4,359.9</u>
	5,219.2	5,344.0	4,845.1	4,381.8
<b>Minority interest</b>	<u>25.3</u>	<u>24.8</u>	<u>23.2</u>	<u>23.3</u>
	<u>5,244.5</u>	<u>5,368.8</u>	<u>4,868.3</u>	<u>4,405.1</u>

(A) *Property, plant and equipment, and leasehold land*

As set out in the 2007 TVB Annual Report, the amount mainly represents (i) the freehold land and buildings, and the leasehold land in Tseung Kwan O known as "TVB City"; and (ii) studio, broadcasting and transmitting equipment. Buildings and studio, broadcasting and transmitting equipment are stated at cost less depreciation charged, while leasehold lands are stated at cost less amortisation charged. Freehold land is stated at cost.

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## LETTER FROM SOMERLEY

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As set out in the 2008 TVB Interim Report, the increase in the balance during the six months ended 30 June 2008 was mainly due to an acquisition of a property in Taiwan at a cost of HK\$662 million, which was funded partly by internal resources and partly by bank borrowings.

*(B) Intangible assets*

As set out in the 2007 TVB Annual Report, intangible assets represent goodwill arise on acquisition of overseas satellite pay TV operations and channel operations. Intangible assets are stated at cost less accumulated impairment and adjusted for exchange differences.

*(C) Programmes, film rights and movies*

As stated in the 2007 TVB Annual Report, programmes are stated at cost less amounts expensed and any provision considered necessary by the management. The cost of programmes is apportioned between domestic terrestrial market and overseas licensing and distribution market. In the case of the former, the cost is expensed on first transmission, and in the latter, the cost is expensed on first distribution to licensees. The cost of programmes for satellite channels is expensed in accordance with a formula computed to write off the cost over a maximum of three transmissions.

Film rights are stated at cost less amounts expensed and any provision considered necessary by the management. Film rights are expensed in accordance with a formula computed to write off the cost over the contracted number of transmissions.

Movies invested by the TVB Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of released movies is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a maximum period of three years. Unreleased movies are valued at cost less provision for impairment losses.

*(D) Total liabilities*

As set out in the 2008 TVB Interim Report, total liabilities include deferred income tax liabilities, borrowings, trade and other payables and accruals, and current income tax liabilities. The increase in total liabilities during the six months ended 30 June 2008 was due to the drawdown of a loan amounting to HK\$358 million for the acquisition of a property in Taiwan.

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## LETTER FROM SOMERLEY

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*(e) Prospects of the Group and the TVB Group*

We have reviewed the outlook of the major business segments in which the Company is engaged. We are of the view that the future prospects of the Group will hinge on the success of, among other things, (i) the financial performance of TVB, including the possible decline in advertising revenue as a result of the recent global financial crisis and other competitive factors; (ii) the redevelopment potential of the Clear Water Bay Site; and (iii) the operations and financial results of HKMCCL.

*(i) Advertising market*

As set out above, the Company's profit primarily is derived from its 26% interest in TVB, the major income of which is from advertising. The global financial crisis has hit hard across different industries, including but not limited to the advertising industry.

According to a recent consumer confidence study, Hong Kong residents' confidence has slipped significantly by the end of 2008 and dropped by approximately 8% compared to the same time last year, which represents a new low in the last two years. Based on the provisional statistics of retail sales for November 2008 released by the Census and Statistics Department of Hong Kong Government, the value of total retail sales in November 2008, provisionally estimated at HK\$20.5 billion, increased by 1.1% over a year earlier. After netting out the effect of price changes over the same period, the volume of total retail sales decreased by 2.8% in November 2008 over a year earlier. Furthermore, based on the seasonally adjusted series, the volume of total retail sales in the three months ended November 2008 decreased by 3.4% compared with the preceding three-month period. A Hong Kong Government spokesman anticipates the ongoing global economic slowdown will pose a drag on local consumers' spending and inbound tourism.

As stated in the TVB Interim Report 2008, Sir Run Run Shaw, the Executive Chairman of TVB, expressed in August 2008 that although TVB has witnessed growth in turnover in first half of 2008, there were uncertainties related to global credit concerns and general inflation. In fact, the sooner-than-expected deterioration in the economy appears to have already made a significant impact on the industry. Shortly after Asia Television Limited, TVB's largest competitor in the terrestrial television industry in Hong Kong, announced a cut of over 60 staff in November 2008, TVB also laid off approximately 200 employees, representing approximately 10% of its headcount in December 2008 in view of anticipated decrease in advertising revenue as a result of the global financial crisis. Mr. Stephen Chan Chi Wan, the general manager-broadcasting of TVB, commented that the lay off was as a result of the gloomy outlook of the general economy as well as the advertising industry.

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## LETTER FROM SOMERLEY

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*(ii) Property market*

The Group's major property interest is the Clear Water Bay Site, the redevelopment of which was approved in principle by the relevant government authority in April 2008. The Clear Water Bay Site is proposed to be developed for residential and commercial uses.

Based on statistics released by the Rating and Valuation Department of the Government of Hong Kong, the sale price of private residential property (in all classes) has recorded a decrease in recent months from the recent high in June 2008 by approximately 18.2% to November 2008. Furthermore, the Land Registry's record of residential sales transactions in November 2008 was 3,264, down about 30% month-on-month. Such transaction volume was only about 20% of the approximately 15,000 transactions recorded in January 2008. On the retail front, the credit crunch and poor consumer confidence has caused a number of retail chains to close their businesses. For the first time since January 2007, retail property sales volume recorded a year-on-year decline in October 2008 and subsequently in November 2008. Such effect has spilled over to sale prices of retail properties, which have dropped by approximately 16.4% from June 2008 to November 2008.

*(iii) HKMCCL*

The principal asset of HKMCCL is the New Shaw Studio which is dedicated to film production and digital post-production. The total development cost of the New Shaw Studio was budgeted at approximately HK\$1.4 billion. As at 30 September 2008, the Company has already contributed approximately HK\$444 million to HKMCCL for its construction and development. As set out in the 2008 Interim Report, internal fitting-out works of the New Shaw Studio are expected to be completed by first quarter of 2009 and the facilities will be launched for operation thereafter. Upon becoming fully operational, the New Shaw Studio will be opened for services to filmmakers.

As discussed with the Directors, the Group's interest in the New Shaw Studio is a long-term investment and they are of the view that the New Shaw Studio will not provide any immediate and material return to the Group in the short or medium term. As the New Shaw Studio has yet to establish that it can provide a significant contribution of revenue and/or profit to the Group, we are of the view that the prospect of the New Shaw Studio is still uncertain to date.

## LETTER FROM SOMERLEY

### 3. Intention of the Offeror regarding the Company

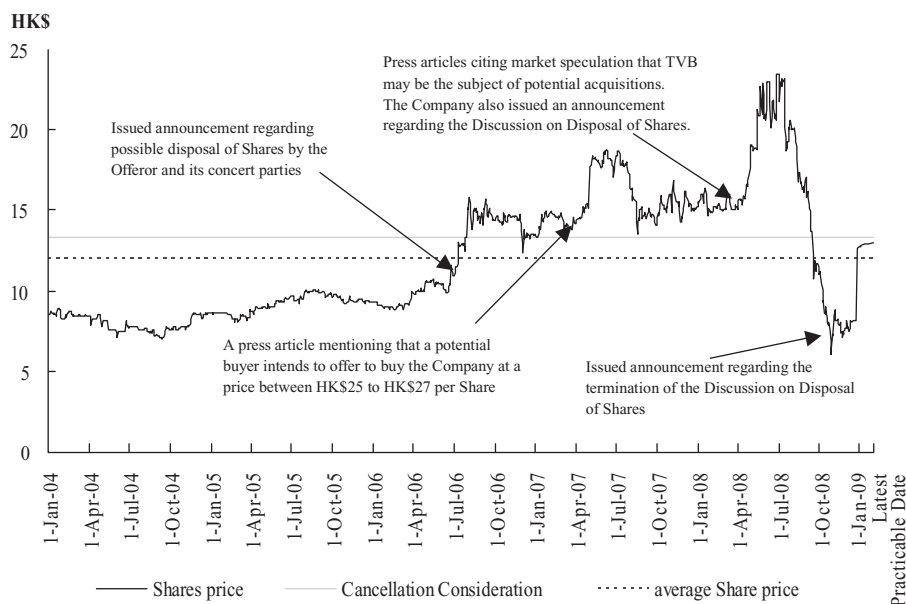
As set out in the Explanatory Statement, it is the intention of the Offeror to continue the existing businesses of the Group upon the successful privatisation of the Company and the withdrawal of the listing of the Shares on the Stock Exchange. The Offeror does not have any intention to introduce any significant changes to the existing operations and management of the Group (including any redeployment of the fixed assets of the Company outside its ordinary course of business), nor does it have any intention to make any changes to the continued employment of the Group's employees. In particular, the Offeror intends to continue exploring opportunities in respect of the development of the Clear Water Bay Site. On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group. We have also obtained a confirmation from the Offeror that neither the Offeror nor its concert parties has any discussion, agreement, arrangement or understanding to purchase, sell, transfer, assign, charge, pledge any assets including their interests and/or rights of the Group (including but not limited to its interests in TVB, the Clear Water Bay Site and the Agricultural Lands) immediately after completion of the Proposal.

As set out in the Explanatory Statement, no Share acquired by the Offeror pursuant to the Proposal will be transferred, charged or pledged to any other person, and there is no agreement, arrangement or understanding to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to the Shares so acquired by the Offeror.

### 4. Trading performance of the Shares and the shares of TVB (the "TVB Shares")

#### (a) Share price performance of the Shares

Set out below is the chart showing the closing price movement of the Shares from 1 January 2004 to the Latest Practicable Date (the "Relevant Period"), the average Share price during the Relevant Period and the Cancellation Consideration:



Source: Bloomberg



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## LETTER FROM SOMERLEY

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As set out in the chart above, the Cancellation Consideration was consistently above the Share price from January 2004 until July 2006, when the Company issued an announcement on 27 July 2006 (the “**2006 Announcement**”) mentioning, among other things, that the Offeror had at various times been approached by and has had discussions with potential interested parties regarding a possible purchase of Shares held by it and/or its subsidiaries. The Share price increased to around HK\$19 during the second quarter of 2007 when there was a press article issued in May 2007 speculating that a potential buyer would launch a takeover bid of the Company at a price between HK\$25 to HK\$27 per Share. Since the third quarter of 2007, the Share price has traded at around HK\$14 to HK\$16, when the effect from that article cooled down. The Share price rose to a closing high of HK\$23.5 on 26 June 2008, after the Company issued an announcement on 14 May 2008 in relation to the Discussion on Disposal of Shares. In the second half of 2008, the Share price dropped in line with the decrease of Hang Seng Index (the “**HSI**”). Since September 2008, the Share price dropped below the Cancellation Consideration. The Share price has increased on 23 December 2008, being the first trading date after the Joint Announcement was published, reflecting, in our view, the market’s reaction to the terms of the Proposal.

On the basis that the Share price was substantially lower than the Cancellation Consideration before the issue of the Joint Announcement, we consider the recent increase in the Share price was mainly supported by the Proposal and is unlikely to remain at the current level if the Proposal lapses.

***(b) Share price performance of the Shares and the TVB Shares***

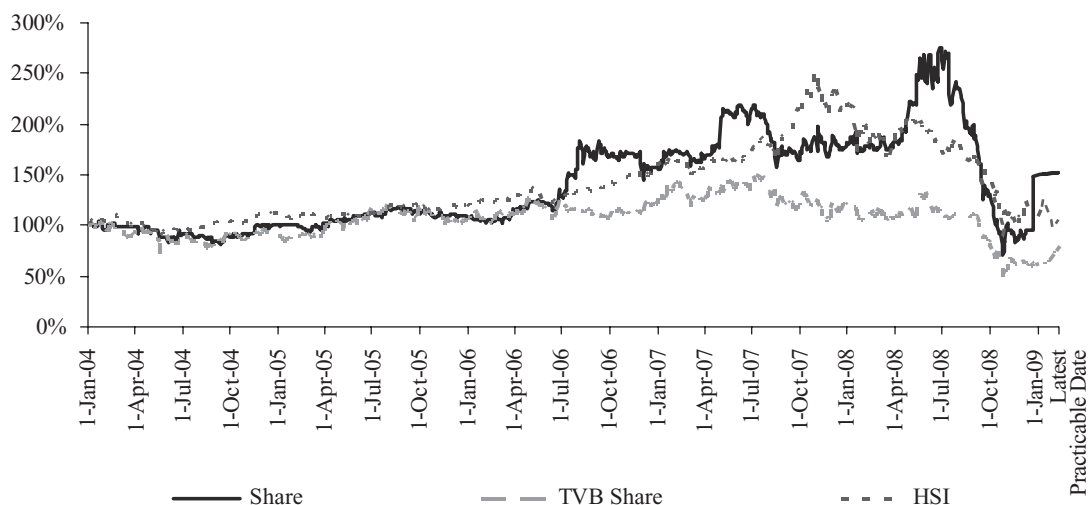
As discussed above, on the basis that (i) the Group’s filming facilities services, film distribution and property rental business have only generated a relatively small turnover to the Group, and HKMCCL has yet to generate any profit; and (ii) the redevelopment of the Clear Water Bay Site is yet to materialise, we consider that the Share’s value chiefly comprises the Group’s interest in the TVB Shares. As it will be further explained below, (i) there was a very high correlation between the Share price and the TVB Share price; and (ii) the closing Share price was consistently lower than the implied value of the TVB Shares on a per Share basis prior to the issue of the 2006 Announcement.

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## LETTER FROM SOMERLEY

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Set out in the chart below are the relative share price performances of the Shares, the TVB Shares and the HSI during the Relevant Period:



As set out in the chart above, the Share price moved substantially in line with the movements of the HSI and the TVB Shares from January 2004 to July 2006.

The Share price outperformed the HSI and the TVB Shares when there were market speculations of the disposal of the Shares by the Offeror in July 2006. The gap between the Share price performance and the HSI narrowed when the effect of such market speculations cooled down. The TVB Share price, however, did not show the same pattern as the Share price did. We are of the view that such difference may be mainly attributed to (i) market speculations being chiefly on the disposal of the Shares by the Offeror and may not result in a general offer of TVB Shares; and (ii) the businesses of the TVB Group being relatively stable.

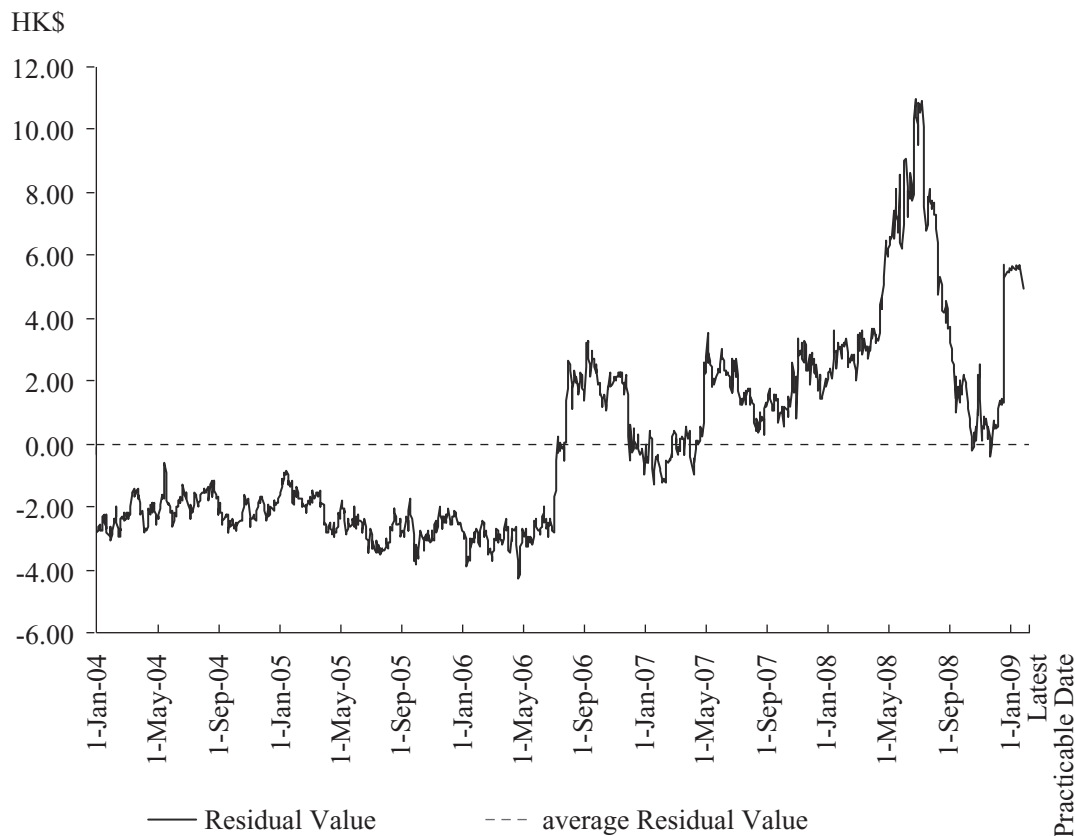
On the above basis, we are of the view that the increase in the Share price during the period from July 2006 to July 2008 was mainly driven by market speculation of the possible disposal of the Shares by the Offeror.

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## LETTER FROM SOMERLEY

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Set out in the chart below is an analysis of the Share price excluding the market value of the Group's investment in the TVB Shares on a per Share basis (the "**Residual Value**"), calculated based on the closing Share price less attributed value of the TVB Shares based on the closing TVB Share price, during the Relevant Period, and the average Residual Value during the Relevant Period:



Residual Value indicates the market capitalisation of the Group less the market value of the Group's investment in the TVB Shares, on a per Share basis. Accordingly, a small, or sometimes negative, Residual Value implies that the investment public does not attribute much value to other assets of the Group (other than the Group's investment in the TVB Shares).

As set out above, the Residual Value ranged from around HK\$0.2 to negative HK\$4.3 during the period from 1 January 2004 up to the date of the 2006 Announcement. The Residual Value had been above zero during most of the time after the 2006 Announcement, in particular after the Company issued an announcement on 14 May 2008 in relation to the Discussion on Disposal of Shares, the Residual Value peaked at HK\$10.98 on 27 June 2008. The Residual Value then dropped to around zero in the end of 2008 and rebounded to around HK\$5.5 after the issue of the Joint Announcement. The average Residual Value was HK\$0.04 during the Relevant Period.

Based on the analysis above, we consider that the Shares are traded at below the implied value of the TVB Shares most of the time during the Relevant Period except when there were market speculations on the possible change in control of the

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## LETTER FROM SOMERLEY

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Company. On the basis that the Cancellation Consideration represents an implied Residual Value of approximately HK\$5.40 based on the TVB Share price of HK\$27.8 as at the Latest Practicable Date, we consider that the Proposal offers a good opportunity for the Minority Shareholders to realise the Scheme Shares at a price which is significantly higher than the implied value of the TVB Shares per Share.

*(c) Liquidity of the Shares*

Set out in the table below are the monthly total trading volumes of the Shares and the corresponding percentages of such monthly total trading volumes to the total issued share capital and public float of the Company during the Relevant Period:

	<b>Total monthly trading volume of the Shares</b> <i>(Note 1)</i>	<b>Percentage of total monthly trading volume of the Shares to the total issued Shares</b> <i>(Note 2)</i>	<b>Percentage of total monthly trading volume of the Shares to public float</b> <i>(Note 3)</i>
<b>2004</b>			
January	334,000	0.08%	0.64%
February	1,726,732	0.43%	3.32%
March	1,146,000	0.29%	2.20%
April	1,319,000	0.33%	2.54%
May	179,000	0.04%	0.34%
June	989,900	0.25%	1.90%
July	273,000	0.07%	0.52%
August	3,284,000	0.82%	6.31%
September	5,032,000	1.26%	10.48%
October	2,805,500	0.70%	5.84%
November	2,499,600	0.63%	5.21%
December	1,799,400	0.45%	3.75%
<b>2005</b>			
January	178,000	0.04%	0.37%
February	526,784	0.13%	1.10%
March	1,260,000	0.32%	2.62%
April	1,351,000	0.34%	2.81%
May	1,725,600	0.43%	3.59%
June	1,038,000	0.26%	2.16%
July	757,000	0.19%	1.58%
August	302,000	0.08%	0.63%
September	492,000	0.12%	1.02%
October	379,000	0.10%	0.79%
November	960,000	0.24%	2.00%
December	524,080	0.13%	1.09%

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**LETTER FROM SOMERLEY**

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	<b>Total monthly trading volume of the Shares</b> <i>(Note 1)</i>	<b>Percentage of total monthly trading volume of the Shares to the total issued Shares</b> <i>(Note 2)</i>	<b>Percentage of total monthly trading volume of the Shares to public float</b> <i>(Note 3)</i>
<b>2006</b>			
January	723,600	0.18%	1.51%
February	496,000	0.12%	1.03%
March	511,000	0.13%	1.06%
April	6,744,192	1.69%	14.05%
May	3,253,808	0.82%	6.78%
June	2,473,405	0.62%	5.15%
July	15,960,192	4.01%	33.25%
August	13,705,456	3.44%	28.55%
September	11,860,500	2.98%	24.63%
October	5,916,620	1.49%	11.36%
November	5,348,913	1.34%	10.27%
December	3,716,000	0.93%	7.13%
<b>2007</b>			
January	3,943,447	0.99%	7.57%
February	1,528,000	0.38%	2.93%
March	2,089,000	0.52%	4.00%
April	4,838,000	1.21%	9.27%
May	7,086,000	1.78%	13.57%
June	2,823,541	0.71%	5.41%
July	2,579,450	0.65%	4.95%
August	3,860,265	0.97%	7.41%
September	2,581,002	0.65%	4.95%
October	5,764,010	1.45%	11.06%
November	4,178,000	1.05%	8.02%
December	2,361,180	0.59%	4.53%
<b>2008</b>			
January	3,759,950	0.94%	7.22%
February	749,341	0.19%	1.44%
March	1,927,800	0.48%	3.70%
April	4,876,700	1.22%	9.36%
May	35,090,305	8.81%	54.76%
June	23,998,000	6.02%	37.45%
July	12,645,000	3.17%	19.80%
August	7,100,325	1.78%	11.84%
September	9,784,760	2.46%	16.32%
October	8,904,262	2.24%	14.85%
November	4,446,910	1.12%	7.42%
December	11,547,660	2.90%	19.26%

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## LETTER FROM SOMERLEY

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	<b>Total monthly trading volume of the Shares</b> <i>(Note 1)</i>	<b>Percentage of total monthly trading volume of the Shares to the total issued Shares</b> <i>(Note 2)</i>	<b>Percentage of total monthly trading volume of the Shares to public float</b> <i>(Note 3)</i>
<b>2009</b>			
January	15,942,115	4.00%	26.59%

*Notes:*

1. *Source:* Bloomberg
2. The calculation is based on the number of Shares in issue as at the end of each month provided by the Company, being 398,390,400 Shares for the Relevant Period.
3. Based on the number of Shares in issue as set out in note 1 above excluding the relevant number of Shares held by the substantial Shareholders and the Directors in the corresponding month.

Save for the periods when there were market speculations on the possible disposal of the Shares by the Offeror, the liquidity of the Shares was generally moderate during the Relevant Period.

***(d) Dividend yields of the Shares and the TVB Shares***

Set out below are the dividend payout ratios of the Company and TVB for the past five financial years:

	<b>Year ended 31 March</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
The Company	60%	61%	53%	59%	80%
	<b>Year ended 31 December</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
TVB	62%	63%	58%	61%	79%

*Note:* Dividend payout ratio is calculated by dividing the dividend per share by earnings per share for the respective financial years.

Both the Company and TVB distributed over 50% of their respective earnings as dividends during the past five financial years and the dividend payout patterns of both companies are also very similar.

It is also noted that the dividend yield of the Shares based on the closing share price of the Last Trading Date was approximately 5.78% compared with that of the TVB Shares of approximately 7.59%. Further, the implied dividend yield of the Shares based on the

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## LETTER FROM SOMERLEY

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Cancellation Consideration was 3.52%. On this basis, the Proposal provides an opportunity for the Minority Shareholders to realise their Shares and acquire the TVB Shares which offer a higher dividend yield, if they wish to retain an interest in TVB.

### 5. Cancellation Consideration analysis

#### *(a) Comparison of value*

The Cancellation Consideration of HK\$13.35 in cash for each Scheme Share cancelled under the Proposal represents:

- (i) a premium of approximately 64.2% over the closing price of the Shares of HK\$8.13 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 73.5% over the average closing price of the Shares of approximately HK\$7.70 per Share as quoted on the Stock Exchange for the one month ended the Last Trading Date;
- (iii) a premium of approximately 54.0% over the average closing price of the Shares of approximately HK\$8.67 per Share as quoted on the Stock Exchange for the three months ended the Last Trading Date;
- (iv) a discount of approximately 4.5% to the average closing price of the Shares of approximately HK\$13.98 per Share as quoted on the Stock Exchange for the six months ended the Last Trading Date;
- (v) a premium of approximately 2.7% over the closing price of the Shares of HK\$13.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 163.8% over the audited consolidated net asset value per Share of approximately HK\$5.06 as at 31 March 2008; and
- (vii) a premium of approximately 169.7% over the unaudited consolidated net asset value per Share of approximately HK\$4.95 as at 30 September 2008.

#### *(b) Market value of the assets of the Group*

We have discussed with the Directors and confirmed that most of the non-current assets of the Group have been held for a number of years and are stated at cost less depreciation. The Group's interest in TVB is stated at cost plus the share of post acquisition profits. Accordingly, there is a significant difference between the book value and the current market value of the assets of the Group. In particular, the market value of the Clear Water Bay Site, the Agricultural Lands and the TVB Shares are substantially different from their respective historical values.

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## LETTER FROM SOMERLEY

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Set out in the table below is, for illustration purpose only, the reassessed NAV as at 30 September 2008 (the “**Reassessed NAV**”):

	<i>HK\$ million</i>
<b>NAV of the Group as at 30 September 2008</b>	1,972.0
<b>Less:</b>	
Book value of the Clear Water Bay Site as at 30 September 2008	(119.1)
Book value of the Agricultural Lands as at 30 September 2008	(15.5)
Book value of the interest in the TVB Group as at 30 September 2008	(1,357.1)
Share of property interest in the New Shaw Studio of approximately HK\$1,134.9 million as at 30 September 2008	(397.2)
<b>Add:</b>	
Clear Water Bay Site Appraised Value	1,090.0
Agricultural Lands Appraised Value	24.6
Market price of the 113,888,628 TVB Shares of HK\$27.8 each held by the Group as at the Latest Practicable Date	3,166.1
Share of the New Shaw Studio Appraised Value	<u>574.7</u>
<b>Reassessed NAV</b>	4,938.5
<b>Total number of Share in issue</b>	<u>398,390,400</u>
<b>Reassessed NAV per Share (HK\$)</b>	<u><u>12.40</u></u>

*Note:* The above analysis has not taken into account of any potential tax effect on the NAV of the Group.

We have confirmed with the Directors that, save for those adjusted above, there were no significant difference between the book value and the market value of other assets held by, or liabilities of, the Group. Accordingly, the Cancellation Consideration represents a premium of approximately 7.7% over the Reassessed NAV per Share of HK\$12.40.

On the basis that (i) the Cancellation Consideration represents an approximately 7.7% premium over the Reassessed NAV per Share; and (ii) the fact that most listed property companies are trading at a discount to their respective book values under current market conditions, we are of the view that the Proposal offers an opportunity for the Minority Shareholders to dispose of the Scheme Shares at a price above the Reassessed NAV per Share.



## LETTER FROM SOMERLEY

### (c) Comparison with privatisation precedents in Hong Kong

We have also compared the Proposal to other privatisation proposals in Hong Kong. Set out in the table below are all privatisation precedents involving companies listed on the Stock Exchange announced since 2007 and up to the Latest Practicable Date.

Date of initial announcement	Company	Stock code	Offer or cancellation price	Premium/(discount) of offer or cancellation price over/(to) the average share price prior to announcement of privatisation			Result
				1 month	3 months	6 months	
13 February 2007	Asia Satellite Telecommunications Holdings Limited	1135	18.30	32.13%	30.25%	34.26%	Failed (Note 1)
9 March 2007	Tom Online Inc.	8282	1.52	16.92%	5.56%	11.76%	Successful
19 April 2007	Shimao International Holdings Ltd	649	1.05	47.89%	43.84%	41.89%	Successful
14 June 2007	Chia Hsin Cement China Holdings Corporation (Note 3)	699	2.26	18.32%	44.87%	58.04%	Successful
7 December 2007	Lei Shing Hong Limited	238	10.00	37.36%	53.61%	75.44%	Successful
13 February 2008	Pacific Century Premium Developments Limited	432	2.85	23.38%	16.33%	15.38%	Failed
28 February 2008	Mirabell International Holdings Limited	1179	6.00	15.61%	18.34%	19.52%	Successful
2 June 2008	China Netcom Group Corporation (Hong Kong) Limited (Note 3)	906	27.87	14.13%	19.46%	18.14%	Successful
10 June 2008	CITIC International Financial Holdings Limited (Notes 2 and 3)	183	7.50	41.24%	61.99%	64.84%	Successful
4 November 2008	PCCW Limited (Note 2)	8	4.50	36.36%	2.04%	(2.81)%	Pending
25 November 2008	Natural Beauty Bio-Technology Limited	157	1.20	(10.45)%	(14.89)%	(21.57)%	Pending
3 December 2008	GST Holdings Limited	416	3.38	107.36%	64.88%	47.60%	Pending
<b>Simple average (mean)</b>					31.69%	28.86%	47.60%
22 December 2008	The Company	80	13.35	73.5%	54.0%	(4.5)%	

#### Notes:

- The privatisation of Asia Satellite Telecommunications Holdings Limited failed as the Department of State of the United States of America did not approve to implement the proposed privatisation, which is one of the conditions precedents to such privatisation proposal.
- The offer price of the privatisation proposal of the respective company was revised upwards after the initial announcement. The computation above was based on the revised offer price.
- The offer in the privatisation proposal of the respective company consisted of share exchange offer or cash plus share exchange offer. The computation above was based on, among other things, the closing price of the respective shares to be exchanged (if they were publicly listed) before the initial announcement of the privatisation proposal.
- The selection criteria for the above privatisation precedents include all privatisation proposals (i) by way of scheme of arrangement; or (ii) by way of voluntary general offer with an acceptance condition of at least 90% and with an intention to exercise compulsory acquisition if such offer becomes unconditional. As such, the privatisation of BALtrans Holdings Limited, which was privatised by way of voluntary general offer with acceptance condition of at least 50% only, is not included.

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## LETTER FROM SOMERLEY

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As set out in the table above, the premiums offered by the Cancellation Consideration of over 50% over the average Share price in the last 1 month and 3 months were substantially higher when compared with other privatisation proposals. However, the Cancellation Consideration was at a discount of 4.5% to the average Share price in the last 6 months while the other privatisation proposals have an average offer premium of 47.6%. We consider this is largely due to the significant downturn in the Hong Kong stock market in recent months.

Minority Shareholders should know or should aware that, given the privatisation precedents may be conducted under different market conditions and the companies involved are all operated in different industry sectors, the premiums or discounts of offer or cancellation consideration in other privatisations may be different.

### DISCUSSION AND ANALYSIS

The Company holds approximately 26% interest in TVB, which is one of the two domestic “free-to-air” television programme licence holders in Hong Kong. The other major asset of the Group is its interest in the Clear Water Bay Site. The Group is also engaged in film distribution and filming facilities services activities but their contributions are not in our view significant. The remaining assets of the Group mainly comprise the Group’s holding of a small parcel of the Agricultural Lands and its 35% indirect interest in HKMCCL which is principally engaged in the development of the New Shaw Studio situated in Tseung Kwan O. Business and recent financial results of TVB and details of the Clear Water Bay Site are summarised above.

We consider the Company’s business nature is investment holding, being its long-term interest in TVB and the interest in Clear Water Bay Site with redevelopment potential. TVB is listed on the Stock Exchange and is currently traded at around 9.6 times price-to-earnings multiple. We have not placed a great emphasis on the analysis of comparable television operators in the region as we consider the market valuation of TVB serves as a most relevant base for the determination of the Cancellation Consideration as (i) the profits of the Group were mostly generated from its share of profit from the TVB Group; and (ii) the value of the TVB Shares held by the Group as at the Latest Practicable Date contributed more than 60% of the Reassessed NAV.

The valuation of the Clear Water Bay Site on the other hand is based on the latest independent valuation primarily based on direct comparison approach. Since the redevelopment of the Clear Water Bay Site was approved in principle by the Town Planning Board in April 2008, a Hope Value for the redevelopment potential was reflected in the Clear Water Bay Site Appraised Value. This Hope Value represents the market expectation of the benefit of the town planning zoning and planning approval for the change in the Clear Water Bay Site for such alternative uses of commercial and residential which are of higher values. On this basis, the Clear Water Bay Site was valued at HK\$1,090 million as at 31 December 2008. The redevelopment potential of the Agricultural Lands is more remote given the Green Belt zoning and valuation of the Agricultural Lands has been based upon comparable transactions with the same or similar zoning and subject to similar development potential. The Group’s share of the New Shaw Studio Appraised Value was HK\$574.7

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## LETTER FROM SOMERLEY

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million as at 31 December 2008, compared with the share of the book value of the property interest in the New Shaw Studio of approximately HK\$397.2 million as at 30 September 2008.

The Cancellation Consideration of HK\$13.35 represents a premium of approximately 7.7% over the Reassessed NAV per Share of approximately HK\$12.40. This Reassessed NAV is principally based on the Clear Water Bay Appraised Value of HK\$1,090.0 million, the Agricultural Lands Appraised Value of HK\$24.6 million, the share of the New Shaw Studio Appraised Value of HK\$574.7 million and the TVB Share price as at the Latest Practicable Date of HK\$27.8. Details of the calculation of the Reassessed NAV are set out in sub-section headed “Cancellation Consideration analysis – Market value of the assets of the Group” of our letter. We consider such premium is favourable as most property companies are valued at a discount to their respective book value under current market conditions. The premiums offered by the Cancellation Consideration are over the closing price of the Shares on the Last Trading Date, one-month and three-months averages of trading days preceding the Last Trading Date. For reference purpose only, the premium offered by the Cancellation Consideration also compare favourably against privatisation precedents in 2007 and 2008. In addition, the Residual Value on the Last Trading Date implied by the Cancellation Consideration of approximately HK\$6.57 also exceeds the average Residual Value during the period from July 2006 to the Last Trading Date when the market was speculating on the potential sale of the Company by the Offeror.

Based on the above, we consider the Cancellation Consideration of HK\$13.35 per Share is fair and reasonable to the Minority Shareholders. Further, the dividend payout patterns of the Company and TVB have been similar during the past five financial years. Accordingly, if Minority Shareholders are confident of the prospects of TVB and wish to retain an interest in TVB, they may consider reinvesting all or part of the proceeds received under the Proposal in the TVB Shares directly.

### **OPINION AND RECOMMENDATION**

Based on the above principal factors and reasons, we consider the terms of the Proposal to be fair and reasonable as far as the Minority Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Minority Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Scheme of Arrangement.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

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## EXPLANATORY STATEMENT

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*This explanatory statement constitutes the statement  
required under Section 166A of the Companies Ordinance.*

### SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES

#### INTRODUCTION

On 22 December 2008, the Company and the Offeror jointly announced that on 18 December 2008, the Offeror requested the Board to put forward to the Minority Shareholders the Proposal which, if approved and implemented, would result in the cancellation of the Scheme Shares, the Company becoming wholly-owned by the Offeror and parties acting in concert with the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange. The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled, the New Shares will be issued as fully paid to the Offeror and the listing of the Shares on the Stock Exchange will be withdrawn in accordance with Rule 6.15 of the Listing Rules.

The purpose of this explanatory statement is to explain the Proposal and its effects and to give the Shareholders other relevant information.

The attention of the Shareholders is drawn to the following sections of this document: (a) the “Letter from the Board” set out on pages 8 to 14 of this document; (b) the “Letter from the Independent Board Committee” set out on pages 15 to 16 of this document; (c) the “Letter from Somerley” set out on pages 17 to 49 of this document; and (d) the “Scheme of Arrangement” set out on pages 155 to 161 of this document.

#### TERMS OF THE PROPOSAL

Under the Scheme of Arrangement, the holders of Scheme Shares will receive from the Offeror the Cancellation Consideration as consideration for the cancellation of the Scheme Shares:

HK\$13.35 in cash . . . . . for every Scheme Share cancelled

As at the Latest Practicable Date, there were 398,390,400 Shares in issue and the Offeror and parties acting in concert with the Offeror were interested in 298,484,872 Shares in aggregate, representing approximately 74.92% of the issued Shares as at the Latest Practicable Date. The Minority Shareholders were interested in 99,905,528 Shares in aggregate, representing approximately 25.08% of the issued Shares as at the Latest Practicable Date.

The Shares owned by the Offeror and parties acting in concert with the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

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## EXPLANATORY STATEMENT

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As at the Latest Practicable Date, Dr. Chow Yei Ching, an independent non-executive Director, was interested in 100,000 Shares, representing approximately 0.03% of the issued Shares as at the Latest Practicable Date. Based on his confirmation that he is not acting in concert with the Offeror, he will be entitled to vote at the Court Meeting since his interests under the Scheme of Arrangement will not be different, and his rights under the Scheme of Arrangement will not be affected differently, from those of any of the other Minority Shareholders.

### COMPARISON OF VALUE

The Cancellation Consideration of HK\$13.35 in cash for each Scheme Share cancelled under the Proposal represents:

- a premium of approximately 64.2% over the closing price of the Shares of HK\$8.13 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 73.5% over the average closing price of the Shares of approximately HK\$7.70 per Share as quoted on the Stock Exchange for the one month ended the Last Trading Date;
- a premium of approximately 54.0% over the average closing price of the Shares of approximately HK\$8.67 per Share as quoted on the Stock Exchange for the three months ended the Last Trading Date;
- a discount of approximately 4.5% to the average closing price of the Shares of approximately HK\$13.98 per Share as quoted on the Stock Exchange for the six months ended the Last Trading Date;
- a premium of approximately 2.7% over the closing price of the Shares of HK\$13.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 163.8% over the audited consolidated net asset value per Share of approximately HK\$5.06 as at 31 March 2008; and
- a premium of approximately 169.7% over the unaudited consolidated net asset value per Share of approximately HK\$4.95 as at 30 September 2008.

A summary of the closing prices of the Shares as quoted on the Stock Exchange (i) on the last trading day of each of the calendar months during the Relevant Period; (ii) on the Last Trading Date; and (iii) on the Latest Practicable Date is set out in Appendix III to this document.

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK\$5,319 million.

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## EXPLANATORY STATEMENT

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### CONDITIONS OF THE PROPOSAL

The Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the other Shareholders subject to the fulfillment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number of the Minority Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Minority Shareholders at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by the Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to give effect to the Scheme of Arrangement, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue of the New Shares to the Offeror;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the issued share capital of the Company involved in the Scheme of Arrangement by the High Court;
- (d) an office copy of the order of the High Court, together with a minute relating to the reduction of the issued share capital of the Company containing the particulars required by Section 61 of the Companies Ordinance, being registered by the Registrar of Companies;
- (e) all Authorisations in connection with the Proposal having been obtained from or granted by (as the case may be) the Relevant Authorities in Hong Kong and any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective; and
- (g) all necessary consents which may be required under any existing contractual obligations of the Group having been obtained and remaining in full force and effect without modification.

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## EXPLANATORY STATEMENT

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The Offeror reserves the right to waive condition (g) either in whole or in part in respect of any particular matter. In the event that condition (e) or condition (f) is not fulfilled, the Offeror reserves the right to assess the materiality of such non-fulfilment and to waive the fulfilment of any such condition to such extent as it considers appropriate. Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31 March 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), otherwise the Proposal will lapse. If the Proposal is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Assuming that the above conditions are fulfilled or waived (as applicable), it is expected that the Scheme of Arrangement will become effective on Wednesday, 18 March 2009. Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme of Arrangement by the Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

**Shareholders and potential investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. The Scheme of Arrangement may or may not become effective. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

### REASONS FOR THE PROPOSAL

The trading volume of the Shares on the Stock Exchange in recent years has been generally low. The average daily traded volume of the Shares over the twenty four month period prior to the Last Trading Date was approximately 331,869 Shares, representing approximately 0.08% of the issued Shares as at the Last Trading Date.

**Average daily traded volume of the Shares over the one month period, the three month period, the six month period, the twelve month period and the twenty four month period prior to the Last Trading Date**

<b>Period prior to the Last Trading Date</b>	<b>Average daily traded volume of the Shares</b>	<b>Percentage of issued Shares</b>
1-Month	272,394	0.07%
3-Month	352,159	0.09%
6-Month	455,487	0.11%
12-Month	483,894	0.12%
24-Month	331,869	0.08%

Given the relatively low degree of liquidity of the Shares traded on the Stock Exchange and the currently limited opportunity for the Minority Shareholders to divest their investment in the Company, the Proposal provides an opportunity for the Minority Shareholders to realise their shareholdings in the Company in return for cash.

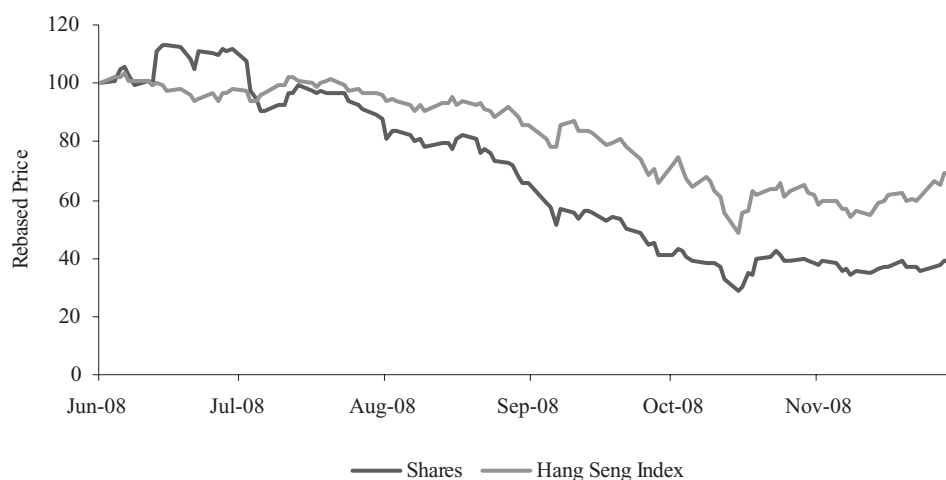
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## EXPLANATORY STATEMENT

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Over the six month period prior to the Last Trading Date, the price of the Shares fell by approximately 61% and the market, as represented by the Hang Seng Index, fell by approximately 35%. During the period from the highest close of the Hang Seng Index at 31,638 on 30 October 2007 to the Latest Trading Date, the Hang Seng Index fell by approximately 53% and the price of the Shares fell by approximately 49%.

**Shares vs. Hang Seng Index**



The Proposal provides the Minority Shareholders with an opportunity to realise their investment in the Company for cash during current poor market conditions, and at a significant premium to the market price prevailing on the Last Trading Date.

In addition, the Proposal allows the Minority Shareholders the opportunity to redeploy capital invested in the Company into other investment opportunities that they may consider more attractive in the current market environment.

The Offeror is of the view that given the current market conditions, the ability of the Company to take advantage of its listing status on the Main Board of the Stock Exchange to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is not likely. Accordingly, the Offeror is putting forward the Proposal on the basis that it would not be justifiable for the Company to maintain its listing status taking account of the costs and management resources associated with maintaining such status and the relatively limited benefits that the Company is able to derive from it in the foreseeable future.



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## EXPLANATORY STATEMENT

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### FINANCIAL RESOURCES

#### Total cash consideration

The aggregate Cancellation Consideration payable in cash under the Proposal will be approximately HK\$1,334 million for 99,905,528 Scheme Shares, and will be funded by the internal resources of the Offeror.

#### Confirmation of financial resources

Macquarie has been appointed as the financial advisor to the Offeror in connection with the Proposal.

Macquarie is satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

### IRREVOCABLE UNDERTAKING

The Offeror has obtained the Irrevocable Undertaking from ASB, pursuant to which ASB has undertaken, amongst other things, to vote (or use commercially reasonable efforts to procure votes) in favour of any resolution to be proposed for the purposes of approving or implementing the Scheme of Arrangement at the Court Meeting and the EGM in respect of the Undertaking Shares. ASB has also undertaken in the Irrevocable Undertaking (a) not to sell, transfer, assign or otherwise dispose of any interest in or right attached to any of the Undertaking Shares until such time as the Scheme of Arrangement shall have become effective or the Scheme of Arrangement shall have lapsed or have been withdrawn, provided however that ASB may sell, transfer, assign or otherwise dispose of interests in or rights attached to any Undertaking Shares if such action is necessary for it to fulfil its fiduciary duty to its clients; and (b) not to acquire any interest in or right over shares of the Company after the date of the Irrevocable Undertaking.

The Irrevocable Undertaking will terminate in accordance with its terms on (a) 31 March 2009 or (b) the day after the date on which the Scheme of Arrangement (i) becomes effective, (ii) lapses or (iii) is withdrawn, whichever is the earliest. The Irrevocable Undertaking will also terminate with respect to any Undertaking Shares in the event that the client account for which ASB exercises voting powers and the power to transact purchases and sales of such shares has terminated or in respect of which its authority to so act has been revoked.

In accordance with its terms, the Irrevocable Undertaking will extend to any revised scheme to privatise the Company submitted by the Company at the request of the Offeror to the shareholders of the Company which would result in the Company becoming wholly-owned by the Offeror and parties acting in concert with the Offeror and which represents, on such basis as the Offeror may consider appropriate, no diminution in the value of the Cancellation Consideration or any other material change to the terms of the Scheme of Arrangement (including any change in the form of the Cancellation Consideration but excluding any change in timing).

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## EXPLANATORY STATEMENT

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As at the Latest Practicable Date, ASB held 40,630,550 Undertaking Shares, representing approximately 10.20% of the issued Shares, in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients. ASB is an investment management firm engaged in the provision of investment advisory services to institutional and individual clients.

### INFORMATION ON THE COMPANY

The Company is a limited company incorporated in Hong Kong whose shares are listed on the Stock Exchange. The Group is principally engaged in investment holding and investments in the media and entertainment industries.

As at the Latest Practicable Date, the Company holds 113,888,628 ordinary shares in TVB, representing approximately 26.00% of the total issued share capital of TVB. In addition, the Offeror (through a wholly-owned subsidiary) holds 27,286,200 ordinary shares and Ms Fong holds 1,146,000 ordinary shares in TVB, representing approximately 6.23% and 0.26% of the total issued share capital of TVB, respectively. The shares of TVB are listed on the Stock Exchange.

The Offeror and parties acting in concert with the Offeror, together, already have statutory control (as defined in the Takeovers Code) of the Company by virtue of its holding approximately 74.92% of the Shares in issue as at the Latest Practicable Date and the implementation of the Proposal will not result in the Offeror, any party acting in concert with the Offeror or the Company acquiring any additional shares in TVB. On such basis, the implementation of the Proposal will not result in the acquisition or consolidation of control (as defined in the Takeovers Code) of TVB by the Offeror or parties acting in concert with the Offeror and hence, there will not be any general offer for the shares in TVB under the chain principle referred to in Note 8 to Rule 26.1 of the Takeovers Code.

A summary of the audited consolidated results of the Company for each of the two financial years ended 31 March 2007 and 31 March 2008 and the unaudited consolidated results of the Company for six months ended 30 September 2008 is set out below:

	<b>For the year ended 31 March 2007</b>	<b>For the year ended 31 March 2008</b>	<b>For the six months ended 30 September 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	43,311	33,457	10,018
Profit before taxation	293,794	311,400	115,501
Profit after taxation	293,794	311,400	115,501
Profit attributable to			
Shareholders	293,794	311,400	115,501
Dividends	179,276	187,243	19,920
Dividends per Share	HK\$0.45	HK\$0.47	HK\$0.05
Earnings per Share	HK\$0.74	HK\$0.78	HK\$0.29

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## EXPLANATORY STATEMENT

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The audited consolidated net assets attributable to the Shareholders were approximately HK\$1,884 million as at 31 March 2007 (before dividends declared on 27 June 2007 and paid out on 25 October 2007) and approximately HK\$2,016 million as at 31 March 2008 (before dividends declared on 27 June 2008 and paid out on 23 October 2008). The unaudited consolidated net assets attributable to the Shareholders were approximately HK\$1,972 million as at 30 September 2008 (before dividends declared on 3 December 2008 and paid out on 22 January 2009).

### INFORMATION ON THE OFFEROR

The Offeror is a corporation incorporated in the Republic of Nauru. It is wholly-owned by the Trust, the trustee of which is Shaw Trustee (Private) Limited. The appointor of the Trust is Sir Run Run Shaw and the beneficiaries of the Trust include any person or charity chosen by Shaw Trustee (Private) Limited pursuant to the trust deed. The directors of the Offeror consist of Ms Fong, Ms. Venus Choy, Ms. Meage Choy and Ms. Li Kit Yee Jenny. The Offeror is an investment holding company.

### EFFECTS OF THE SCHEME OF ARRANGEMENT

#### Shareholding structure of the Company

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
The Offeror and parties acting in concert with the Offeror (Note 1)	298,484,872	74.92	398,390,400	100.00
Minority Shareholders (Note 2)	<u>99,905,528</u>	<u>25.08</u>	<u>0</u>	<u>0</u>
Total issued Shares	<u>398,390,400</u>	<u>100.00</u>	<u>398,390,400</u>	<u>100.00</u>

Note 1: Among the 298,484,872 Shares, 263,610,872 Shares were held by the Offeror, 11,761,000 Shares and 21,735,000 Shares were held by Double One Limited and The Shaw Foundation Hong Kong Limited, the wholly-owned subsidiaries of the Offeror and parties acting in concert with the Offeror, respectively and 1,378,000 Shares were held by Ms Fong, a Director, a director of the Offeror and a party acting in concert with the Offeror.

Sir Run Run Shaw, a Director, exerts 100% control over the Offeror, Double One Limited and The Shaw Foundation Hong Kong Limited through the Trust.

Ms Fong is the spouse of Sir Run Run Shaw.

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## EXPLANATORY STATEMENT

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*Note 2:* Among the 99,905,528 Shares, 100,000 Shares were held by Dr. Chow Yei Ching, an independent non-executive Director and 40,630,550 Undertaking Shares were held by ASB in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients.

As at the Latest Practicable Date, the Company did not have in issue any outstanding options, warrants, derivatives or convertible securities.

As at the Latest Practicable Date, Macquarie did not hold any voting rights or other rights over Shares.

### **Material interests of the Directors and effects of the Scheme of Arrangement on such interests**

Details of the interests of the Directors in Shares as at the Latest Practicable Date are set out on page 144 of this document.

As at the Latest Practicable Date, the Offeror and its two wholly-owned subsidiaries, Double One Limited and The Shaw Foundation Hong Kong Limited, held 263,610,872 Shares, 11,761,000 Shares and 21,735,000 Shares, respectively. The Offeror is wholly-owned by the Trust and Sir Run Run Shaw, a Director, exerts 100% control over the Offeror, Double One Limited and The Shaw Foundation Hong Kong Limited through the Trust. The Shares held by the Offeror, Double One Limited and The Shaw Foundation Hong Kong Limited will not form part of the Scheme Shares and will not be cancelled under the Scheme of Arrangement, and, as such, will not be voted at the Court Meeting.

As at the Latest Practicable Date, Ms Fong, a Director and a party acting in concert with the Offeror, held 1,378,000 Shares. The Shares held by Ms Fong will not form part of the Scheme Shares and will not be cancelled under the Scheme of Arrangement, and, as such, will not be voted at the Court Meeting.

As at the Latest Practicable Date, Dr. Chow Yei Ching, an independent non-executive Director, held 100,000 Shares. The Shares held by Dr. Chow Yei Ching will form part of the Scheme Shares and will be cancelled if the Scheme of Arrangement becomes effective. Based on his confirmation that he is not acting in concert with the Offeror, he will be entitled to vote at the Court Meeting since his interests under the Scheme of Arrangement will not be different, and his rights under the Scheme of Arrangement will not be affected differently, from those of any of the other Minority Shareholders.

### **Binding effect of the Scheme of Arrangement**

Notwithstanding that there may be a dissenting minority, if the Scheme of Arrangement is approved at the Court Meeting in accordance with the requirements of the Companies Ordinance and the Takeovers Code and at the EGM, and is sanctioned by the High Court and the other Conditions are either fulfilled or waived, as applicable, then the Scheme of Arrangement will become binding on the Company, the Offeror and the Minority Shareholders.

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## EXPLANATORY STATEMENT

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If the Scheme of Arrangement becomes effective:

- (i) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
- (ii) subject to and forthwith upon the said reduction of share capital taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares as is equal to the number of Scheme Shares cancelled; and
- (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up the New Shares in full at par and those New Shares shall be allotted and issued, credited as fully paid, to the Offeror.

### **FUTURE PLANS FOR THE GROUP**

It is the intention of the Offeror to continue the existing businesses of the Group upon the successful privatisation of the Company and the withdrawal of the listing of the Shares on the Stock Exchange. The Offeror does not have any intention to introduce any significant changes to the existing operations and management of the Group (including any redeployment of the fixed assets of the Company outside its ordinary course of business), nor does it have any intention to make any changes to the continued employment of the Group's employees. In particular, the Offeror intends to continue exploring opportunities in respect of the redevelopment of the Clearwater Bay site of the Company. On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group.

The Board notes that the Offeror has stated its intention in respect of the businesses, assets and employees of the Group upon the successful privatisation of the Company as described above in this section, and welcomes such intention.

No Share acquired by the Offeror pursuant to the Proposal will be transferred, charged or pledged to any other person, and there is no agreement, arrangement or understanding to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to the Shares so acquired by the Offeror.

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## **EXPLANATORY STATEMENT**

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### **WITHDRAWAL OF THE LISTING OF THE SHARES**

Upon the Scheme of Arrangement becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules with effect from the date on which the Scheme of Arrangement becomes effective. The holders of the Scheme Shares will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:10 p.m. on Monday, 9 March 2009, and the listing of the Shares on the Stock Exchange is expected to be withdrawn after close of business on Wednesday, 18 March 2009.

If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

### **OVERSEAS SHAREHOLDERS**

The making of the Proposal to those Minority Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Minority Shareholders are located. Such Minority Shareholders should inform themselves and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Minority Shareholders wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

### **THE COURT MEETING AND THE EGM**

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Friday, 27 February 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme of Arrangement (with or without modifications). The Scheme of Arrangement is subject to approval by a majority in number of the Minority Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Minority Shareholders at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by the Minority Shareholders.

The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme of Arrangement by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme of

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## **EXPLANATORY STATEMENT**

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Arrangement at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Notices of the Court Meeting and the EGM are set out on pages 162 to 165 of this document. The Court Meeting and the EGM will be held on Friday, 27 February 2009 at the respective times specified in such notices at the Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, Tsim Sha Tsui East, Kowloon, Hong Kong.

### **PROCEDURES FOR DEMANDING A POLL AT THE EGM**

Pursuant to Article 60 of the Company's Articles of Association, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) not less than three Shareholders present in person or by proxy and entitled to vote; or
- (iii) a Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person or by proxy and holding Shares 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 the Shares conferring that right.

Unless a poll is required, a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution.

The special resolution to be proposed at the EGM will, in any event, be taken on a poll. The resolution to be proposed at the Court Meeting will also be taken on a poll.

### **ACTIONS TO BE TAKEN BY THE SHAREHOLDERS**

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the respective instructions printed thereon, and to deposit them at the registered office of the Company at Lot 220 Clear Water Bay Road, Kowloon, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not

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## EXPLANATORY STATEMENT

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later than 10:00 a.m. on Wednesday, 25 February 2009 but if it is not so lodged, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the EGM should be lodged so as to reach the above address not later than 10:30 a.m. on Wednesday, 25 February 2009. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the meeting on the day and at the place, but before commencement, of the meeting.

For the purposes of determining (i) the Minority Shareholders who are entitled to attend and vote at the Court Meeting and (ii) the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 20 February 2009 to Friday, 27 February 2009 (both dates inclusive). During such period no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting or the EGM, all transfers accompanied by the relevant share certificates (if applicable) must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 19 February 2009.

Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme of Arrangement by the High Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

### SHAREHOLDERS WHO HOLD THEIR SHARES THROUGH TRUST OR CCASS

No person shall be recognised by the Company as holding any Shares on trust. Any beneficial owner of Shares (**Beneficial Owner**) whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (**Registered Owner**) should contact the Registered Owner to give instructions to and/or to make arrangements with the Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM in accordance with the Articles of Association of the Company and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the Articles of Association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.



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Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the **Investor Participant**), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant (**Other CCASS Participant**) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

### REGISTRATION AND PAYMENT

If the Scheme of Arrangement becomes effective, cheques for the Cancellation Consideration will be despatched to the Minority Shareholders whose names appear on the register of members of the Company at the Record Time as soon as possible but in any event within ten days after the Effective Date. For the purpose of establishing the entitlements of the Minority Shareholders under the Scheme of Arrangement, it is proposed that the register of the members of the Company be closed from Friday, 13 March 2009 to Tuesday, 17 March 2009 (both dates inclusive), or such other period as may be notified to the Minority Shareholders by way of an announcement. The Minority Shareholders and/or their respective successors in title should ensure that all transfers of their Shares accompanied by the relevant share certificates (if applicable) are registered or lodged for registration in their names or in the names of their nominees with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong by 4:30 p.m. on Thursday, 12 March 2009.

Assuming that the Scheme of Arrangement becomes effective on Wednesday, 18 March 2009, cheques for cash entitlements to the Cancellation Consideration are expected to be despatched to the Minority Shareholders and/or their respective successors on or before Friday, 27 March 2009.

As provided in the Scheme of Arrangement, on or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in an account in the Offeror’s name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums to persons who satisfy the Offeror that they are entitled thereto and that the cheques of which they are payees have not been cashed. No payments made by the Offeror shall include any interest accrued on the sums to which the respective persons are entitled under the Scheme of Arrangement. On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligations to make any payments under the Scheme of Arrangement and the Offeror shall thereafter retain the balance (if any) of the sums then

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## **EXPLANATORY STATEMENT**

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standing to the credit of the account in its name, including accrued interest (if any) subject, if applicable, to the deduction of any interest or withholding or other tax or any other deductions required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by the Company's share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, cheques will be despatched to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither the Company nor the Offeror will be liable for any loss or delay in transmission. Payment of the Cancellation Consideration will be effected by cheques and implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any Minority Shareholder.

### **TAXATION**

As the Scheme of Arrangement does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong on the cancellation of the Scheme Shares upon the Scheme of Arrangement becoming effective.

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Proposal. It is emphasised that none of the Company, the Offeror or any of their respective directors or any persons involved in the Proposal accepts responsibility for any tax effects or liabilities of any person or persons as a result of the implementation of the Proposal.

### **EXPENSES OF THE SCHEME OF ARRANGEMENT**

The expenses of the Scheme of Arrangement incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK\$2 million.

In the event that the Scheme of Arrangement becomes effective, the Company will bear its own expenses incurred in connection with the Scheme of Arrangement. In the event that the Scheme of Arrangement is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme of Arrangement will be borne by the Offeror.

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## **EXPLANATORY STATEMENT**

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### **RECOMMENDATIONS**

In the letter from Somerley, Somerley states that it considers the terms of the Proposal to be fair and reasonable as far as the Minority Shareholders are concerned and recommends that the Independent Board Committee to advise the Minority Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Scheme of Arrangement.

The Independent Board Committee have considered the terms of the Proposal and taken into account the opinion and advice of Somerley, in particular the factors, reasons and recommendation as set out in the “Letter from Somerley” on pages 17 to 49 of this document. The Independent Board Committee’s recommendation is set out in the “Letter from the Independent Board Committee” on pages 15 to 16 of this document.

### **ADDITIONAL INFORMATION**

Additional information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

## I. THREE-YEAR FINANCIAL SUMMARY

Set out below is the financial information of the Group for each of the three years ended 31 March 2006, 2007 and 2008 and the six months ended 30 September 2008, which are extracted from the audited consolidated financial statements of the Group for the years then ended and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2008. The auditor's reports issued by PricewaterhouseCoopers in respect of the Group's audited consolidated financial statements for each of the three years ended 31 March 2006, 2007 and 2008 did not contain any qualifications.

	<b>Six months ended 30 September 2008</b>	<b>Year ended 31 March</b>		
	<i>HK\$'000 (Unaudited)</i>	<b>2008</b> <i>HK\$'000 (Audited)</i>	<b>2007</b> <i>HK\$'000 (Audited)</i>	<b>2006</b> <i>HK\$'000 (Audited)</i>
Turnover	10,018	33,457	43,311	54,156
Profit before income tax of the Company and subsidiaries	115,501	311,400	293,794	297,404
Income tax expense – Company and subsidiaries	–	–	–	–
Profit attributable to equity holders of the Company	115,501	311,400	293,794	297,404
Dividends				
Interim dividend	19,920	19,920	19,920	23,904
Final dividend proposed after the balance sheet date	–	167,323	159,356	135,452
Dividends per share	HK\$0.05	HK\$0.47	HK\$0.45	HK\$0.40
Earnings per share	HK\$0.29	HK\$0.78	HK\$0.74	HK\$0.75

*Note: There are no minority interests, extraordinary or exceptional items.*

## II. AUDITED FINANCIAL INFORMATION

Set out below is the full text of the audited consolidated financial statements of the Group for the year ended 31 March 2008 extracted from the annual report of the Company for the year ended 31 March 2008.

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>As at 31st March</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>11</i>	138,791	142,466
Leasehold land	<i>12</i>	18,052	18,515
Interests in associates	<i>14</i>	<u>1,792,869</u>	<u>1,646,749</u>
		<u>1,949,712</u>	<u>1,807,730</u>
<b>Current assets</b>			
Inventories	<i>15</i>	753	7,728
Accounts receivable, prepayments, deposits and other receivables	<i>16</i>	26,324	30,176
Cash and cash equivalents	<i>17</i>	<u>48,882</u>	<u>50,711</u>
		<u>75,959</u>	<u>88,615</u>
<b>Total assets</b>		<u><u>2,025,671</u></u>	<u><u>1,896,345</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	<i>18</i>	99,598	99,598
Other reserves		26,100	21,938
Retained profits			
– Proposed final dividend	<i>8</i>	167,323	159,356
– Others		<u>1,723,161</u>	<u>1,602,737</u>
<b>Total equity</b>		<u><u>2,016,182</u></u>	<u><u>1,883,629</u></u>

		As at 31st March	
	<i>Note</i>	<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable, other payables and accruals	20	7,583	10,973
Provision for staff long service payments	21	<u>1,906</u>	<u>1,743</u>
<b>Total liabilities</b>		<u>9,489</u>	<u>12,716</u>
<b>Total equity and liabilities</b>		<u>2,025,671</u>	<u>1,896,345</u>
<b>Net current assets</b>		<u>66,470</u>	<u>75,899</u>
<b>Total assets less current liabilities</b>		<u>2,016,182</u>	<u>1,883,629</u>

## COMPANY BALANCE SHEET

	<i>Note</i>	<b>As at 31st March</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>11</i>	138,791	142,466
Leasehold land	<i>12</i>	18,052	18,515
Investments in subsidiaries	<i>13</i>	173	587
Interests in associates	<i>14</i>	<u>1,477,393</u>	<u>1,452,438</u>
		<u>1,634,409</u>	<u>1,614,006</u>
<b>Current assets</b>			
Inventories	<i>15</i>	753	7,504
Accounts receivable, prepayments, deposits and other receivables	<i>16</i>	26,324	30,079
Cash and cash equivalents	<i>17</i>	<u>48,629</u>	<u>50,535</u>
		<u>75,706</u>	<u>88,118</u>
<b>Total assets</b>		<u><b>1,710,115</b></u>	<u><b>1,702,124</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holder</b>			
Share capital	<i>18</i>	99,598	99,598
General reserve	<i>19</i>	557,394	557,394
Retained profits			
– Proposed final dividend	<i>8, 19</i>	167,323	159,356
– Others	<i>19</i>	<u>876,343</u>	<u>873,539</u>
<b>Total equity</b>		<u>1,700,658</u>	<u>1,689,887</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable, other payables and accruals	<i>20</i>	7,551	10,494
Provision for staff long service payments	<i>21</i>	<u>1,906</u>	<u>1,743</u>
<b>Total liabilities</b>		<u>9,457</u>	<u>12,237</u>
<b>Total equity and liabilities</b>		<u><b>1,710,115</b></u>	<u><b>1,702,124</b></u>

	As at 31st March	
	<i>Note</i>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net current assets</b>	<u>66,249</u>	<u>75,881</u>
<b>Total assets less current liabilities</b>	<u>1,700,658</u>	<u>1,689,887</u>



## CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<b>For the year ended</b>	
		<b>31st March</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	33,457	43,311
Cost of sales		<u>(20,082)</u>	<u>(25,002)</u>
Gross profit		13,375	18,309
Other income	4	24,592	23,157
Selling and distribution expenses		(560)	(540)
General and administrative expenses		(25,302)	(29,952)
Other operating expenses		<u>(20,746)</u>	<u>(21,101)</u>
Operating loss		(8,641)	(10,127)
Share of net profit after income tax of associates	14	<u>320,041</u>	<u>303,921</u>
Profit before income tax of the Company and subsidiaries	5	311,400	293,794
Income tax expense – Company and subsidiaries	6	<u>–</u>	<u>–</u>
Profit attributable to equity holders of the Company		<u>311,400</u>	<u>293,794</u>
Dividends	8	<u>187,243</u>	<u>179,276</u>
Earnings per share	9	<u>HK\$0.78</u>	<u>HK\$0.74</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2008

	Attributable to equity holders of the Company					Total HK\$'000
	Share capital HK\$'000	Legal reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	
At 1st April 2006	99,598	5,046	32,902	(8,129)	1,627,828	1,757,245
Share of reserve movements of an associate (Note 14)	—	—	—	(12,038)	—	(12,038)
Net expense recognised directly in equity	—	—	—	(12,038)	—	(12,038)
Profit for the year	—	—	—	—	293,794	293,794
Total recognised (expense)/ income for 2006/2007	—	—	—	(12,038)	293,794	281,756
Share of reserve movements of an associate	—	4,157	—	—	(4,157)	—
Final dividend 2005/2006	—	—	—	—	(135,452)	(135,452)
Interim dividend 2006/2007 (Note 8)	—	—	—	—	(19,920)	(19,920)
	—	4,157	—	—	(159,529)	(155,372)
At 31st March 2007	99,598	9,203	32,902	(20,167)	1,762,093	1,883,629

	Attributable to equity holders of the Company					Total HK\$'000
	Share capital HK\$'000	Legal reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	
At 1st April 2007	99,598	9,203	32,902	(20,167)	1,762,093	1,883,629
Share of reserve movements of an associate (Note 14)	–	–	–	429	–	429
Net income recognised directly in equity	–	–	–	429	–	429
Profit for the year	–	–	–	–	311,400	311,400
Total recognised income for 2007/2008	–	–	–	429	311,400	311,829
Share of reserve movements of an associate	–	3,733	–	–	(3,733)	–
Final dividend 2006/2007 (Note 8)	–	–	–	–	(159,356)	(159,356)
Interim dividend 2007/2008 (Note 8)	–	–	–	–	(19,920)	(19,920)
	–	3,733	–	–	(183,009)	(179,276)
At 31st March 2008	99,598	12,936	32,902	(19,738)	1,890,484	2,016,182

*Note:* Capital reserve includes a transfer from retained profits, which represents the excess of the Group's share of net assets at fair value of an associate over the Group's share of the associate's distributable reserves arising from the deemed disposal of interest in the associate.

In accordance with local laws of a subsidiary of an associate of the Group, that company is required to set aside 10% of annual net income less any accumulated deficit as legal reserve to the extent that the legal reserve amounts to total contributed share capital. The application of the legal reserve is restricted to covering operating losses and conversion into share capital of that subsidiary.

## CONSOLIDATED CASH FLOW STATEMENT

		<b>For the year ended</b>	
		<b>31st March</b>	
	<i>Note</i>	<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>			
Net cash generated from operating activities	25	1,367	4,347
<b>Cash flows from investing activities</b>			
Interest received	25(a)	4,941	5,071
Dividends received from an associate		199,305	176,527
Loan to an associate		(24,955)	(38,045)
Purchase of property, plant and equipment		(3,211)	(7,232)
Disposal of property, plant and equipment	25(b)	–	4
Net cash generated from investing activities		176,080	136,325
<b>Cash flows from financing activities</b>			
Dividends paid		(179,276)	(155,372)
Net cash used in financing activities		(179,276)	(155,372)
<b>Net decrease in cash and cash equivalents</b>		(1,829)	(14,700)
Cash and cash equivalents at the beginning of the year		50,711	65,411
<b>Cash and cash equivalents at the end of the year</b>		<b>48,882</b>	<b>50,711</b>
Analysis of the balances of cash and cash equivalents			
Short term bank deposits with maturities less than three months	17	44,550	47,873
Bank and cash balances	17	4,332	2,838
		<b>48,882</b>	<b>50,711</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted 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.

## (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated 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 Group’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 3.

*Adoption of new/revised HKFRS effective 1st January 2007*

The following new/revised HKFRS are mandatory for the financial year ended 31st March 2008. The Group adopted those which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The new/revised HKFRS above do not have material financial impact to the Group other than the disclosure impact on the consolidated financial statements for the year ended 31st March 2008.

*New/revised HKFRS that are not yet effective and have not been early adopted by the Group*

The following new/revised HKFRS have been published and are mandatory for the Group’s accounting periods beginning on or after 1st January 2008 or later periods, but the Group has not early adopted them.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The Group has already commenced an assessment of the impact of the new/ revised standards, amendments or interpretations to existing standards but is not yet in a position to state whether these new/revised standards, amendments or interpretations to existing standards would have a significant impact to its results of operations and financial position.

**(b) Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 for by the Company on the basis of dividends received and receivable.

**(c) Interests in associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Where the associates have financial year ends other than 31st March, their latest audited financial statements made up to a date within three months before 31st March 2008 are used for equity accounting purposes.

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

Property, plant and equipment, comprising buildings, leasehold improvements, furniture and fittings, equipment, motor vehicles and plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings		2% – 4%
Leasehold improvements	Over the unexpired term of the lease	
Furniture and fittings		10%
Equipment		10% – 20%
Motor vehicles		25%
Plant and machinery		10% – 20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(e)).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other income in the income statement.

**(e) Impairment of investments in subsidiaries and non-financial assets**

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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) Financial assets**

The Group classifies its financial assets according to the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'accounts receivable and other receivables' (Note 1(h)).

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. Impairment testing of accounts receivable and other receivables is described in Note (1(h)).

**(g) Inventories**

Inventories comprise released films, unreleased films, raw materials and cost of processing works.

Released films are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of released films is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a period of three years. Unreleased films, raw materials and cost of processing works are valued at cost less provision for impairment losses.

Cost of released films and unreleased films comprise cost of services, facilities and raw materials consumed in the creation of a film. Raw materials and cost of processing works comprise raw films, chemicals, costs of film processing and film remastering works and direct overhead expenditure.

**(h) Accounts receivable and other receivables**

Accounts receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and other receivables are 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. 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 the provision is recognised in the income statement within general and administrative expenses. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

**(i) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and cash deposits with a maturity of three months or less.

**(j) Share capital**

Ordinary shares are classified as equity.

**(k) Accounts payable and other payables**

Accounts payable and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(l) Employee benefits**

*(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.



*(ii) Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*(iii) Pension obligations*

The Group has a Mandatory Provident Fund Scheme (“MPF Scheme”) in accordance with the Mandatory Provident Fund Schemes Ordinance, the assets of which are held in a separately administered fund.

All permanent staff located in Hong Kong whose employment period reaches 60 days or more must join the MPF Scheme. The contributions to the MPF Scheme made by the Group for permanent staff is calculated at 5% of the individual’s “relevant income” as prescribed in the Mandatory Provident Fund Schemes Ordinance with a maximum amount of HK\$1,000 per month.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

*(iv) Long service payment*

The Group’s net obligation in respect of long services amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the income statement so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlement accrued under the Group’s defined contribution plan that is attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

**(m) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

**(n) Foreign currency translation***(i) 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 (HK\$), which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

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

*(iii) Group companies*

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

**(o) Leases***(i) Operating leases (as lessee)*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

*(ii) Operating leases (as lessor)*

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

**(p) Current and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. 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 realised or the deferred income tax liability is settled.

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

**(q) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group, if any.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (i) Rental income from operating lease of land and buildings is recognised on a straight-line basis over the terms of the lease.
- (ii) Revenue from film distribution is recognised upon delivery of the films for royalty income and upon release of the films for theatrical income.
- (iii) Filming facilities services fees comprise studio service fees, film processing and film remastering income. Studio service fees are recognised when the facilities are used. Film processing income is recognised upon delivery of the films. Film remastering income is recognised on acceptance of film quality by the customer.
- (iv) Management fee income is recognised when the services are rendered.
- (v) Interest income is recognised on a time proportion basis using the effective interest method.

**(r) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated items consist primarily of management fee income and interest income less corporate expenses. Segment assets consist primarily of leasehold land, property, plant and equipment, inventories and receivables, and mainly exclude interests in associates, short term bank deposits and bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as provision for staff long service payments. Capital expenditure represents additions to leasehold land, property, plant and equipment.

In respect of geographical segment reporting, revenues are based on the countries in which the customers are located. Total assets and capital expenditure are where the assets are located.

**(s) Related parties**

A party is considered to be related to the Group if

- (i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with the Group; or (ii) has an interest in the Group that gives it significant influence over the Group;
- (ii) the party is an associate;
- (iii) the party is a member of the key management personnel of the Group;
- (iv) the party is a close member of the family of any individual referred to in (i) to (iii) above; or
- (v) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) and (iv) above.

**(t) Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## **2 FINANCIAL RISK MANAGEMENT**

**(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Executive Directors. The Executive Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

*(i) Foreign exchange risk*

As the majority of the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong dollars, the Group does not have significant exposure to risk in fluctuations in exchange rates.

*(ii) Interest rate risk*

The Group's principal interest bearing assets are loan to an associate and short-term bank deposits which are on a floating rate basis with maturity of three months or less.

Borrowings at variable rates exposed the Group to cash flow interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

A sensitivity analysis has been conducted on the loan to an associate and short-term bank deposits. If interest rate had been 1% higher/lower with all other variables held constant, the Group's profit after taxation for the year would have been increased/(decreased) by HK\$2,034,000 (2007: HK\$1,748,000) and HK\$2,009,000 (2007: HK\$1,736,000) respectively.

*(iii) Credit risk*

The Group's credit risk is primarily attributable to the loan to an associate, credit sales and bank balances and short-term bank deposits. The Group has no significant concentrations of credit risk. For credit sales, the Group has stringent procedures to monitor the overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment provision has been made for doubtful debts.

The credit risk on bank balances and short-term bank deposits are limited as all deposits are placed with banks with ratings at BBB or above.

*(iv) Liquidity risk*

The Group does not have significant financial liabilities except for accounts payable and other payables.

The Group's financial liabilities were current in nature and repayable on demand, therefore the contractual undiscounted cash flows of the Group's and the Company's financial liabilities were less than one year at the year end.

**(b) Fair value estimation**

The carrying amounts of the Group's financial assets and financial liabilities including cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their short maturities. The fair value of financial assets and 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.

**(c) Capital Risk**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group defines the shareholders' equity as the capital of the Group.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

#### (ii) Impairment of accounts receivable

The aged debt profile of accounts receivable is reviewed on a regular basis to ensure that the accounts receivable are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of accounts receivable is called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aging analysis of the accounts receivable and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the income statement. Changes in the collectibility of accounts receivable for which provisions are not made could affect the results of operations.

#### (iii) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to their recoverable amounts.

The impairment assessment is performed based on either the discounted cash flow analysis to determine the value in use or with reference to the open market fair value less estimated costs to sell to determine the disposal value. The discounted cash flow analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-current assets may be required.

#### (iv) Loans to an associate

The Group periodically reviews loans to an associate to assess whether there is objective evidence that loans are impaired. In 2008, after performing an impairment assessment, management has concluded that there is no impairment of loans as at 31st March 2008.

**(v) Deferred income tax assets**

Deferred income tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available in the future against which the temporary differences, the carry forward of unused tax credits and unused tax losses could be utilised. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Where the actual or expected tax positions in future are different from the original estimate, such difference will impact the recognition of deferred income tax assets and income tax charge in the period in which such estimate has been changed.

**4 REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries.

Turnover consists of rental income, film distribution income and filming facilities services fees.

Other income mainly consists of management fee income and interest income.

The amount of each significant category of revenue recognised during the year is as follows:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Rental income from buildings	3,872	3,663
Film distribution income	619	2,166
Filming facilities services fees	28,966	37,482
	33,457	43,311
Other income		
Management fee income	10,616	12,078
Interest income	8,639	7,803
Others	5,337	3,276
	24,592	23,157
Total revenue	58,049	66,468

**Primary reporting format – business segments**

As at 31st March 2008, the Group is organised into four main business segments:

Property rental	:	Leases of properties for rentals
Film distribution	:	Distribution of films for theatrical income and royalty income
Filming facilities services	:	Provision of studio sites and filming facilities and services for income
Investment holding	:	Investments in associates

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

The segment results for the year ended 31st March 2008 and segment assets and liabilities at 31st March 2008 and capital expenditure for the year then ended are as follows:

	<b>Property rental 2008 HK\$'000</b>	<b>Film distribution 2008 HK\$'000</b>	<b>Filming facilities services 2008 HK\$'000</b>	<b>Investment holding 2008 HK\$'000</b>	<b>Group total 2008 HK\$'000</b>
Turnover (Note)	<u>3,872</u>	<u>619</u>	<u>28,966</u>	<u>–</u>	<u>33,457</u>
Segment results	<u>2,261</u>	<u>306</u>	<u>690</u>	<u>(5,066)</u>	(1,809)
Unallocated items					<u>(6,832)</u>
Operating loss					(8,641)
Share of net profit after income tax of associates (Note 14)	–	–	–	320,041	<u>320,041</u>
Profit before income tax of the Company and subsidiaries					311,400
Income tax expense – Company and subsidiaries (Note 6)					<u>–</u>
Profit attributable to equity holders of the Company					<u>311,400</u>
Segment assets	48,884	–	124,838	–	173,722
Interests in associates	–	–	–	1,792,869	1,792,869
Unallocated assets					<u>59,080</u>
Total assets					<u>2,025,671</u>
Segment liabilities	614	166	4,265	–	5,045
Unallocated liabilities					<u>4,444</u>
Total liabilities					<u>9,489</u>
Capital expenditure	<u>–</u>	<u>–</u>	<u>5,529</u>	<u>–</u>	<u>5,529</u>
Depreciation charge (Note 5)	<u>1,147</u>	<u>–</u>	<u>12,488</u>	<u>–</u>	<u>13,635</u>
Amortisation of leasehold land (Note 12)	<u>–</u>	<u>–</u>	<u>463</u>	<u>–</u>	<u>463</u>
Amortisation of released films (Note 5)	<u>–</u>	<u>229</u>	<u>–</u>	<u>–</u>	<u>229</u>

*Note:* There are no sales between the business segments.



**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<b>Property rental 2007 HK\$'000</b>	<b>Film distribution 2007 HK\$'000</b>	<b>Filming facilities services 2007 HK\$'000</b>	<b>Investment holding 2007 HK\$'000</b>	<b>Group total 2007 HK\$'000</b>
Turnover (Note)	<u>3,663</u>	<u>2,166</u>	<u>37,482</u>	<u>–</u>	<u>43,311</u>
Segment results	<u>1,616</u>	<u>(555)</u>	<u>2,506</u>	<u>(5,092)</u>	(1,525)
Unallocated items					<u>(8,602)</u>
Operating loss					(10,127)
Share of net profit after income tax of associates (Note 14)	–	–	–	303,921	<u>303,921</u>
Profit before income tax of the Company and subsidiaries					293,794
Income tax expense – Company and subsidiaries (Note 6)					<u>–</u>
Profit attributable to equity holders of the Company					<u>293,794</u>
Segment assets	50,219	321	141,588	–	192,128
Interests in associates	–	–	–	1,646,749	1,646,749
Unallocated assets					<u>57,468</u>
Total assets					<u>1,896,345</u>
Segment liabilities	1,187	1,666	4,717	–	7,570
Unallocated liabilities					<u>5,146</u>
Total liabilities					<u>12,716</u>
Capital expenditure	<u>–</u>	<u>–</u>	<u>3,907</u>	<u>–</u>	<u>3,907</u>
Depreciation charge (Note 5)	<u>1,667</u>	<u>–</u>	<u>18,572</u>	<u>–</u>	<u>20,239</u>
Amortisation of leasehold land (Note 12)	<u>–</u>	<u>–</u>	<u>463</u>	<u>–</u>	<u>463</u>
Amortisation of released films (Note 5)	<u>–</u>	<u>1,469</u>	<u>–</u>	<u>–</u>	<u>1,469</u>

Note: There are no sales between the business segments.

## Secondary reporting format – geographical segments

Although the Group's business segments are managed on a worldwide basis, they operate in four main geographical areas:

Hong Kong	:	Property rental, film distribution, filming facilities services and investment holding
South East Asia, United States of America (“USA”) and others	:	Film distribution

There are no sales between the geographical segments.

	Turnover		Profit/(loss) before income tax of the Company and subsidiaries		Total assets		Capital expenditure	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	32,919	41,805	(9,029)	(10,982)	232,802	249,596	5,529	3,907
South East Asia	400	1,015	269	424	–	–	–	–
USA	30	390	3	347	–	–	–	–
Others	108	101	116	84	–	–	–	–
	<u>33,457</u>	<u>43,311</u>	(8,641)	(10,127)	232,802	249,596	<u>5,529</u>	<u>3,907</u>

Share of net profit after income tax of associates

320,041 303,921 – –

Interests in associates

– – 1,792,869 1,646,749

311,400 293,794 2,025,671 1,896,345

## 5 PROFIT BEFORE INCOME TAX OF THE COMPANY AND SUBSIDIARIES

Profit before income tax of the Company and subsidiaries has been arrived at after charging/(crediting) the following:

	Group	
	2008	2007
	HK\$'000	HK\$'000
Depreciation charge (Note 11)	9,204	21,153
Add/(less): Net amount realised from/(capitalised to) inventories	<u>4,431</u>	<u>(914)</u>
	13,635	20,239
Amortisation of leasehold land (Note 12)	463	463
Amortisation of released films (Note 15)	229	1,469
Auditor's remuneration	287	282
Employee benefit expense (Note 10)	33,002	32,724
Operating leases – land and buildings	<u>402</u>	<u>409</u>

**6 INCOME TAX EXPENSE – COMPANY AND SUBSIDIARIES**

Hong Kong profits tax has not been provided as two of the subsidiaries have utilised their tax losses brought forward to offset their estimated assessable profit for the year (2007: Nil), while the Company and other subsidiaries in the Group have no estimated assessable profit for the year (2007: Nil).

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Profit before income tax of the Company and subsidiaries	311,400	293,794
Calculated at a taxation rate of 17.5% (2007: 17.5%)	54,495	51,414
Tax effect of share of net profit after income tax of associates	(56,007)	(53,186)
Income not subject to taxation	(836)	(891)
Expenses not deductible for taxation purposes	1,835	2,530
Tax losses not recognised	613	226
Utilisation of previously unrecognised tax losses	(100)	(93)
Income tax expense – Company and subsidiaries	<u>–</u>	<u>–</u>

**7 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$190,047,000 (2007: HK\$166,402,000).

**8 DIVIDENDS**

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Interim dividend paid, HK\$0.05 (2007: HK\$0.05) per ordinary share	19,920	19,920
Final dividend proposed, HK\$0.42 (2007: HK\$0.40) per ordinary share	167,323	159,356
	<u>187,243</u>	<u>179,276</u>

At a meeting held on 27th June 2008, the Directors proposed a final dividend of HK\$0.42 per ordinary share for the year ended 31st March 2008. Such dividend is to be approved by the shareholders at the Annual General Meeting on 3rd September 2008. Therefore, this proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March 2009.

**9 EARNINGS PER SHARE**

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$311,400,000 (2007: HK\$293,794,000) and on 398,390,400 ordinary shares in issue throughout the years ended 31st March 2008 and 2007. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

## 10 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fee	86	88
Salaries, housing reimbursement and other allowances	29,294	31,831
Bonuses	12	12
Post employment benefits		
– MPF Scheme (Note 21)	962	1,041
– Long service payments (Note 21)	337	(35)
	<u>30,691</u>	<u>32,937</u>
Add/(less): Net amount realised from/(capitalised to) inventories	<u>2,311</u>	<u>(213)</u>
	<u><u>33,002</u></u>	<u><u>32,724</u></u>

*Note:* Contributions to the MPF Scheme totalling HK\$169,000 (2007: HK\$186,000) were payable at the year end. No contribution was forfeited during the year (2007: Nil).

## (a) Directors' emoluments

The directors' emoluments for the year are equivalent to key management compensation.

The remuneration of every Director for the year ended 31st March 2008 is set out below:

Name of Director	Directors' fees	Salaries, housing reimburse- ment and other allowances	Mandatory provident fund	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sir Run Run Shaw, GBM	10	979	–	989
Mona Fong	8	3,494	–	3,502
Jeremiah Rajakulendran	8	1,402	12	1,422
Dr. Chow Yei Ching	20	30	–	50
Ng Julie Yuk Shun	20	30	–	50
Nelson Hon Sang Chiu	20	20	–	40
	<u>86</u>	<u>5,955</u>	<u>12</u>	<u>6,053</u>

The remuneration of every Director for the year ended 31st March 2007 is set out below:

Name of Director	Directors' fees <i>HK\$'000</i>	Salaries, housing reimbursement and other allowances <i>HK\$'000</i>	Mandatory provident fund <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sir Run Run Shaw, GBM	10	1,231	–	1,241
Mona Fong	8	3,474	–	3,482
Louis Page (Note)	2	295	3	300
Jeremiah Rajakulendran	8	1,409	12	1,429
Dr. Chow Yei Ching	20	30	–	50
Ng Julie Yuk Shun	20	30	–	50
Nelson Hon Sang Chiu	20	20	–	40
	<u>88</u>	<u>6,489</u>	<u>15</u>	<u>6,592</u>

*Note:* Resigned on 30th June 2006.

**(b) Five highest paid individuals**

Among the five highest paid individuals, three (2007: three) are directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments of the remaining two (2007: two) individuals are analysed as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Salaries, housing reimbursement and other allowances	1,597	1,416
Post employment benefits – MPF Scheme	<u>12</u>	<u>12</u>
	<u>1,609</u>	<u>1,428</u>

The emoluments fell within the following band:

Emolument band	Number of individuals	
	2008	2007
Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

## 11 PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Buildings (Note a) HK\$'000	Leasehold improvements HK\$'000	Motor vehicles, furniture, fittings and equipment HK\$000	Plant and machinery HK\$'000	Total HK\$'000
<b>At 1st April 2006</b>					
Cost	167,192	–	61,454	93,400	322,046
Accumulated depreciation	(42,851)	–	(55,448)	(64,032)	(162,331)
Net book amount	<u>124,341</u>	<u>–</u>	<u>6,006</u>	<u>29,368</u>	<u>159,715</u>
<b>Year ended 31st March 2007</b>					
Opening net book amount	124,341	–	6,006	29,368	159,715
Additions	–	–	354	3,553	3,907
Reclassification	–	–	(36)	36	–
Disposals (Note 25(b))	–	–	(3)	–	(3)
Depreciation (Note 5)	(3,031)	–	(3,426)	(14,696)	(21,153)
Closing net book amount	<u>121,310</u>	<u>–</u>	<u>2,895</u>	<u>18,261</u>	<u>142,466</u>
<b>At 31st March 2007</b>					
Cost	167,192	–	60,960	97,671	325,823
Accumulated depreciation	(45,882)	–	(58,065)	(79,410)	(183,357)
Net book amount	<u>121,310</u>	<u>–</u>	<u>2,895</u>	<u>18,261</u>	<u>142,466</u>
<b>Year ended 31st March 2008</b>					
Opening net book amount	121,310	–	2,895	18,261	142,466
Additions	–	451	78	5,000	5,529
Depreciation (Note 5)	(3,031)	–	(1,004)	(5,169)	(9,204)
Closing net book amount	<u>118,279</u>	<u>451</u>	<u>1,969</u>	<u>18,092</u>	<u>138,791</u>
<b>At 31st March 2008</b>					
Cost	167,192	451	61,038	102,671	331,352
Accumulated depreciation	(48,913)	–	(59,069)	(84,579)	(192,561)
Net book amount	<u>118,279</u>	<u>451</u>	<u>1,969</u>	<u>18,092</u>	<u>138,791</u>

*Notes:*

- (a) Included in buildings of the Company and the Group is a property at net book value of HK\$116,832,000 as at 31st March 2008 (2007: HK\$119,826,000). The property is held under a medium term lease granted by the District Commissioner, New Territories, of the Government of Hong Kong Special Administrative Region under special conditions (the "Grant"). Under the conditions of the Grant, the use of the property is restricted to specific purposes and there are also restrictions on the right to assign, underlet or dispose of the property whereby prior approval should be obtained from the District Commissioner. The property is classified as buildings of the Company and the Group and stated at cost less accumulated depreciation at the balance sheet date.

- (b) Depreciation expense has been charged in the consolidated income statement as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales	8,228	12,237
(Less)/add: Net amount (realised from)/capitalised to inventories	<u>(4,414)</u>	<u>949</u>
	----- 3,814	----- 13,186
Selling and distribution expenses	----- 12	----- 12
General and administrative expenses	----- 3,482	----- 5,881
Other operating expenses	1,913	2,109
Less: Net amount realised from inventories	<u>(17)</u>	<u>(35)</u>
	----- 1,896	----- 2,074
	<u>9,204</u>	<u>21,153</u>

- (c) Income less outgoings relating to the lease of buildings has been recognised in the consolidated income statement as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Lease rental income (Note 4)	3,872	3,663
Studio facilities income	<u>2,744</u>	<u>2,726</u>
	6,616	6,389
Less: Outgoings	<u>(125)</u>	<u>(118)</u>
	<u>6,491</u>	<u>6,271</u>

## 12 LEASEHOLD LAND – GROUP AND COMPANY

The Group's and the Company's interests in leasehold land represent prepaid operating lease payments and their net book amount are analysed as follows:

	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
In Hong Kong held on:		
Leases of between 10 to 50 years	<u>18,052</u>	<u>18,515</u>
Opening net book amount	18,515	18,978
Amortisation (Note 5)	<u>(463)</u>	<u>(463)</u>
Closing net book amount	<u>18,052</u>	<u>18,515</u>
Cost	23,181	23,181
Accumulated amortisation	<u>(5,129)</u>	<u>(4,666)</u>
Closing net book amount	<u>18,052</u>	<u>18,515</u>

*Note:* Amortisation expense of HK\$463,000 (2007: HK\$463,000) has been charged as general and administrative expenses in the consolidated income statement.

## 13 INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2008</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>
Unlisted shares, at cost	4,900	4,900
Less: Provision for impairment	<u>(4,890)</u>	<u>(4,890)</u>
	----- 10	----- 10
Amounts due from subsidiaries (Note a)	35,445	35,793
Less: Provision for impairment	<u>(35,282)</u>	<u>(35,216)</u>
	----- 163	----- 577
	<u>173</u>	<u>587</u>



- (a) The amounts due from subsidiaries are unsecured, interest free and repayable on demand.
- (b) Details of the subsidiaries at 31st March 2008 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held	
					Direct	Indirect
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK\$1	–	100%
Super Film Production Company Limited	Hong Kong	Film production and distribution	2	HK\$1	–	100%
Multi Entertainment Limited	Hong Kong	Investment holding	100	HK\$1	–	100%
Shaw Productions Limited	Hong Kong	Investment holding	2	HK\$1	100%	–
Special Classic Limited	Hong Kong	Dormant	2	HK\$1	100%	–
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK\$10	100%	–
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	–

#### 14 INTERESTS IN ASSOCIATES

	Group	
	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	1,646,749	1,493,348
Share of associates' results		
– profit before income tax	393,970	368,193
– income tax expense	(73,929)	(64,272)
	<u>320,041</u>	<u>303,921</u>
Reserve movements	429	(12,038)
Dividend received	(199,305)	(176,527)
Loan advanced during the year	<u>24,955</u>	<u>38,045</u>
At the end of the year	<u><u>1,792,869</u></u>	<u><u>1,646,749</u></u>

	Company	
	2008	2007
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	7	7
Hong Kong listed shares	1,053,250	1,053,250
	<u>1,053,257</u>	<u>1,053,257</u>
Loans to Goldway Holdings Limited:		
Interest-free loan (Note (a))	332,500	332,500
Additional loan (Note (b))	91,636	66,681
	<u>424,136</u>	<u>399,181</u>
	<u>1,477,393</u>	<u>1,452,438</u>
Market value of listed shares	<u>4,840,267</u>	<u>5,563,459</u>

*Notes:*

- (a) The loan is secured, interest free and has no fixed repayment terms.
- (b) The additional loan is secured, carries interest at one month Hong Kong Interbank Offered Rate plus 0.5% per annum, and has no fixed repayment terms.
- (c) Details of the principal associates at 31st March 2008 are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued shares held	Percentage of interest in ownership	
				Direct	Indirect
Television Broadcasts Limited	Hong Kong	Television broadcasting	Ordinary shares of HK\$0.05 each	26%	–
Goldway Holdings Limited	The British Virgin Islands/ Hong Kong	Investment holding	Ordinary shares of US\$1.00 each	35%	–
Hong Kong Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	Ordinary shares of HK\$100.00 each	–	35%

Summary of the Group's share of financial information on associates is as follows:

	Assets HK\$'000	Liabilities HK\$'000	Turnover HK\$'000	Profit for the year HK\$'000
<b>2008</b>	<u>2,047,609</u>	<u>678,876</u>	<u>1,124,796</u>	<u>320,041</u>
2007	<u>1,879,541</u>	<u>631,973</u>	<u>1,092,391</u>	<u>303,921</u>

The following are extracts from the published financial statements of Television Broadcasts Limited.

**EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS OF TELEVISION BROADCASTS LIMITED**

**CONSOLIDATED INCOME STATEMENT**

	<b>For the year ended 31st</b>	
	<b>December</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,325,809	4,201,186
Cost of sales	<u>(1,763,971)</u>	<u>(1,778,433)</u>
Gross profit	2,561,838	2,422,753
Other revenues	103,960	73,896
Selling, distribution and transmission costs	(453,001)	(451,064)
General and administrative expenses	(569,801)	(504,427)
Other operating income	26,529	57,670
Gain on disposal of equity interests in an associate	140,000	–
Impairment loss of trade receivables from an associate	(135,000)	–
Finance costs	–	(98)
Share of losses of associates	<u>(124,982)</u>	<u>(163,109)</u>
Profit before income tax	1,549,543	1,435,621
Income tax expense	<u>(284,322)</u>	<u>(247,181)</u>
Profit for the year	<u><u>1,265,221</u></u>	<u><u>1,188,440</u></u>
Attributable to:		
Equity holders of the Company	1,263,684	1,188,597
Minority interest	<u>1,537</u>	<u>(157)</u>
	<u><u>1,265,221</u></u>	<u><u>1,188,440</u></u>
Dividends	<u><u>788,400</u></u>	<u><u>744,600</u></u>
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year	<u><u>HK\$2.89</u></u>	<u><u>HK\$2.71</u></u>

## CONSOLIDATED BALANCE SHEET

	As at 31st December	
	2007	2006
	HK\$'000	HK\$'000
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	1,721,921	1,731,207
Leasehold land	185,775	183,848
Intangible assets	163,034	162,184
Interests in associates	84,951	150,213
Available-for-sale financial assets	3	3
Loan to investee company	3,190	6,666
Deferred income tax assets	10,725	25,121
Prepayment	62,482	–
	<u>2,232,081</u>	<u>2,259,242</u>
Current assets		
Programmes, film rights and movies	460,720	442,319
Stocks	9,482	14,439
Trade and other receivables, prepayments and deposits	1,405,703	1,372,347
Tax recoverable	443	1,450
Pledged bank deposits	1,692	239
Bank deposits maturing after three months	131,683	38,026
Cash and cash equivalents	2,008,895	1,559,079
	<u>4,018,618</u>	<u>3,427,899</u>
Total assets	<u>6,250,699</u>	<u>5,687,141</u>
<b>EQUITY</b>		
Capital and reserves attributable to equity holders of the Company		
Share capital	21,900	21,900
Other reserves	685,832	669,823
Retained earnings		
– Proposed final dividend	657,000	635,100
– Others	3,979,253	3,518,325
	<u>5,343,985</u>	<u>4,845,148</u>
Minority interest	24,765	23,199
Total equity	<u>5,368,750</u>	<u>4,868,347</u>
<b>LIABILITIES</b>		
Non-current liabilities		
Deferred income tax liabilities	126,112	126,443
Retirement benefit obligations	14,637	16,515
	<u>140,749</u>	<u>142,958</u>
Current liabilities		
Trade and other payables and accruals	668,365	593,994
Current income tax liabilities	72,835	81,842
	<u>741,200</u>	<u>675,836</u>
Total liabilities	<u>881,949</u>	<u>818,794</u>
Total equity and liabilities	<u>6,250,699</u>	<u>5,687,141</u>
Net current assets	<u>3,277,418</u>	<u>2,752,063</u>
Total assets less current liabilities	<u>5,509,499</u>	<u>5,011,305</u>

## 15 INVENTORIES

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Released films	–	224	–	–
Raw materials and processing works	753	7,504	753	7,504
	<u>753</u>	<u>7,728</u>	<u>753</u>	<u>7,504</u>

Amortisation of released films of HK\$229,000 has been recognised as cost of sales in the consolidated income statement for the year ended 31st March 2008 (2007: HK\$1,469,000). The cost of raw materials and processing works recognised as an expense and included in cost of sales and other operating expenses amounted to HK\$19,853,000 (2007: HK\$23,533,000) and HK\$819,000 (2007: HK\$1,608,000) respectively.

## 16 ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts receivable	2,729	9,181	2,729	8,829
Less: Specific provision for doubtful debts (over 3 months)	(672)	(1,731)	(672)	(1,449)
Accounts receivable – net	2,057	7,450	2,057	7,380
Prepayments, deposits and other receivables	12,639	15,497	12,639	15,470
Receivables from related parties (Note 26(c))	11,628	7,229	11,628	7,229
	<u>26,324</u>	<u>30,176</u>	<u>26,324</u>	<u>30,079</u>

The Group has a defined credit policy. The general credit term ranges from 30 to 90 days.

No impairment of accounts receivable was provided for the years ended 31st March 2007 and 2008. The individually impaired receivable relates to a customer of which the amount to be settled is still under negotiation.

As at 31st March 2008, the aging analysis of the net accounts receivable is as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 – 3 months	211	930	211	860
Over 3 months	396	684	396	684
	607	1,614	607	1,544
Accounts receivable not past due	<u>1,450</u>	<u>5,836</u>	<u>1,450</u>	<u>5,836</u>
	<u>2,057</u>	<u>7,450</u>	<u>2,057</u>	<u>7,380</u>

As at 31st March 2008, accounts receivables of HK\$607,000 (2007: HK\$1,614,000) were past due but not impaired. These relate to a number of individual customers that have a good trade record with the Group. Based on past experience, Management believes that no impairment allowance is necessary for these balances.

As at 31st March 2008, the net accounts receivables is denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	2,057	7,388	2,057	7,380
United States dollars	—	62	—	—
	<u>2,057</u>	<u>7,450</u>	<u>2,057</u>	<u>7,380</u>

Movements on the specific provision for doubtful debts of accounts receivable are as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	1,731	1,731	1,449	1,449
Provision written off	(1,059)	—	(777)	—
At the end of the year	<u>672</u>	<u>1,731</u>	<u>672</u>	<u>1,449</u>

The origination of provision for impaired receivables has been included in general and administrative expenses in the consolidated income statements. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the counter party's default history. As at 31st March 2008, the net accounts receivable which are not impaired are analysed as follows:

	2008	2007
	HK\$'000	HK\$'000
Customers accepted within the past 12 months	328	886
Customers accepted beyond the past 12 months	<u>1,729</u>	<u>6,564</u>
Total	<u>2,057</u>	<u>7,450</u>

## 17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	4,332	2,838	4,079	2,662
Short term bank deposits	<u>44,550</u>	<u>47,873</u>	<u>44,550</u>	<u>47,873</u>
	<u>48,882</u>	<u>50,711</u>	<u>48,629</u>	<u>50,535</u>

The effective interest rate on short term bank deposits was 2.0% per annum as at 31st March 2008 (2007: 4.1%). These deposits have an average maturity of 40 days (2007: 26 days).

The maximum exposure to credit risk on bank balances is represented by the carrying amount in the balance sheet.

As at 31st March 2008, the cash and bank balances are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	47,006	49,617	46,753	49,441
United States dollars	1,876	917	1,876	917
Thai Baht	–	177	–	177
	<u>48,882</u>	<u>50,711</u>	<u>48,629</u>	<u>50,535</u>

## 18 SHARE CAPITAL

	<b>Authorised ordinary shares of HK\$0.25 each</b>	
	<b>Number of shares</b>	<b><i>HK\$'000</i></b>
As at 1st April 2006, 31st March 2007 and 2008	<u>600,000,000</u>	<u>150,000</u>
	<b>Issued and fully paid ordinary shares of HK\$0.25 each</b>	
	<b>Number of shares</b>	<b><i>HK\$'000</i></b>
As at 1st April 2006, 31st March 2007 and 2008	<u>398,390,400</u>	<u>99,598</u>

## 19 GENERAL RESERVE AND RETAINED PROFITS – COMPANY

	<b>General reserve HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
At 1st April 2006	557,394	1,021,865	1,579,259
Profit for the year (Note 7)	–	166,402	166,402
Final dividend 2005/2006	–	(135,452)	(135,452)
Interim dividend 2006/2007 (Note 8)	–	(19,920)	(19,920)
	<u>557,394</u>	<u>1,032,895</u>	<u>1,590,289</u>
At 31st March 2007			
Representing:			
Final dividend 2006/2007 proposed (Note 8)		159,356	
Retained profits		<u>873,539</u>	
At 31st March 2007		<u>1,032,895</u>	
At 1st April 2007	557,394	1,032,895	1,590,289
Profit for the year (Note 7)	–	190,047	190,047
Final dividend 2006/2007 (Note 8)	–	(159,356)	(159,356)
Interim dividend 2007/2008 (Note 8)	–	(19,920)	(19,920)
	<u>557,394</u>	<u>1,043,666</u>	<u>1,601,060</u>
At 31st March 2008			
Representing:			
Final dividend 2007/2008 proposed (Note 8)		167,323	
Retained profits		<u>876,343</u>	
At 31st March 2008		<u>1,043,666</u>	

Distributable reserve of the Company as at 31st March 2008, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,601,060,000 (2007: HK\$1,590,289,000).

## 20 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts payable	422	447	422	406
Other payables and accruals	<u>7,161</u>	<u>10,526</u>	<u>7,129</u>	<u>10,088</u>
	<u>7,583</u>	<u>10,973</u>	<u>7,551</u>	<u>10,494</u>



At 31st March 2008, the aging analysis of accounts payable based on due date is as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	422	406	422	406
Over 3 months	—	41	—	—
	<u>422</u>	<u>447</u>	<u>422</u>	<u>406</u>

As at 31st March 2008, the accounts payable is denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	422	447	422	406
	<u>422</u>	<u>447</u>	<u>422</u>	<u>406</u>

## 21 PROVISION FOR STAFF LONG SERVICE PAYMENTS – GROUP AND COMPANY

The Group's provision for long service payments is provided based on the actuarial assumptions with the adoption of the projected unit credit method.

The amounts recognised in the balance sheets are determined as follows:

	2008	2007
	HK\$'000	HK\$'000
Present value of unfunded obligations	7,847	6,588
Fair value of MPF Scheme	<u>(5,941)</u>	<u>(4,845)</u>
Provision for staff long service payments	<u>1,906</u>	<u>1,743</u>

The amounts recognised in the consolidated income statement are as follows:

	2008	2007
	HK\$'000	HK\$'000
Current service cost	1,066	1,042
Actuarial loss	209	144
Deficit/(return) on MPF Scheme assets	<u>24</u>	<u>(180)</u>
Total, included in employee benefit expense	<u>1,299</u>	<u>1,006</u>

Total expenses recognised in the consolidated income statement are analysed as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales	182	250
Selling and distribution expenses	22	20
General and administrative expenses	367	156
Other operating expenses	<u>728</u>	<u>580</u>
	<u>1,299</u>	<u>1,006</u>

Movements in the provision for long service payments recognised in the balance sheet are as follows:

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	----- 1,743	----- 1,778
Total expenses		
– MPF Scheme (Note 10)	962	1,041
– Long service payments (Note 10)	<u>337</u>	<u>(35)</u>
Total expenses (as shown above)	----- 1,299	----- 1,006
Contributions and benefits paid	<u>(1,136)</u>	<u>(1,041)</u>
At the end of the year	<u>1,906</u>	<u>1,743</u>

The principal actuarial assumptions used are as follows:

	<b>2008</b>	<b>2007</b>
	%	%
Discount rate	3.74	4.20
Expected rate of future salary increment	<u>3.00</u>	<u>2.00</u>

## 22 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement in deferred income tax assets/(liabilities) (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Group and Company:

	Deferred income tax assets		Deferred income tax liabilities	
	Tax losses		Accelerated tax depreciation	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	5,043	2,926	(5,043)	(2,926)
(Charged)/credited to the income statement	(21)	2,117	21	(2,117)
At the end of the year	<u>5,022</u>	<u>5,043</u>	<u>(5,022)</u>	<u>(5,043)</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable. As at 31st March 2008, the Group has unrecognised tax losses of approximately HK\$174,181,000 (2007: HK\$171,208,000) to carry forward against future taxable profits. These tax losses have not been recognised due to uncertainty of their future recoverability. The tax losses have no expiry date.

### 23 CAPITAL COMMITMENTS

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for				
– in respect of the Group's share of funding to an associate for its development of film studio and ancillary facilities	65,864	90,819	65,864	90,819
Contracted but not provided for				
– in respect of property, plant and equipment	4,073	957	4,073	957
	<u>69,937</u>	<u>91,776</u>	<u>69,937</u>	<u>91,776</u>

### 24 LEASE COMMITMENTS

(a) At 31st March 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	<u>87</u>	<u>87</u>	<u>87</u>	<u>87</u>

- (b) At 31st March 2008, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Not later than one year	584	2,768	584	2,768
Later than one year and not later than five years	—	588	—	588
	<u>584</u>	<u>3,356</u>	<u>584</u>	<u>3,356</u>

## 25 NET CASH GENERATED FROM OPERATING ACTIVITIES

	2008 HK\$'000	2007 HK\$'000
Profit before income tax of the Company and subsidiaries	311,400	293,794
Share of net profit after income tax of associates	(320,041)	(303,921)
Interest income (Note (a))	(8,639)	(7,803)
Depreciation charge (Note 11)	9,204	21,153
Amortisation of leasehold land (Note 12)	463	463
Gain on disposal of property, plant and equipment	—	(1)
Operating cash flows before working capital changes	(7,613)	3,685
Decrease in inventories	6,975	365
Decrease in accounts receivable, prepayments, deposits and other receivables	4,311	2,127
Decrease in accounts payable, other payables and accruals	(2,469)	(1,795)
Increase/(decrease) in provision for staff long service payments	163	(35)
Net cash generated from operating activities	<u>1,367</u>	<u>4,347</u>

- (a) Reconciliation of interest income to interest received:

	2008 HK\$'000	2007 HK\$'000
Interest income	8,639	7,803
Increase in interest receivable	(3,698)	(2,732)
Interest received	<u>4,941</u>	<u>5,071</u>

- (b) In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2008 HK\$'000	2007 HK\$'000
Net book amount (Note 11)	—	3
Gain on disposal of property, plant and equipment	—	1
Proceeds from disposal of property, plant and equipment	<u>—</u>	<u>4</u>

**26 RELATED PARTY TRANSACTIONS****(a) Related party transactions**

The Group entered into the following significant transactions in the normal course of business during the year with related parties:

- (i) The Group provided labour and administrative services to an associate for management fees totalling HK\$3,982,000 (2007: HK\$4,033,000). The fees for these services were determined by an agreement entered into between both parties.
- (ii) The Group provided labour and administrative services to certain related parties for management fees totalling HK\$6,634,000 (2007: HK\$7,558,000). The fees for these services were determined by an agreement entered into between the parties. These related parties are held by a substantial shareholder of the Company.
- (iii) The Group received interest income totalling HK\$3,747,000 (2007: HK\$2,736,000) from an associate for providing additional loan facility to finance the development of film studio and ancillary facilities. The loan interest charged was determined by a facility letter entered into between both parties.
- (iv) The Group received services income for digital restoration of video tapes amounting to HK\$998,000 (2007: Nil) from an associate. The fees for these services were determined by an agreement entered into between both parties.

**(b) Key management compensation**

During the years ended 31st March 2007 and 2008, key management compensation is equivalent to the Directors' emoluments as disclosed in Note 10(a).

**(c) Year-end balances – Group and Company**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables from related parties		
Associates	9,385	5,326
Fellow subsidiaries	2,243	1,903
	<u>11,628</u>	<u>7,229</u>
Total receivables (Note 16)	11,628	7,229
Less: interest receivable from an associate (Note (d))	<u>(6,483)</u>	<u>(2,736)</u>
	<u>5,145</u>	<u>4,493</u>

**(d) Loan to an associate**

	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal amount		
Beginning of the year	399,181	361,136
Loan advanced	<u>24,955</u>	<u>38,045</u>
End of the year (Note 14)	----- 424,136	----- 399,181
Interest receivables from an associate		
Beginning of the year	2,736	-
Interest income	<u>3,747</u>	<u>2,736</u>
End of the year (Note (c))	----- 6,483	----- 2,736
Total		
Beginning of the year	401,917	361,136
Loan advanced	24,955	38,045
Interest income	<u>3,747</u>	<u>2,736</u>
End of the year	<u>430,619</u>	<u>401,917</u>

**27 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Board of Directors on 27th June 2008.

### III. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Set out below is the full text of the unaudited condensed consolidated financial information of the Group for the six months ended 30 September 2008 extracted from the interim report of the Company for the six months ended 30 September 2008.

#### CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30TH SEPTEMBER AND 31ST MARCH 2008

	<i>Note</i>	<b>Unaudited 30th September 2008 HK\$'000</b>	<b>Audited 31st March 2008 HK\$'000</b>
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	4	135,482	138,791
Leasehold land	4	17,821	18,052
Interests in associates		<u>1,776,084</u>	<u>1,792,869</u>
		1,929,387	1,949,712
Current assets			
Inventories		1,004	753
Accounts receivable, prepayments, deposits and other receivables	5	30,535	26,324
Cash and cash equivalents		<u>226,822</u>	<u>48,882</u>
		<u>258,361</u>	<u>75,959</u>
Total assets		<u><u>2,187,748</u></u>	<u><u>2,025,671</u></u>
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	6	99,598	99,598
Other reserves		37,237	26,100
Retained profits			
– Final dividend 2007/2008 proposed	11	–	167,323
– Interim dividend 2008/2009 declared	11	19,920	–
– Others		<u>1,815,268</u>	<u>1,723,161</u>
Total equity		<u>1,972,023</u>	<u>2,016,182</u>

		<b>Unaudited 30th September 2008 HK\$'000</b>	<b>Audited 31st March 2008 HK\$'000</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable, other payables and accruals	7	46,639	7,583
Provision for staff long service payments		1,763	1,906
Dividend payable		<u>167,323</u>	<u>–</u>
Total liabilities		<u>215,725</u>	<u>9,489</u>
Total equity and liabilities		<u>2,187,748</u>	<u>2,025,671</u>
Net current assets		<u>42,636</u>	<u>66,470</u>
Total assets less current liabilities		<u>1,972,023</u>	<u>2,016,182</u>



**CONDENSED CONSOLIDATED INCOME STATEMENT**  
*FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008*

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	10,018	21,655
Cost of sales		<u>(5,372)</u>	<u>(13,721)</u>
Gross profit		4,646	7,934
Other income	8	8,272	12,000
Selling and distribution expenses		(380)	(189)
General and administrative expenses		(12,316)	(13,470)
Other operating expenses		<u>(11,191)</u>	<u>(10,240)</u>
Operating loss		(10,969)	(3,965)
Share of net profit after income tax of associates		<u>126,470</u>	<u>123,475</u>
Profit before income tax of the Company and subsidiaries	9	115,501	119,510
Income tax expense – Company and subsidiaries	10	<u>–</u>	<u>–</u>
Profit attributable to equity holders of the Company		<u>115,501</u>	<u>119,510</u>
Dividends	11	<u>19,920</u>	<u>19,920</u>
Earnings per share	12	<u>HK\$0.29</u>	<u>HK\$0.30</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008**

	Unaudited					Total HK\$'000
	Attributable to equity holders of the Company					
	Share Capital HK\$'000	Legal reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	
At 1st April 2008	99,598	12,936	32,902	(19,738)	1,890,484	2,016,182
Share of reserve movements of an associate	—	—	—	7,663	—	7,663
Net income recognised directly in equity	—	—	—	7,663	—	7,663
Profit for the period	—	—	—	—	115,501	115,501
Total recognised income for the period	—	—	—	7,663	115,501	123,164
Share of reserve movements of an associate	—	3,474	—	—	(3,474)	—
Final dividend 2007/2008	—	—	—	—	(167,323)	(167,323)
	—	3,474	—	—	(170,797)	(167,323)
At 30th September 2008	<u>99,598</u>	<u>16,410</u>	<u>32,902</u>	<u>(12,075)</u>	<u>1,835,188</u>	<u>1,972,023</u>
At 1st April 2007	99,598	9,203	32,902	(20,167)	1,762,093	1,883,629
Share of reserve movements of an associate	—	—	—	152	—	152
Net income recognised directly in equity	—	—	—	152	—	152
Profit for the period	—	—	—	—	119,510	119,510
Total recognised income for the period	—	—	—	152	119,510	119,662
Share of reserve movements of an associate	—	3,733	—	—	(3,733)	—
Final dividend 2006/2007	—	—	—	—	(159,356)	(159,356)
	—	3,733	—	—	(163,089)	(159,356)
At 30th September 2007	<u>99,598</u>	<u>12,936</u>	<u>32,902</u>	<u>(20,015)</u>	<u>1,718,514</u>	<u>1,843,935</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

	Unaudited	
	Six months ended 30th September	
	2008	2007
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(4,721)	1,536
Net cash generated from investing activities	<u>182,661</u>	<u>188,224</u>
Net increase in cash and cash equivalents	177,940	189,760
Cash and cash equivalents at the beginning of the period	<u>48,882</u>	<u>50,711</u>
Cash and cash equivalents at the end of the period	<u><u>226,822</u></u>	<u><u>240,471</u></u>
Analysis of the balances of cash and cash equivalents		
Short term bank deposits with maturities less than three months	223,470	237,695
Bank and cash balances	<u>3,352</u>	<u>2,776</u>
	<u><u>226,822</u></u>	<u><u>240,471</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

**1. Basis of preparation**

This unaudited condensed consolidated financial information for the six months ended 30th September 2008 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st March 2008 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

**2. Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st March 2008, except that the Group has adopted a number of new/revised HKFRS issued by the HKICPA which are mandatory for the financial year ending 31st December 2008.

The adoption of the new/revised HKFRS do not have material impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies and presentation of the financial statements will be resulted.

The following new/revised standards, amendments and interpretation to existing standard have been published and mandatory for the accounting periods beginning on or after 1st July 2008 or later periods, but the Group has not early adopted them.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st July 2008.

The Group has already commenced an assessment of the impact of the new/revised standards, amendments or interpretation to existing standard but is not yet in a position to state whether these new/revised standards, amendments or interpretation to existing standard would have a material impact on its results of operations and financial position.

## 3. Segment information

*Primary reporting format – business segments*

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries through the following major business segments:

Property rental	: Leases of properties for rentals
Film distribution	: Distribution of films for theatrical income and royalty income
Filming facilities services	: Provision of studio sites and filming facilities and services for income
Investment holding	: Investments in associates

	Six months ended 30th September 2008				Group total HK\$'000
	Property rental HK\$'000	Film distribution HK\$'000	Filming facilities services HK\$'000	Investment holding HK\$'000	
Turnover ( <i>Note</i> )	<u>1,834</u>	<u>–</u>	<u>8,184</u>	<u>–</u>	<u>10,018</u>
Segment results	<u>1,094</u>	<u>(651)</u>	<u>(2,471)</u>	<u>(2,393)</u>	(4,421)
Unallocated items					<u>(6,548)</u>
Operating loss					(10,969)
Share of net profit after income tax of associates	–	–	–	126,470	<u>126,470</u>
Profit before income tax of the Company and subsidiaries					115,501
Income tax expense – Company and subsidiaries					<u>–</u>
Profit attributable to equity holders of the Company					<u>115,501</u>

*Note:* There are no sales between the business segments.

	Six months ended 30th September 2007				Group total HK\$'000
	Property rental HK\$'000	Film distribution HK\$'000	Filming facilities services HK\$'000	Investment holding HK\$'000	
Turnover ( <i>Note</i> )	<u>1,934</u>	<u>80</u>	<u>19,641</u>	<u>-</u>	<u>21,655</u>
Segment results	<u>1,163</u>	<u>(490)</u>	<u>1,150</u>	<u>(2,198)</u>	(375)
Unallocated items					<u>(3,590)</u>
Operating loss					(3,965)
Share of net profit after income tax of associates	-	-	-	123,475	<u>123,475</u>
Profit before income tax of the Company and subsidiaries					119,510
Income tax expense – Company and subsidiaries					<u>-</u>
Profit attributable to equity holders of the Company					<u>119,510</u>

*Note:* Turnover was after eliminating inter-segment transactions amounting to HK\$122,000 attributable to filming facilities services.

*Secondary reporting format – geographical segments*

During the period under review, less than 10% of the operations of the Group in terms of both revenue and segment results were carried on outside Hong Kong. Accordingly, no geographical segment information is shown.

## 4. Capital expenditure

	Property, plant and equipment <i>HK\$'000</i>	Leasehold land <i>HK\$'000</i>
Opening net book amount as at 1st April 2007	142,466	18,515
Additions	49	–
Depreciation/amortisation charge ( <i>Note 9</i> )	<u>(4,969)</u>	<u>(231)</u>
Closing net book amount as at 30th September 2007	137,546	18,284
Additions	5,480	–
Depreciation/amortisation charge	<u>(4,235)</u>	<u>(232)</u>
Closing net book amount as at 31st March 2008	<u>138,791</u>	<u>18,052</u>
Opening net book amount as at 1st April 2008	138,791	18,052
Additions	564	–
Depreciation/amortisation charge ( <i>Note 9</i> )	<u>(3,873)</u>	<u>(231)</u>
Closing net book amount as at 30th September 2008	<u>135,482</u>	<u>17,821</u>

## 5. Accounts receivable, prepayments, deposits and other receivables

The aging analysis of the net accounts receivable is as follows:

	30th September 2008 <i>HK\$'000</i>	31st March 2008 <i>HK\$'000</i>
1 – 3 months	553	211
Over 3 months	<u>18</u>	<u>396</u>
	571	607
Accounts receivable not past due	<u>2,247</u>	<u>1,450</u>
	<u>2,818</u>	<u>2,057</u>

The Group has a defined credit policy. The general credit term ranges from 30 to 90 days.

## 6. Share capital

	Authorised ordinary shares of HK\$0.25 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
As at 1st April 2007, 30th September 2007 and 2008	<u>600,000,000</u>	<u>150,000</u>

	Issued and fully paid ordinary shares of HK\$0.25 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
As at 1st April 2007, 30th September 2007 and 2008	<u>398,390,400</u>	<u>99,598</u>

## 7. Accounts payable, other payables and accruals

The aging analysis of accounts payable is as follows:

	<b>30th September 2008</b>	<b>31st March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	1,439	422
1 – 3 months	168	–
Over 3 months	92	–
	<u>1,699</u>	<u>422</u>

## 8. Other income

	Six months ended 30th September	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee income	4,994	5,775
Interest income	2,677	5,116
Others	601	1,109
	<u>8,272</u>	<u>12,000</u>



**9. Profit before income tax of the Company and subsidiaries**

Profit before income tax of the Company and subsidiaries has been arrived at after charging the following:

	<b>Six months ended 30th September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation charge	3,873	4,969
Add: Net amount realised from inventories	—	4,431
	<u>3,873</u>	<u>9,400</u>
Amortisation of leasehold land	231	231
Amortisation of released films	—	77
Employee benefit expense	14,801	18,305
Operating leases – land and buildings	229	228
	<u><u>229</u></u>	<u><u>228</u></u>

**10. Income tax expense – Company and subsidiaries**

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the period (2007: Nil). Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

**11. Dividends**

	<b>Six months ended 30th September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend, proposed, of HK\$0.05 (2007: HK\$0.05) per ordinary share	19,920	19,920
	<u>19,920</u>	<u>19,920</u>
	<u><u>19,920</u></u>	<u><u>19,920</u></u>

At a meeting held on 27th June 2008, the Directors declared a final dividend of HK\$0.42 per ordinary share for the year ended 31st March 2008 amounting to HK\$167,323,000, which was paid on 23rd October 2008 and was reflected as an appropriation of retained profits for the six months ended 30th September 2008.

**12. Earnings per share**

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$115,501,000 (2007: HK\$119,510,000) and on 398,390,400 ordinary shares in issue throughout the two six-month periods ended 30th September 2008 and 2007. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

## 13. Capital commitments

	<b>30th September 2008</b>	<b>31st March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitment in respect of the Group's share of funding to an associate for its development of film studio and ancillary facilities	45,949	65,864
Capital expenditure contracted but not provided for in respect of plant and equipment	<u>3,820</u>	<u>4,073</u>
	<u><u>49,769</u></u>	<u><u>69,937</u></u>

## 14. Related party transactions

## (a) Related party transactions

The Group entered into the following significant transactions in the normal course of business during the period with related parties:

- (i) The Group provided labour and administrative services to certain associates for management fees totalling HK\$1,643,000 (2007: HK\$1,987,000). The fees for these services were determined by an agreement entered into between the parties.
- (ii) The Group provided labour and administrative services to certain related parties for management fees totalling HK\$3,351,000 (2007: HK\$3,603,000). The fees for these services were determined by an agreement entered into between the parties. These related parties are held by a substantial shareholder of the Company.
- (iii) The Group received interest income totalling HK\$1,242,000 (2007: HK\$1,906,000) from an associate for providing additional loan facility to finance the development of film studio and ancillary facilities. The loan interest charged was determined by a facility letter entered into between both parties.
- (iv) The Group received service income for digital restoration of video tapes amounting to HK\$713,000 (2007: HK\$133,000) from an associate. The fees for these services were determined by an agreement entered into between both parties.

## (b) Key management compensation

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	<u>2,836</u>	<u>2,845</u>

(c) *Period/year-end balances*

	<b>30th September 2008</b>	<b>31st March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables from related parties		
Associates	9,410	9,385
Fellow subsidiaries	<u>2,209</u>	<u>2,243</u>
Total receivables	11,619	11,628
Less: interest receivable from an associate ( <i>Note (d)</i> )	<u>(7,725)</u>	<u>(6,483)</u>
	<u><u>3,894</u></u>	<u><u>5,145</u></u>

(d) *Loan to an associate*

	<b>30th September 2008</b>	<b>31st March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal amount		
Beginning of the period/year	424,136	399,181
Loan advanced	<u>19,915</u>	<u>24,955</u>
End of the period/year	----- 444,051	----- 424,136
Interest receivable from an associate		
Beginning of the period/year	6,483	2,736
Interest income	<u>1,242</u>	<u>3,747</u>
End of the period/year ( <i>Note (c)</i> )	<u><u>7,725</u></u>	<u><u>6,483</u></u>
Total		
Beginning of the period/year	430,619	401,917
Loan advanced	19,915	24,955
Interest income	<u>1,242</u>	<u>3,747</u>
End of the period/year	<u><u>451,776</u></u>	<u><u>430,619</u></u>

**IV. STATEMENT OF INDEBTEDNESS**

As at 30 November 2008, the Group had total capital commitments of approximately HK\$41.7 million, comprising the Group's share of funding to an associate for its development of film studio and ancillary facilities of approximately HK\$41.2 million and the acquisition of plant and equipment of approximately HK\$0.5 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have, at the close of business on 30 November 2008, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchase contracts or finance leases, guarantees, or material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at their respective exchange rates prevailing at the close of business on 30 November 2008.

**V. MATERIAL CHANGES**

The Directors confirm that they are not aware of any material change in the financial or trading position or outlook of the Group (whether adverse or otherwise) since 31 March 2008, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

The texts of a letter, summary of valuation and valuation certificate prepared for the purpose of incorporation in this document, received from Jones Lang LaSalle Limited, an independent valuer, in connection with their valuations of the property interests of the Group in land and buildings in Hong Kong are set out below:

3 February 2009

The Directors  
Shaw Brothers (Hong Kong) Limited  
Lot 220 Clear Water Bay Road  
Kowloon, Hong Kong

Dear Sirs

**Re: Property Valuation for Shaw Brothers (Hong Kong) Limited**

**1.1 Instructions**

We refer to the instructions from Shaw Brothers (Hong Kong) Limited (“the Company”) for us to carry out market valuation of the following properties in Sai Kung, New Territories, Hong Kong for the purpose of the privatization of the Company:

- Property 1** – Lot No. 219, Lot No. 224 and The Remaining Portion of Lot No. 220 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong
- Property 2** – The Remaining Portion of Lot No. 72, Lot No. 73, Lot No. 75, Lot No. 76, Section A of Lot No. 77, Section B of Lot No. 77, The Remaining Portion of Lot No. 77, Lot No. 78, Lot No. 79, Section A of Lot No. 80, Section B of Lot No. 80, The Remaining Portion of Lot No. 80, Lot No. 81, Lot No. 82, The Remaining Portion of Lot No. 83, The Remaining Portion of Lot No. 84, The Remaining Portion of Lot No. 96, The Remaining Portion of Lot No. 97, Lot No. 98, The Remaining Portion of Lot No. 99, Lot No. 100, Lot No. 101, Lot No. 102, Lot No. 103, Lot No. 104, Lot No. 105, Lot No. 106, Lot No. 107, Lot No. 108, Lot No. 109, Lot No. 110, Lot No. 112, Lot No. 121, Lot No. 122, Lot No. 123, Lot No. 124, Lot No. 126, Lot No. 127, Section A of Lot No. 129, Section B of Lot No. 129, The Remaining Portion of Lot No. 129, Lot No. 130, Lot No. 132 and Lot No. 133 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong
- Property 3** – No. 201 Wan Po Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong (Tseung Kwan O Town Lot No. 85)

(hereinafter collectively referred to as “the Properties”)

The registered owner of Property 3 is Hong Kong Movie City Company Limited (“HKMCCL”). We understand that the Company and/or its subsidiaries (“the Group”) has 35% interest in HKMCCL. For avoidance of doubt, our valuations relate to the 100% interest in the Properties and we have not sought to value the ownership companies, apportion the values or shares within each.

We understand that the Company would like to have our opinion of the market value of each of the Properties with due regard to the existing Government Lease provisions, the town planning zoning and approval of master layout plan and any hope value associated with them.

We have previously provided our valuation advice of Property 1 to another party in June 2008 and the relevant property information had been provided by your company to us. We are not aware of any actual and/or potential conflict of interest for us to handle this valuation assignment on behalf of your company.

We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market value as at 31 December 2008 (“the date of valuation”).

## **1.2 Basis of Valuation**

Unless otherwise stated, our valuation has been prepared in accordance with the “HKIS Valuation Standards on Properties” published by The Hong Kong Institute of Surveyors (“HKIS”) and our General Principles of Valuation, a copy of which is attached in Appendix No. 1. Where the Valuation Standards are silent on subjects requiring guidance, we would refer to “The RICS Valuation Standards” published by the Royal Institution of Chartered Surveyors (“RICS”) and the “International Valuation Standards” published by the International Valuation Standards Committee (“IVSC”) subject to variation to meet local established law, custom, practice and market conditions.

Our valuation of the property interests is made on the basis of the ‘Market Value’ adopted by the HKIS, set out as follows:

“Market Value is the estimated amount for which a Property should exchange on the Date of Valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The redevelopment potential of Property 1 and Property 2 have been taken into consideration in the course of the market valuation.

Our valuation services have been executed in accordance with our Quality Assurance System, accredited by HKQAA via ISO 9001:2000 and our report prepared with reference to the assumptions, definitions and limiting conditions as set out in our General Principles of Valuation.

### 1.3 Valuation Assumptions

Our valuation has been made on the assumption that the owners sells the Properties on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of the Properties.

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

### 1.4 Valuation Methodology

For Property 1, we have adopted primarily the direct comparison method for the valuation of the property. We have made reference to transactions of properties which have potential for redevelopment for alternative uses. These properties are restricted under the government leases mainly for industrial uses and these sites have secured zoning/planning permission within such localities which are suitable for such higher alternative uses like residential and/or hotel, etc. Appropriate adjustments with regard to the market condition, development density, location, zoning, development potential, etc are made to allow for differences between the property under consideration and the comparable properties.

We have also cross-checked the abovementioned market valuation of Property 1 by making reference to the 'Before Land Value' of the Property (i.e. the site value in accordance with the existing lease conditions) and the likely level of 'Hope Value' arising from the potential of the Property for development into alternative uses.

For Property 2, we have also adopted the direct comparison method. We have made reference to transactions of properties which are in a similar locality, of the same or similar zoning and subject to a similar level of development potential. Appropriate adjustments with regard to the market condition, location, zoning, accessibility, etc are made to allow for differences between the property under consideration and the comparable properties.

Given the specialized nature of Property 3 and the lack of appropriate comparable property transactions in the market, we have assessed the value of Property 3 by the depreciated replacement cost ("DRC") approach. In adopting this approach to valuation, we have considered the key criteria, which satisfy the use of this approach:

- specialized nature of property;
- a market in isolation from the undertaking using it; and
- it is not practicable to prepare a reliable valuation based on the direct comparison method as the owner cannot at this point in time acquire a comparable property interest in the open market.

DRC is defined by the HKIS Valuation Standards on Properties as the “the current cost of replacement (reproduction) of a Property less deduction for the physical deterioration and all relevant forms of obsolescence and optimisation”.

### **1.5 Source of Information**

We have relied to a considerable extent on the information provided to us by the Company. We have also accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, floor area and other relevant matters.

Dimensions, measurements and areas included in the report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken.

We have not been instructed to independently verify the information provided to us. Our valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of our valuation may be affected.

### **1.6 Title Investigation**

We have not been provided with copies of the title documents relating to the Properties but we have caused searches to be made at the Land Registry. However, we have not examined the original documents to verify ownership or to ascertain the existence of any lease amendments which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

### **1.7 Site Investigation**

We have not carried out site measurements to verify the correctness of the site areas of the Properties and have assumed that the site areas shown on the documents and official site plans handed to us are correct.

We were not instructed to carry out any investigations on site in order to determine the suitability of ground conditions and services, nor did we undertake archaeological, ecological or environmental surveys. In the course of our valuation, we have assumed that as at the date of valuation these aspects are satisfactory and that where developments are contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. Should it be established subsequently that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use, we reserve the right to adjust the values reported herein.



### 1.8 Property Inspection

We inspected Property 1 and Property 2 on 2 January 2009 and Property 3 on 6 January 2009. However, we have not conducted structural surveys and, as such, we cannot report that the Properties are free from rot, infestation or any other structural defects. We have not carried out a building survey. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the services.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Properties, or has since been incorporated, and we are therefore unable to report that the Properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

### 1.9 Potential Tax Liabilities

According to the information prepared by the Company, the potential tax liabilities which would arise on the disposal of the property interests include profits tax in Hong Kong. The value enhancement between the existing use value and value based on change of use may attract profits tax at 16.5% (prevailing profit tax rate) in Hong Kong on the disposal of the property interests.

### 1.10 Limiting Conditions

The continued turmoil and instability in the financial markets is continuing to cause volatility and uncertainty in the world's capital markets and real estate markets. There are low levels of liquidity in the real estate market and transaction levels are significantly reduced, resulting in a lack of clarity as to pricing levels and the market drivers. This, combined with a general weakening of sentiment towards real estate, has resulted in a continual reappraisal of local property prices. Many transactions that are occurring involve vendors who are more compelled to sell, or purchasers who will only buy at discounted prices. In this environment, prices and values are going through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions.

### 1.11 Report

The summary of valuation and valuation certificates of the Properties follow.

Yours faithfully  
For and on behalf of  
**Jones Lang LaSalle Limited**  
**C K Lau** *MHKIS, MRICS, RPS(GP)*  
*International Director*  
*Licence No.: E-131615*

*Note:* Mr. Lau is a qualified surveyor and a Registered Professional Surveyor. He has over 20 years of valuation and advisory experience in Hong Kong.

## 2.0 SUMMARY OF VALUATION

	<b>Market Value as at 31 December 2008 (HK\$)</b>
1. Lot No. 219, Lot No. 224 and The Remaining Portion of Lot No. 220 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong	1,090,000,000
2. The Remaining Portion of Lot No. 72, Lot No. 73, Lot No. 75, Lot No. 76, Section A of Lot No. 77, Section B of Lot No. 77, The Remaining Portion of Lot No. 77, Lot No. 78, Lot No. 79, Section A of Lot No. 80, Section B of Lot No. 80, The Remaining Portion of Lot No. 80, Lot No. 81, Lot No. 82, The Remaining Portion of Lot No. 83, The Remaining Portion of Lot No. 84, The Remaining Portion of Lot No. 96, The Remaining Portion of Lot No. 97, Lot No. 98, The Remaining Portion of Lot No. 99, Lot No. 100, Lot No. 101, Lot No. 102, Lot No. 103, Lot No. 104, Lot No. 105, Lot No. 106, Lot No. 107, Lot No. 108, Lot No. 109, Lot No. 110, Lot No. 112, Lot No.121, Lot No. 122, Lot No. 123, Lot No. 124, Lot No. 126, Lot No. 127, Section A of Lot No. 129, Section B of Lot No. 129, The Remaining Portion of Lot No. 129, Lot No. 130, Lot No. 132 and Lot No. 133 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong	24,600,000
3. No. 201 Wan Po Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong	1,642,000,000
	<hr/>
<b>Total</b>	<b><u>HK\$2,756,600,000</u></b>

## 3.0 VALUATION CERTIFICATE

Property	Description, age and tenure	Particulars of occupancy	Market value as at 31 December 2008										
1. Lot No. 219, Lot No. 224 and The Remaining Portion of Lot No. 220 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong  ("Lot Nos. 219, 224 and 220 RP in DD 229")	<p>The Property is situated at the north-eastern side of Clear Water Bay Road to the immediate south of the campus of the Hong Kong University of Science and Technology.</p> <p>The Property comprises part of a film studio including ancillary office and staff quarters situated on three lots in Demarcation District No. 229 (DD 229).</p> <p>The film studio and ancillary office are situated on the Remaining Portion of Lot No. 220 in DD 229 ("the Film Studio Lot") whereas the staff quarters are situated on Lot Nos. 219 and 224 in DD 229 ("the Staff Quarters Lots").</p> <p>The Film Studio Lot is separated from the Staff Quarters Lots by an access road which is currently government land.</p> <p>Site area breakdown of the respective lots of the Property is listed as follows:</p>	The buildings on the Film Studio Lot are currently owner-occupied. The staff quarters are currently occupied by the staff of the owner of the Property.	HK\$1,090,000,000  Hong Kong Dollars One Thousand and Ninety Million										
	<table border="1"> <thead> <tr> <th>Lot No. in Demarcation District No.229</th> <th>Approximate Site Area (m<sup>2</sup>)</th> </tr> </thead> <tbody> <tr> <td>220 RP</td> <td>39,799</td> </tr> <tr> <td>219</td> <td>3,924</td> </tr> <tr> <td>224</td> <td><u>2,090</u></td> </tr> <tr> <td><b>Total Site Area</b></td> <td><b><u>45,813</u></b></td> </tr> </tbody> </table>	Lot No. in Demarcation District No.229	Approximate Site Area (m <sup>2</sup> )	220 RP	39,799	219	3,924	224	<u>2,090</u>	<b>Total Site Area</b>	<b><u>45,813</u></b>		
Lot No. in Demarcation District No.229	Approximate Site Area (m <sup>2</sup> )												
220 RP	39,799												
219	3,924												
224	<u>2,090</u>												
<b>Total Site Area</b>	<b><u>45,813</u></b>												

<b>Property</b>	<b>Description, age and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value as at 31 December 2008</b>
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The Film Studio Lot accommodates various buildings that were built in various phases between 1960's to 1990's. The buildings have been occupied as sound stages, store rooms, dressing rooms and make-up rooms, ancillary offices and film storage. The height of these buildings in the Film Studio Lot varies between approximately 12.7ft (3.87m) to 123.6ft (37.66m).

The Staff Quarters Lots accommodate 3 buildings that were built in 1969 and 1978. The buildings vary from 4 to 6 storeys in height and accommodate a total of 134 residential units.

According to the approved building plans, the approximate gross floor area of the existing buildings on the subject site is as follows.

	<b>Approximate Gross Floor Area</b>	
	<i>(ft<sup>2</sup>)</i>	<i>(m<sup>2</sup>)</i>
Film Studio Lot	418,648	38,893
Staff Quarters Lots	<u>83,999</u>	<u>7,804</u>
<b>Total</b>	<b><u>502,647</u></b>	<b><u>46,697</u></b>

The lots are held under various New Grants (please refer to Note 3 below) for 99 years commencing on 1 July 1898 less the last three days which have been extended to expire on 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance. The current Government rent payable for the lots is 3% of the prevailing rateable value of the Property.

*Notes:*

- (1) The registered owner of the Property is Shaw Brothers (Hong Kong) Limited.
- (2) According to our recent Land Registry search, the following major encumbrances are registered against the Property:

*Lot No. 219 in Demarcation District No. 229*

- Modification letter dated 31 January 1969 vide Memorial No. SK82494
- Modification letter dated 12 August 1996 vide Memorial No. SK256337
- Particulars and Conditions of Extension of Lease Term Extending the Lease Term to 30 June 2047 dated 12 August 1996 vide Memorial No. SK260668
- Undertaking by Shaw Brothers (Hong Kong) Limited dated 18 September 1997 vide Memorial No. SK311735

*Lot No. 224 in Demarcation District No. 229*

- Modification letter dated 12 March 1975 vide Memorial No. SK87480
- Modification letter dated 30 May 1995 vide Memorial No. SK236246
- Particulars and Conditions of Extension of Lease Term dated 18 August 1995 vide Memorial No. SK237669
- Undertaking by Shaw Brothers (Hong Kong) Limited dated 18 September 1997 vide Memorial No. SK311735

*The Remaining Portion of Lot 220 in Demarcation District No. 229*

- Deed of Release Variation and Grant between HK-TVB Limited, Shaw Brothers (Hong Kong) Limited and Shaw Organisation Limited dated 30 April 1987 vide Memorial No. SK119679
- Deed of Covenant dated 3 July 1993 vide Memorial No. SK205733
- Modification Letter with Plan dated 13 November 1996 vide Memorial No. SK264064
- Undertaking by Shaw Brothers (Hong Kong) Limited dated 18 September 1997 vide Memorial No. SK311735
- Order No. BSI 3/NT/00 (as per plan) by the Building Authority under S.27C (1) of the Buildings Ordinance in favour of Shaw Brothers (Hong Kong) Limited dated 29 June 2000 vide Memorial No. SK429378
- Order No. DH 0165/NT/03/C order by the Building Authority under section 27A of the Buildings Ordinance with plan dated 30 December 2003 vide Memorial No. SK584046

*We are not aware of any documents that are registered in the Land Registry showing the compliance of the abovementioned building orders. For the purpose of our valuation, we have not allowed for the costs, if any, required to comply with the above building orders. We have also assumed that no extraordinary delays or costs to the redevelopment of the Property will be caused by the building orders.*

- (3) The use and development of the subject lots is governed by the respective New Grant documents and modification letters:

*The Remaining Portion of Lot No. 220 in DD 229 under New Grant No. 4945 as modified by the Modification Letter vide SK264064*

- User : The lot shall be used for Film Studio purposes only (S.C. 3 (a))
- Parking spaces : Spaces shall be provided for the parking, loading and unloading of not less than 40 motor vehicles (S.C. 8)
- Height restriction : Shall not exceed a height of 559.2 feet above Colony principal datum (S.C. 10)
- Maximum built over area : Shall not exceed 2/3 of the area of the lot (S.C. 10)

*The Remaining Portion of Lot No.214 in DD 229 under New Grant No. 4197 as modified by Modification Letters vide SK76771 and SK85139*

- User : The lot shall be used for film studio purposes only (S.C. 2)
- Design, disposition and height : The design, disposition and height of any building shall be subject to the approval in writing of the District Commissioner, New Territories (S.C. 10)
- Height restriction : Shall not exceed a height of 60 feet above the mean formation level of the site which formation level shall not more than 506 feet above Colony Principal Datum (S.C. 11)
- Car parking space : For the parking of not less than 20 cars (S.C. 13)
- Tree preservation : No trees growing on the lot shall be removed without prior written consent from the Forestry Officer (S.C. 32)

*Lot No. 219 in DD 229 under New Grant No. 4816 as modified by Modification Letters vide SK82494 and SK256337*

- User : No building shall be erected on the lot except blocks or flats or dormitories for providing housing for the staff and employees of the grantee and dependent members of the families of such staff and employees, non-paying guests and domestic servants employed by the same (S.C. 3)
- Development density : Accommodation shall be provided for not less than 210 persons and a minimum of 20 flats shall be provided and each one shall not exceed a gross floor area of 1,000 square feet each (S.C. 3)
- Design and disposition : The design, and disposition of any building shall be subject to the approval in writing of the District Commissioner, New Territories (S.C. 15)
- Height restriction : Shall not exceed a height of 513 feet above Colony Principal Datum (S.C. 16)
- Maximum built over area : Shall not exceed 30% of the area of the lot (S.C. 16)
- Car parking space : For the parking of motor vehicles at the rate of not less than one private car per floor per building (S.C. 17)
- Vehicular access : No right of ingress or egress to or from the lot for the passage of motor vehicles except between points X and Y through Z shown and marked on the plan annexed thereto (S.C. 35)

- (4) According to the Clear Water Bay Peninsula North Outline Zoning Plan No. S/SK-CWBN/3 dated 31 October 2006 (“the OZP”), the Property, the remaining lots of the whole film studio development (“Adjoining Land”) and two adjoining government lands are zoned as Comprehensive Development Area (2) (“CDA (2)”). According to the explanatory statement of the OZP, the total site area of the CDA(2) zone is about 7.85 ha (approximately 78,500m<sup>2</sup> or 844,974ft<sup>2</sup>). The Property is in the order of around 62% of the total site area of the CDA(2) zone.
- (5) On land designated “Comprehensive Development Area (2)” (“CDA(2)”), no new development or redevelopment shall result in a total development or redevelopment in excess of the restrictions as set out below or the plot ratio / gross floor area, site coverage and height of the existing domestic building, whichever is the greater. No addition, alteration and/or modification to an existing building (other than a building which was in existence on the date of the first publication in the Gazette of the notice of the draft development permission area plan) shall result in a total development in excess of the restrictions as set out below or the plot ratio / gross floor area, site coverage and height of the building, whichever is the greater.

The following is a summary of the plot ratio / gross floor area, site coverage and height of the building permitted under the OZP.

Sub-areas	Maximum Gross Floor Area (m <sup>2</sup> )		Maximum Plot Ratio		Maximum Site Coverage	Maximum Building Height (excluding basement(s))	
	Domestic	Non-domestic	Domestic	Non-domestic		No. of Storeys	Building Height (m)
	Area (a)(i)	N.A.		1.5	N.A.	35%	8
Area (a)(ii)	N.A.		1.5	N.A.	35%	6	18
Area (a)(iii)	N.A.		1.5	N.A.	35%	3	9
Area (b)	N.A.	23,720	N.A.		35%	5	22
Area (c)	4,000		N.A.		35%	4	12

- (6) From the records in the Town Planning Board, the Master Layout Plan (MLP) of a proposed development at the CDA(2) zone has been approved under sections 4A and 16 of the Town Planning Ordinance. We have been advised that the proposed development in the CDA(2) zone will comprise a total of 614 residential units, 115 residential institution units, commercial / retail and car parking facilities. The total gross floor area of the proposed development in the CDA(2) zone is as follows:

Residential	:	99,222m <sup>2</sup>
Residential Institution (Hostel)	:	4,000m <sup>2</sup>
Commercial	:	23,720m <sup>2</sup>
Total	:	126,942m <sup>2</sup>

We have been advised by the Company that they have entered into a development agreement with the owner of the Adjoining Land for the redevelopment within the CDA(2) zone, and that according to the development agreement the Company will be entitled to a share of gross floor area of the proposed development in the CDA(2) zone. In the course of our valuation, we have based on the floor area entitlement as advised in determining the development potential of the Property.

- (7) The Property is restricted under the government leases for film studio and ancillary offices purposes as well as staff quarters uses. To undertake the proposed development, the land grant restrictions have to be changed to be in line with the proposed development. Necessary modification of government leases or land exchange will have to be undertaken with the payment of land premium to be assessed by the Lands Department.

As advised by the Company, separate land grants will be undertaken for the entire CDA(2) zone. In particular, the land exchange for the Property will be undertaken under two re-grants, one will be the Film Studio Lot (i.e. the residential and commercial development site after re-grant) and the other will be the Staff Quarters Lots (i.e. the residential institution site after re-grant).

- (8) We have taken into account the redevelopment potential of the Property in the course of the market valuation. Our valuation of the Property is carried out with due regard to the existing Government Lease provisions, the town planning zoning and approval of master layout plan. We have also taken into account that the land exchanges are to be undertaken. Our valuation of the Property is made on the basis of its current redevelopment stage and that land exchanges have not been completed, and land premium has not been determined by the Lands Department and paid by the Company.
- (9) We understand that the Company has not got the development plans confirmed yet and that there are no development costs estimates prepared by the Company yet.



Property	Description, age and tenure	Particulars of occupancy	Market value as at 31 December 2008																																																																																																																																													
2. The Remaining Portion of Lot No. 72, Lot No. 73, Lot No. 75, Lot No. 76, Section A of Lot No. 77, Section B of Lot No. 77, The Remaining Portion of Lot No. 77, Lot No. 78, Lot No. 79, Section A of Lot No. 80, Section B of Lot No. 80, The Remaining Portion of Lot No. 80, Lot No. 81, Lot No. 82, The Remaining Portion of Lot No. 83, The Remaining Portion of Lot No. 84, The Remaining Portion of Lot No. 96, The Remaining Portion of Lot No. 97, Lot No. 98, The Remaining Portion of Lot No. 99, Lot No. 100, Lot No. 101, Lot No. 102, Lot No. 103, Lot No. 104, Lot No. 105, Lot No. 106, Lot No. 107, Lot No. 108, Lot No. 109, Lot No. 110, Lot No. 112, Lot No.121, Lot No. 122, Lot No. 123, Lot No. 124, Lot No. 126, Lot No. 127, Section A of Lot No. 129, Section B of Lot No. 129, The Remaining Portion of Lot No. 129, Lot No. 130, Lot No. 132 and Lot No. 133 in Demarcation District No. 229, Sai Kung, New Territories, Hong Kong	<p>The Property is situated at the north-eastern side of Clear Water Bay Road near Tai Po Tsai in Sai Kung.</p> <p>The Property comprises forty four agricultural lots in Demarcation District No. 229 (DD 229) which are clustered together to form a piece of elongated land.</p> <p>The Property is accessed through a path from neighbouring lots branching off Clear Water Bay Road.</p> <p>Site area breakdown of the respective lots of the Property are listed as follows:</p> <table border="1"> <thead> <tr> <th>Lot No. in DD 229</th> <th colspan="2">Approximate Site Area</th> </tr> <tr> <th></th> <th>(m<sup>2</sup>)</th> <th>(ft<sup>2</sup>)</th> </tr> </thead> <tbody> <tr><td>72 RP</td><td>495.387</td><td>5,332.3</td></tr> <tr><td>73</td><td>404.682</td><td>4,356.0</td></tr> <tr><td>75</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>76</td><td>283.278</td><td>3,049.2</td></tr> <tr><td>77 s.A</td><td>101.171</td><td>1,089.0</td></tr> <tr><td>77 s.B</td><td>50.585</td><td>544.5</td></tr> <tr><td>77 RP</td><td>50.585</td><td>544.5</td></tr> <tr><td>78</td><td>485.619</td><td>5,227.2</td></tr> <tr><td>79</td><td>485.619</td><td>5,227.2</td></tr> <tr><td>80 s.A</td><td>283.278</td><td>3,049.2</td></tr> <tr><td>80 s.B</td><td>141.639</td><td>1,524.6</td></tr> <tr><td>80 RP</td><td>141.639</td><td>1,524.6</td></tr> <tr><td>81</td><td>283.278</td><td>3,049.2</td></tr> <tr><td>82</td><td>283.278</td><td>3,049.2</td></tr> <tr><td>83 RP</td><td>139.846</td><td>1,505.3</td></tr> <tr><td>84 RP</td><td>253.565</td><td>2,729.4</td></tr> <tr><td>96 RP</td><td>203.514</td><td>2,190.6</td></tr> <tr><td>97 RP</td><td>238.209</td><td>2,564.1</td></tr> <tr><td>98</td><td>323.746</td><td>3,484.8</td></tr> <tr><td>99 RP</td><td>467.919</td><td>5,036.7</td></tr> <tr><td>100</td><td>607.023</td><td>6,534.0</td></tr> <tr><td>101</td><td>566.555</td><td>6,098.4</td></tr> <tr><td>102</td><td>121.405</td><td>1,306.8</td></tr> <tr><td>103</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>104</td><td>283.278</td><td>3,049.2</td></tr> <tr><td>105</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>106</td><td>404.682</td><td>4,356.0</td></tr> <tr><td>107</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>108</td><td>80.936</td><td>871.2</td></tr> <tr><td>109</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>110</td><td>121.405</td><td>1,306.8</td></tr> <tr><td>112</td><td>121.405</td><td>1,306.8</td></tr> <tr><td>121</td><td>40.468</td><td>435.6</td></tr> <tr><td>122</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>123</td><td>364.214</td><td>3,920.4</td></tr> <tr><td>124</td><td>323.746</td><td>3,484.8</td></tr> <tr><td>126</td><td>647.492</td><td>6,969.6</td></tr> <tr><td>127</td><td>404.682</td><td>4,356.0</td></tr> <tr><td>129 s.A</td><td>161.873</td><td>1,742.4</td></tr> <tr><td>129 s.B</td><td>161.873</td><td>1,742.4</td></tr> <tr><td>129 RP</td><td>161.873</td><td>1,742.4</td></tr> <tr><td>130</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>132</td><td>202.341</td><td>2,178.0</td></tr> <tr><td>133</td><td>121.405</td><td>1,306.8</td></tr> <tr> <td><b>Total Site Area</b></td> <td><b>11,429.880</b></td> <td><b>123,031.2</b></td> </tr> </tbody> </table>	Lot No. in DD 229	Approximate Site Area			(m <sup>2</sup> )	(ft <sup>2</sup> )	72 RP	495.387	5,332.3	73	404.682	4,356.0	75	202.341	2,178.0	76	283.278	3,049.2	77 s.A	101.171	1,089.0	77 s.B	50.585	544.5	77 RP	50.585	544.5	78	485.619	5,227.2	79	485.619	5,227.2	80 s.A	283.278	3,049.2	80 s.B	141.639	1,524.6	80 RP	141.639	1,524.6	81	283.278	3,049.2	82	283.278	3,049.2	83 RP	139.846	1,505.3	84 RP	253.565	2,729.4	96 RP	203.514	2,190.6	97 RP	238.209	2,564.1	98	323.746	3,484.8	99 RP	467.919	5,036.7	100	607.023	6,534.0	101	566.555	6,098.4	102	121.405	1,306.8	103	202.341	2,178.0	104	283.278	3,049.2	105	202.341	2,178.0	106	404.682	4,356.0	107	202.341	2,178.0	108	80.936	871.2	109	202.341	2,178.0	110	121.405	1,306.8	112	121.405	1,306.8	121	40.468	435.6	122	202.341	2,178.0	123	364.214	3,920.4	124	323.746	3,484.8	126	647.492	6,969.6	127	404.682	4,356.0	129 s.A	161.873	1,742.4	129 s.B	161.873	1,742.4	129 RP	161.873	1,742.4	130	202.341	2,178.0	132	202.341	2,178.0	133	121.405	1,306.8	<b>Total Site Area</b>	<b>11,429.880</b>	<b>123,031.2</b>	<p>As advised by the Company, the Property is currently leased under a monthly license at HK\$13,500 per month for nursery and garden uses.</p>	<p>HK\$24,600,000</p> <p>Hong Kong Dollars Twenty Four Million and Six Hundred Thousand</p>
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Property	Description, age and tenure	Particulars of occupancy	Market value as at 31 December 2008
	<p>The Property is held under Block Government Lease of Demarcation District No. 229 for 75 years commencing on 1 July 1898 less the last three days which have been extended to expire on 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance.</p>		

*Notes:*

- (1) The registered owner of the Property is Shaw Brothers (Hong Kong) Limited.
- (2) According to our recent Land Registry search, the following encumbrances are registered against the Property.
  - a. Order No. CWP/S1/98872/08/NT by the Building Authority under S.24(1) of the Buildings Ordinance with plan vide Memorial No. 08071702320148 dated 31 May 2008 (Re: Lot No. 75 in Demarcation District No. 229)
  - b. Order No. CWP/S1/98817/08/NT by the Building Authority under S.24(1) of the Buildings Ordinance with plan vide Memorial No. 08071702320130 dated 31 May 2008 (Re: Lot No. 76 in Demarcation District No. 229)
  - c. Order No. CWP/S1/98815/08/NT by the Building Authority under S.24(1) of the Buildings Ordinance with plan vide Memorial No. 08071702320112 dated 31 May 2008 (Re: Section A of Lot No. 77 in Demarcation District No. 229)
  - d. Order No. CWP/S1/98816/08/NT by the Building Authority under S.24(1) of the Buildings Ordinance with plan vide Memorial No. 08071702320125 dated 31 May 2008 (Re: Section B of Lot No. 77 in Demarcation District No. 229)
  - e. Order No. CWP/S1/98738/08/NT by the Building Authority under S.24(1) of the Buildings Ordinance with plan vide Memorial No. 08071702320091 dated 31 May 2008 (Re: The Remaining Portion of Lot No. 77 in Demarcation District No. 229)

*We are not aware of any documents that are registered in the Land Registry showing the compliance of the abovementioned building orders. For the purpose of our valuation, we have not allowed for the costs, if any, required to comply with the above building orders.*
- (3) The use description of the subject lots under the Block Government Lease of Demarcation District No. 229 is "Padi".
- (4) According to the Clear Water Bay Peninsula North Outline Zoning Plan No. S/SK-CWBN/3 dated 31 October 2006 ("the OZP"), the Property is zoned as Green Belt ("GB"). There is a general presumption against development within this zone. According to the Notes attached to the OZP, "Agricultural Use", "Barbecue Spot", "Nature Reserve", "On-Farm Domestic Structure" etc. are Column 1 uses on land zoned GB, which are always permitted without the need for any planning application. Planning approval would be required for development such as residential institution.
- (5) Upon inspection, we noted that some brick/concrete structures were erected over the Property. In the course of valuation, we have disregarded such structures and have not taken into account any possible costs to reinstate the said structure.

- (6) We have considered the development potential of the Property in the course of the market valuation. Our valuation of the Property is carried out with due regard to the existing Government Lease provisions and the town planning zoning. Prior planning approval and modification of Government Lease conditions (with payment of land premium) will be required to undertake any form of development on the Property.
  
- (7) We understand that currently the Company has not got plan to develop the Property into other uses.

Property	Description, age and tenure	Particulars of occupancy	Market value as at 31 December 2008
3. No. 201 Wan Po Road, Tseung Kwan O, Sai Kung, New Territories	The Property comprises a movie city erected on a site of registered area of approximately 524,121ft <sup>2</sup> (48,692m <sup>2</sup> ) at the north-eastern side of Wan Po Road to the north of Tseung Kwan O Industrial Estate at Tseung Kwan O.	Majority parts of the Property have not been opened and fitting-out works are being undertaken at these parts.	HK\$1,642,000,000
Tseung Kwan O Town Lot No. 85 ("TKOTL 85")	<p>The Property comprising nine buildings, namely the administration building, the post-production building, the theatre building, the supporting complex and five sound stages. Construction of these buildings were completed in 2005. The height of these buildings varies between approximately 13ft (4.0m) to 124ft (37.8m).</p> <p>According to the copy of building plans provided by the Company, the total gross floor area of the buildings in the movie city is approximately 822,924ft<sup>2</sup> (76,451.5m<sup>2</sup>).</p> <p>The lot is held under New Grant No. 9695 for 50 years commencing on 21 November 2002. The current Government rent payable for the lot is a sum equivalent to 3% of the prevailing rateable value of the Property.</p>	<p>Parts of the Property are currently owner-occupied and some facilities are let for film production. As advised by the Company, the total revenue receivable for the movie city for the period from April 2008 to September 2008 was approximately HK\$863,990.</p>	<p>Hong Kong Dollars One Thousand Six Hundred and Forty Two Million</p>

*Notes:*

- (1) The registered owner of the Property is Hong Kong Movie City Company Limited.
- (2) We understand that the Group has 35% interest in Hong Kong Movie City Company Limited. For avoidance of doubt, our valuation relates to the 100% interest in the Property.
- (3) According to our recent Land Registry search, a Modification Letter with plan dated 6 May 2005 vide Memorial No. 05051400780018 is registered against the Property.

- (4) The use and development of the subject lot is governed by the New Grant No. 9695 and the modification letter. Major conditions in the New Grant as modified are summarized as follows.
- |                          |   |   |
|--------------------------|---|---|
| User                     | : | The lot shall be used for Film Studio purposes only (S.C. 10)   |
| Maximum gross floor area | : | Shall not be less than 53,280 m <sup>2</sup> and shall not exceed 88,800 m <sup>2</sup> (S.C. 16(c))  |
| Height restriction       | : | May not exceed the aggregate height of 80 metres above the Hong Kong Principal Datum (S.C. 16(d))   |
| Parking spaces           | : | Grantee shall submit proposal to the Director for his approval in respect of the spaces to be provided within the lot (S.C. 19)   |
| MTR Reserve              | : | No building shall be erected or constructed within the area shown and marked "MTR Reserve Boundary on Plan I annexed except with prior written approval of the Director (S.C. 22) |
- (5) According to the Tseung Kwan O Outline Zoning Plan No. S/TKO/16 exhibited on 13 June 2008 ("the OZP"), the Property is zoned as Government / Institution / Community ("GIC"). The zone is intended primarily for the provision of Government, institution or community facilities serving the needs of the local residents and/or a wider district, region or community. According to the Notes attached to the OZP, "Broadcasting, Television and/or Film Studio" and "Eating Place (Canteen, Cooked Food Centre only)" are Column 1 uses on land zoned GIC, which are always permitted without the need for any planning application.
- (6) We have valued the Property by the depreciated replacement cost (DRC) approach which is defined by the HKIS Valuation Standards on Properties as the "the current cost of replacement (reproduction) of a Property less deduction for the physical deterioration and all relevant forms of obsolescence and optimisation."

**GENERAL PRINCIPLES ADOPTED IN THE PREPARATION  
AND CONDITIONS THAT APPLY TO AND FORM PART  
OF  
HONG KONG VALUATIONS AND REPORTS**

This document sets out the general principles upon which our Valuations and Reports are normally prepared, and the conditions that apply to and form part of our Valuations and Reports. They apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, where appropriate, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries. Any variations to these general principles and/or conditions must be confirmed in writing.

Our Valuations and Reports are confidential to, and for the use only of, the party to whom they are addressed and for the stated specific purpose. No responsibility whatsoever is accepted to any third parties who may use or rely on the whole or any part of the contents of any such Valuation or Report. The whole or any part of the Valuation or Report, or reference thereto, must not be published or referred to in any document, statement, circular, or in any communication with third parties, without our prior written approval of the form and context in which it will appear.

**1. Valuation Methodology:**

All work is carried out in accordance with the “HKIS Valuation Standards on Properties” published by The Hong Kong Institute of Surveyors (“HKIS”). If the HKIS Valuation Standards on Properties are silent on subjects requiring guidance, we refer to “The RICS Appraisal and Valuation Standards “ published by the Royal Institution of Chartered Surveyors (“RICS”) and the “International Valuation Standards” published by the International Valuation Standards Committee (“IVSC”), as appropriate, subject to variation to meet local established law, custom, practice and market conditions with the RICS Appraisal and Valuation Standards prevailing over IVSC’s International Valuation Standards to the extent of any inconsistency. Unless otherwise stated, our valuations are undertaken as External Valuers as defined in the HKIS Valuation Standards on Properties.

**2. Valuation Basis:**

Our valuations are made on the basis of Market Value adopted by the HKIS, set out as follows:

*“Market Value is the estimated amount for which a Property should exchange on the date of Valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

Our valuations are made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture or similar arrangement which would serve to affect the value of the property.

Each valuation is current as at the date of valuation only. The value assessed may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of preceding half of this paragraph, we do not assume any responsibility or accept liability where this valuation is relied upon after the expiration of three months from the date of valuation.

### **3. Costs:**

No allowances are made in our valuations for dealing with any encumbrances such as charges, mortgages, nor for amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale or disposal.

### **4. Source of Information:**

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarized in our report.

### **5. Assumptions**

Unless we state otherwise in the valuation, our valuation assumes (without investigation on our part), where applicable,

- (a) good and marketable title, and no encumbrance on the property's title which could materially affect its value,
- (b) no encroachment by or on the property and no unauthorized additions or structural alterations (our valuation is made according to the original layout as shown in the Registered Floor Plans or developer's brochure and assumes no outstanding reinstatement costs to be charged on the property),
- (c) no major environmental factor (including contamination) affects the property,
- (d) no deficiencies in the structural integrity of the property and other improvements,
- (e) the property is not affected or required for any public purposes or is to be acquired for a public purpose,
- (f) there are no outstanding statutory orders on the property or the likely possibility of future orders being made by a regulatory authority,
- (g) body corporate records and finances are in a satisfactory order and there are no major financial commitments, orders or levies in respect of any major rectifications, remedial or other works to be undertaken by the body corporate above normal maintenance,

- (h) no material litigation pending relating to the property,
- (i) that the property (and any works thereto) comply with all relevant statutory regulations, including enactments relating to fire regulations,
- (j) no deleterious materials (including by way of example asbestos and calcium chloride)
- (k) ground conditions and services are suitable (including, particularly with respect to agricultural land, no possibility of latent infestation in the soil or of disease which might affect crops or stock at any time in the future) and no extraordinary expenses or delays will be incurred due to archaeological, ecological or environmental matters.

Without affecting the generality of the above, where leases or documents of title or site and building surveys or building report or pest certificate or engineer's certificate or body corporate records are provided to us for the purpose of the valuation, reliance must not be placed on our interpretation thereof of any of these documents.

#### **6. Tenants:**

Enquiries as to the financial standing of actual or prospective tenants are not made unless we specifically agree to in writing. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise in writing, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

#### **7. Measurements:**

All measurements are carried out in accordance with the "Code of Measuring Practice" booklet published by the HKIS. Unless otherwise stated, we do not physically measure the actual properties or verify the floor areas provided to us, unless we specifically agree in writing to do so, although we make reference to the Registered Floor Plans if available.

#### **8. Jurisdiction:**

Unless the parties otherwise agree in writing, all disputes arising out and relating to our valuation shall be finally settled under Hong Kong Law and the parties irrevocably submit to the jurisdiction of the Hong Kong Courts.



## 1 RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Proposal, the Offeror and the Company.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document, other than those relating to the Company and its subsidiaries, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document, other than those expressed by the Company, have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement, other than those relating to the Company and its subsidiaries, in this document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document, other than those relating to the Offeror, its subsidiaries and parties acting in concert with the Offeror (except the Group) and ASB, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document, other than those expressed by the Offeror, have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statements, other than those relating to the Offeror, its subsidiaries and parties acting in concert with the Offeror (except the Group) and ASB, in this document misleading.

## 2 SHARE CAPITAL OF THE COMPANY

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

<b>Shares</b>	<b>HK\$</b>
---------------	-------------

*Authorised:*

600,000,000	Authorised share capital of HK\$150,000,000 divided into 600,000,000 Shares	150,000,000
-------------	---	-------------

*Issued and fully paid:*

398,390,400	Paid up share capital of HK\$99,597,600 divided into 398,390,400 Shares	99,597,600
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No new Shares have been issued by the Company since 31 March 2008 (being the date to which its latest published audited accounts were prepared). All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

As at the Latest Practicable Date, the Company did not have any outstanding warrants, options, derivatives or other securities carrying rights of conversion into or exchange or subscription for Shares.

## 3 DISCLOSURE OF INTERESTS UNDER THE SFO

## (a) Directors' interests and short positions in the Shares and the shares of the Company's associated corporations

As at the Latest Practicable Date, the interests or 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 SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the **Model Code**), to be notified to the Company and the Stock Exchange, were as follows:

## (i) Long positions in the Shares

Name of Director/chief executive	Number of Shares			Total	Percentage of issued Shares (%)
	Personal Interests	Family Interests	Corporate Interests		
Sir Run Run Shaw	–	1,378,000 <sup>2</sup>	297,106,872 <sup>1, 2 &amp; 3</sup>	298,484,872	74.92
Ms Fong	1,378,000 <sup>2</sup>	–	–	1,378,000	0.35
Dr. Chow Yei Ching	100,000	–	–	100,000	0.03

*Notes:*

- 1 Duplication of shareholdings occurred between parties shown above and below under "Substantial Shareholders".
- 2 Sir Run Run Shaw is the spouse of Ms Fong.
- 3 263,610,872 Shares were held by the Offeror, 11,761,000 Shares and 21,735,000 Shares were held by Double One Limited and The Shaw Foundation Hong Kong Limited, the wholly-owned subsidiaries of the Offeror, respectively. Sir Run Run Shaw exerts 100% control over the Offeror, Double One Limited and The Shaw Foundation Hong Kong Limited through the Trust.

## (ii) Long positions in the shares of associated corporations

Name of Director/chief executive	Number of ordinary shares of HK\$0.05 each in TVB				Percentage of issued capital of TVB (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
Sir Run Run Shaw	-	1,146,000 <sup>1</sup>	141,174,828 <sup>1 &amp; 2</sup>	142,320,828	32.49
Ms Fong	1,146,000 <sup>1</sup>	-	-	1,146,000	0.26
Dr. Chow Yei Ching	100,000	-	-	100,000	0.02

*Notes:*

- 1 Sir Run Run Shaw is the spouse of Ms Fong.
- 2 113,888,628 shares of TVB were held by the Company and 27,286,200 shares of TVB were held by The Shaw Foundation Hong Kong Limited, in which companies the Offeror holds 74.58% and 100% equity interests, respectively. Sir Run Run Shaw exerts 100% control over the Offeror and The Shaw Foundation Hong Kong Limited through the Trust.

Name of Director/chief executive	Number of ordinary shares of US\$1.00 each in Goldway Holdings Limited				Percentage of issued capital of Goldway Holdings Limited (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
Sir Run Run Shaw	-	-	2,500 <sup>1 &amp; 2</sup>	2,500	100

*Note:*

- 1 Sir Run Run Shaw is the spouse of Ms Fong.
- 2 875 shares of Goldway Holdings Limited were held by the Company and 1,625 shares of Goldway Holdings Limited were held by Shaw Property Holdings Limited, in which companies the Offeror holds 74.58% and 100% equity interests, respectively. Sir Run Run Shaw exerts 100% control over the Offeror and Shaw Property Holdings Limited through the Trust.

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders' interests and short positions in the Shares**

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register required to be kept under Section 336 of the SFO:

*Long positions in the Shares*

Name of Shareholder	Number of Shares	Percentage of issued Shares
The Offeror	297,106,872 <sup>1</sup> & <sup>2</sup>	74.58%
ASB	40,630,550 <sup>3</sup>	10.20%

*Notes:*

- 1 Duplication of shareholdings occurred between parties shown here and above under "Directors' interests and short positions in the Shares and the shares of the Company's associated corporations".
- 2 11,761,000 Shares and 21,735,000 Shares were held by the Offeror's wholly-owned subsidiaries, Double One Limited and The Shaw Foundation Hong Kong Limited, respectively. Sir Run Run Shaw exerts 100% control over the Offeror, Double One Limited and The Shaw Foundation Hong Kong Limited through the Trust.
- 3 Such Shares were held in the capacity of an investment adviser with discretion to exercise voting powers attached to and transact purchases and sales of such shares on behalf of its clients.

Save as disclosed above, the Directors were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register required to be kept under Section 336 of the SFO.

**4 DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE****(a) Interests discloseable under Schedule I to the Takeovers Code**

- (i) The shareholdings in the Company (as defined in Note 1(a) to paragraph 4 of Schedule I to the Takeovers Code) of the Offeror as at the Latest Practicable Date is set out in the section headed “Effects of the Scheme of Arrangement” in the Explanatory Statement on pages 57 to 59 of this document.
- (ii) As at the Latest Practicable Date, save as disclosed in the section headed “Effects of the Scheme of Arrangement” in the Explanatory Statement on pages 57 to 59 of this document, no director of the Offeror was interested in any Shares, convertible securities, warrants, options or derivatives of the Company.
- (iii) As at the Latest Practicable Date, save as disclosed in the section headed “Effects of the Scheme of Arrangement” in the Explanatory Statement on pages 57 to 59 of this document, none of the parties acting in concert with the Offeror owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.
- (iv) The shareholdings in the Company (as defined in Note 1(a) to paragraph 4 of Schedule I to the Takeovers Code) owned or controlled by ASB, which had given the Irrevocable Undertaking, as at the Latest Practicable Date is set out in the section headed “Effects of the Scheme of Arrangement” in the Explanatory Statement on pages 57 to 59 of this document.
- (v) As at the Latest Practicable Date, none of the Offeror nor any parties acting in concert with the Offeror had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company (save for any borrowed shares which have been on-lent or sold).
- (vi) As at the Latest Practicable Date, other than the Irrevocable Undertaking, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, or any party acting in concert with the Offeror, and any other person.

**(b) Interests discloseable under Schedule II to the Takeovers Code**

As at the Latest Practicable Date:

- (i) the Company had no holdings of shares, convertible securities, warrants, options or derivatives of the Offeror.
- (ii) save as disclosed in paragraph (a) under the section headed “Disclosure of Interests under the SFO” on page 144 of this Appendix III, none of the Directors was interested in any Shares, convertible securities, warrants,

options or derivatives of the Company. None of the Directors was interested in any shares, convertible securities, warrants, options or derivatives of the Offeror.

- (iii) no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.
- (iv) (1) Ms Fong, a Director, held 1,378,000 Shares. Since Ms Fong is a party acting in concert with the Offeror, the Shares held by her will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.
- (2) Dr. Chow Yei Ching, an independent non-executive Director, held 100,000 Shares. The Shares held by Dr. Chow Yei Ching will form part of the Scheme Shares and, based on his confirmation that he is not acting in concert with the Offeror, he will be entitled to vote at the Court Meeting.
- (3) Dr. Chow Yei Ching has not indicated whether or not he will vote in favour of or against the resolution to be proposed at the Court Meeting. Similarly, neither Ms Fong nor Dr. Chow Yei Ching had, as at the Latest Practicable Date, indicated whether or not she or he will vote in favour of or against the resolution to be proposed at the EGM.
- (v) none of the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company (save for any borrowed shares which have been either on-lent or sold).
- (vi) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company, or any party who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate in the Takeovers Code, and any other person, other than the Irrevocable Undertaking given by ASB. The shareholdings in the Company (as defined in Note 1(a) to paragraph 4 of Schedule I of the Takeovers Code) owned or controlled by ASB as at the Latest Practicable Date is set out in the section headed “Effects of the Scheme of Arrangement” in the Explanatory Statement on pages 57 to 59 of this document.

## 5 DEALINGS IN SECURITIES

### (a) Dealings in shares during the Relevant Period discloseable under Schedule I to the Takeovers Code

- (i) None of the Offeror or parties acting in concert with the Offeror has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

- (ii) None of the directors of the Offeror has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.
- (iii) Dealings in Shares by ASB, which had given the Irrevocable Undertaking, during the Relevant Period are as follows<sup>(note)</sup>:

Sale/Purchase	Number of Shares	Dealing date	Dealing price per Share (HK\$)
Purchase	223,000	21 July 2008	19.12
Purchase	99,000	22 July 2008	19.27
Purchase	242,000	23 July 2008	19.97
Purchase	92,000	24 July 2008	19.99
Purchase	190,000	25 July 2008	19.99
Purchase	51,000	28 July 2008	20.00
Purchase	515,000	29 July 2008	20.00
Purchase	18,000	30 July 2008	19.92
Purchase	43,000	31 July 2008	19.95
Purchase	71,000	1 August 2008	19.92
Purchase	66,000	4 August 2008	19.94
Purchase	137,000	5 August 2008	19.71
Purchase	102,000	7 August 2008	19.31
Purchase	110,000	8 August 2008	18.92
Purchase	36,000	11 August 2008	18.74
Purchase	167,000	12 August 2008	18.31
Purchase	405,000	13 August 2008	17.16
Purchase	288,000	14 August 2008	16.88
Purchase	84,000	15 August 2008	17.28
Purchase	32,000	18 August 2008	16.93
Purchase	39,000	19 August 2008	16.89
Purchase	155,000	20 August 2008	16.86
Purchase	144,000	21 August 2008	16.53
Purchase	163,000	25 August 2008	16.58
Purchase	121,000	26 August 2008	16.47
Purchase	327,000	27 August 2008	16.11
Purchase	205,000	28 August 2008	16.63
Purchase	221,000	29 August 2008	17.14
Purchase	95,000	1 September 2008	16.99
Purchase	413,760	2 September 2008	15.87
Purchase	300,000	3 September 2008	16.18
Purchase	25,000	8 September 2008	15.12
Purchase	25,000	16 September 2008	12.79
Purchase	143,000	24 September 2008	11.65
Purchase	76,000	25 September 2008	11.66
Purchase	85,000	30 September 2008	10.95
Purchase	70,000	2 October 2008	10.89

Sale/Purchase	Number of Shares	Dealing date	Dealing price per Share (HK\$)
Purchase	60,000	3 October 2008	10.77
Purchase	183,840	31 October 2008	8.15
Purchase	38,610	5 November 2008	8.85
Sale	50,000	5 December 2008	7.44
Sale	35,000	8 December 2008	7.73
Purchase	3,960	9 December 2008	7.79
Sale	148,700	9 December 2008	7.82
Sale	200,000	10 December 2008	8.00
Sale	306,000	11 December 2008	8.08
Sale	194,000	12 December 2008	8.09

*Note:* The dealings in Shares by ASB during the Relevant Period disclosed above include dealings in Shares in respect of which ASB had and did not have voting authority.

Save as disclosed above, ASB had not dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

**(b) Dealings in shares discloseable under Schedule II to the Takeovers Code**

- (i) The Company has not dealt for value in the shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period.
- (ii) None of the Directors has dealt for value in the shares, convertible securities, warrants, options or derivatives of any of the Company or the Offeror during the Relevant Period.
- (iii) None of the subsidiaries of the Company, any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the period commencing from the Announcement Date and ending on the Latest Practicable Date.
- (iv) The dealings in the Shares, convertible securities, warrants, options or derivatives of the Company by ASB, which had given the Irrevocable Undertaking, during the Relevant Period are disclosed in paragraph (a)(iii) under the section headed “Dealings in securities” on pages 149 to 150 of this Appendix III.



**6 MARKET PRICES**

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$23.50 per Share on 26 June 2008 and HK\$6.00 per Share on 27 October 2008.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period and (ii) the Latest Practicable Date:

	<b>Closing price (HK\$)</b>
30 June 2008	23.30
31 July 2008	20.00
29 August 2008	17.04
30 September 2008	11.18
31 October 2008	8.28
28 November 2008	7.69
31 December 2008	12.80
Latest Practicable Date	13.00

- (c) The closing price of the Shares as quoted on the Stock Exchange on the Last Trading Date was HK\$8.13 per Share.

**7 LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance to the Group as a whole and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**8 MATERIAL CONTRACTS**

Neither the Company nor any of its subsidiaries had, during the period commencing two years prior to the Announcement Date up to and including the Latest Practicable Date, entered into any contracts which are or may be material, other than contracts in the ordinary course of business of the Group.

## 9 QUALIFICATIONS

The following are the qualifications of the experts who are named in this document or have given opinions or advice which are contained or referred to in this document:

<b>Name</b>	<b>Qualification</b>
Macquarie Capital (Hong Kong) Limited	A licensed corporation under the SFO, licensed to conduct Type 6 (advising on corporate finance) regulated activity
Somerley Limited	A licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Jones Lang LaSalle Limited	Property valuer

## 10 CONSENTS

Each of Macquarie, Somerley and Jones Lang LaSalle has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its opinion, letter, report, valuation certificate and/or references to its name, in the form and context in which they appear.

## 11 GENERAL

- (a) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Proposal.
- (b) As at the Latest Practicable Date, other than the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with the Offeror and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the outcome of the Proposal.
- (c) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal.
- (d) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director has a material personal interest.
- (e) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.
- (f) The registered address of the Company is Lot 220 Clear Water Bay Road, Kowloon, Hong Kong.

- (g) The registered address of the Offeror is P.O. Box 300, Aiwo, Nauru, Central Pacific and the correspondence address of the Offeror is Lot 220 Clear Water Bay Road, Kowloon, Hong Kong. The registered address of both Double One Limited and The Shaw Foundation Hong Kong Limited, being the principal parties acting in concert with the Offeror, is Lot 220 Clear Water Bay Road, Kowloon, Hong Kong.
- (h) The registered office of Macquarie, the financial adviser to the Offeror, is at Level 18, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (i) The registered address of Somerley, the independent financial adviser to the Independent Board Committee, is at 10/F., The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.
- (j) The directors of the Offeror are Ms Fong, Ms. Venus Choy, Ms. Meage Choy and Ms. Li Kit Yee Jenny. The directors of Double One Limited are Sir Run Run Shaw, Ms Fong, Ms. Meage Choy and Ms. Li Kit Yee Jenny. The directors of The Shaw Foundation Hong Kong Limited are Sir Run Run Shaw, Ms Fong, Ms. Meage Choy, Ms. Venus Choy and Ms. Li Kit Yee Jenny.
- (k) The company secretary of the Company is Mr. Jeremiah Rajakulendran.
- (l) The share registrar and transfer agent of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (m) As at the Latest Practicable Date, none of the Directors had any service contracts 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 6 months preceding the Announcement Date; (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.
- (n) The English text of this document and the forms of proxy shall prevail over the Chinese text in the case of inconsistency.

**12 EXPENSES OF THE SCHEME OF ARRANGEMENT**

The expenses of the Scheme of Arrangement incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK\$2 million.

In the event that the Scheme of Arrangement becomes effective, the Company will bear its own expenses incurred in connection with the Scheme of Arrangement. In the event that the Scheme of Arrangement is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme of Arrangement will be borne by the Offeror.

**13 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Herbert Smith, the legal adviser to the Company at 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays, Sundays and public holidays excepted) and on the website of the Company at [www.shawbrothers.com.hk](http://www.shawbrothers.com.hk) and on the website of the SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this document until the Effective Date or the date on which the Scheme of Arrangement lapses or is withdrawn (whichever is earlier):

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 31 March 2007 and 2008;
- (d) the interim report of the Company for the six months ended 30 September 2008;
- (e) the letter from the Board as set out on pages 8 to 14 of this document;
- (f) the letter from the Independent Board Committee as set out on pages 15 to 16 of this document;
- (g) the letter from Somerley as set out on pages 17 to 49 of this document;
- (h) the letter, summary of valuation and valuation certificate from Jones Lang LaSalle, the text of which is set out in Appendix II to this document;
- (i) the written consents from the experts referred to in the section headed "Consents" in this Appendix; and
- (j) the Irrevocable Undertaking given by ASB.

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# SCHEME OF ARRANGEMENT

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HCMP No. 67 of 2009

**SCHEME OF ARRANGEMENT  
IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 67 OF 2009**

**IN THE MATTER OF  
SHAW BROTHERS (HONG KONG) LIMITED  
邵氏兄弟(香港)有限公司**

**AND**

**IN THE MATTER OF SECTION 166 OF  
THE COMPANIES ORDINANCE,  
CHAPTER 32 OF THE LAWS OF THE HONG KONG SPECIAL ADMINISTRATIVE  
REGION**

**SCHEME OF ARRANGEMENT  
Under Section 166 of the Companies Ordinance  
Chapter 32 of the Laws of Hong Kong Special Administrative Region**

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## PRELIMINARY

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

acting in concert	has the meaning ascribed to it under the Hong Kong Code on Takeovers and Mergers
Companies Ordinance	means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
Company	means Shaw Brothers (Hong Kong) Limited, a limited company incorporated in Hong Kong whose Shares are listed on the Stock Exchange
Composite Document	means the document dated 3 February 2009 issued jointly by the Company and the Offeror, which includes this Scheme of Arrangement
Concert Parties	means Double One Limited, The Shaw Foundation Hong Kong Limited and Ms. Mona Fong, all of which are deemed to be parties acting in concert with the Offeror

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## SCHEME OF ARRANGEMENT

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Director(s)	means the director(s) of the Company
Effective Date	means the date on which this Scheme of Arrangement becomes effective in accordance with paragraph 5 of this Scheme of Arrangement
High Court	means the High Court of Hong Kong
HK\$	means Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	means the Hong Kong Special Administrative Region of the People's Republic of China
Latest Practicable Date	means 30 January 2009, being the latest practicable date prior to the printing of the Composite Document for ascertaining certain information contained therein
Minority Shareholders	means Shareholders other than those holding the Shares beneficially owned by the Offeror and the Concert Parties
New Shares	means the new Shares to be issued to the Offeror pursuant to this Scheme of Arrangement, the number of which is equal to the number of the Scheme Shares cancelled
Offeror	means Shaw Holdings Inc., a corporation incorporated in the Republic of Nauru
Record Time	means 4:00 p.m. (Hong Kong time) on the trading day immediately preceding the day when this Scheme of Arrangement becomes effective, being the record time for determining entitlements of the Minority Shareholders under this Scheme of Arrangement
Register	means the register of members of the Company
Scheme of Arrangement	means this scheme of arrangement under Section 166 of the Companies Ordinance between the Company and the Minority Shareholders involving, inter alia, the cancellation of all the Scheme Shares and the issue of the New Shares to the Offeror

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## SCHEME OF ARRANGEMENT

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Scheme Share(s)	means the Share(s) in issue at the Record Time, other than those beneficially owned by the Offeror and the Concert Parties
Share(s)	means ordinary share(s) of HK\$0.25 each in the capital of the Company
Shareholder(s)	means the registered holder(s) of the Shares
Stock Exchange	means The Stock Exchange of Hong Kong Limited

- (B) As at the Latest Practicable Date, the Company had an authorised share capital of HK\$150,000,000 divided into 600,000,000 Shares, of which 398,390,400 Shares had been issued and were fully paid or credited as fully paid.
- (C) On the Latest Practicable Date, the Offeror and the Concert Parties held an aggregate of 298,484,872 Shares, representing approximately 74.92% of the issued Shares.
- (D) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Minority Shareholders as appearing in the Register at the Record Time shall be entitled to receive HK\$13.35 in cash for every Scheme Share cancelled.
- (E) The Offeror has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme of Arrangement and to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme of Arrangement.
- (F) The primary purpose of this Scheme of Arrangement is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, the New Shares be created and issued to the Offeror, and that the Company will become wholly-owned by the Offeror and the Concert Parties.

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## SCHEME OF ARRANGEMENT

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### THE SCHEME OF ARRANGEMENT

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#### PART I

#### CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
  - (a) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
  - (b) subject to and forthwith upon the reduction of capital referred to in paragraph (a) above taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares as is equal to the number of the Scheme Shares cancelled; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up in full at par all the New Shares as created under paragraph (b) above which shall be allotted and issued to the Offeror or such party(ies) as the Offeror may direct, credited as fully paid.



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## SCHEME OF ARRANGEMENT

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### PART II

#### CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme of Arrangement, the Offeror will pay or cause to be paid to each Minority Shareholder as appearing in the Register at the Record Time, HK\$13.35 for every Scheme Share cancelled.

### PART III

#### GENERAL

3. (a) Not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the Minority Shareholders (as appearing in the Register at the Record Time) cheques in respect of the sums payable to such Minority Shareholders pursuant to paragraph 2 of this Scheme of Arrangement.
  - (b) Unless indicated otherwise in writing to the share registrar of the Company in Hong Kong (being Computershare Hong Kong Investor Services Limited of Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to the persons entitled thereto:
    - (i) in the case of sole holders, to the respective registered address of such holders as appearing in the Register as at the Record Time; and
    - (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in the Register in respect of the relevant joint holding.
  - (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme of Arrangement, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.
  - (d) All cheques shall be posted at the risk of the addressees and once posted, none of the Company, the Offeror and any of their respective officers or agents shall be liable for any loss or delay in transmission.
  - (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme of Arrangement, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in an account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the

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## SCHEME OF ARRANGEMENT

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expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to paragraph 2 of this Scheme of Arrangement to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of Arrangement of which they are payees have not been cashed. No payments made by the Offeror hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligations to make any payments under this Scheme of Arrangement and the Offeror shall thereafter retain the balance (if any) of the sums standing to the credit of the account referred to in paragraph 3(e) of this Scheme of Arrangement, including accrued interest (if any) subject, if applicable, to the deduction of interest or any withholding or other tax or any other deductions required by law and subject also to the deduction of any expenses.
- (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. As from and including the Effective Date:

- (a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
- (b) all instruments of transfer validly subsisting at the Record Time in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
- (c) all mandates or other instructions to the Company in force at the Record Time in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

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## SCHEME OF ARRANGEMENT

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5. This Scheme of Arrangement shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme of Arrangement, a minute relating to the reduction of capital of the Company containing the particulars required by Section 61 of the Companies Ordinance, shall have been registered by the Registrar of Companies.
6. Unless this Scheme of Arrangement shall have become effective on or before 31 March 2009, (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), this Scheme of Arrangement shall lapse.
7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification(s) of or addition(s) to this Scheme of Arrangement or to any condition(s) which the High Court may see fit to approve or impose without any further court meeting to be held therefor.
8. In the event that the Scheme of Arrangement becomes effective, the Company will bear its own expenses incurred in connection with this Scheme of Arrangement. In the event that this Scheme of Arrangement is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with this Scheme of Arrangement will be borne by the Offeror.

Dated 3 February 2009

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## NOTICE OF COURT MEETING

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**SCHEME OF ARRANGEMENT  
IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 67 OF 2009**

**IN THE MATTER OF  
SHAW BROTHERS (HONG KONG) LIMITED  
邵氏兄弟(香港)有限公司**

**AND**

**IN THE MATTER OF SECTION 166 OF  
THE COMPANIES ORDINANCE,  
CHAPTER 32 OF THE LAWS OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT  
Under Section 166 of the Companies Ordinance  
Chapter 32 of the Laws of Hong Kong Special Administrative Region**

**NOTICE OF COURT MEETING**

NOTICE IS HEREBY GIVEN that, by an order dated 29 January 2009 (the **Order**) made in the above matters, the Court of the Hong Kong Special Administrative Region (the **High Court**) has directed a meeting (the **Meeting**) to be convened of the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned) for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between Shaw Brothers (Hong Kong) Limited (the **Company**) and the holders of the Scheme Shares (the **Scheme**), and that the Meeting will be held at the Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, Tsim Sha Tsui East, Kowloon, Hong Kong on Friday, 27 February 2009 at 10:00 a.m. at which place and time all holders of the Scheme Shares are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the **Explanatory Statement**) explaining the effect of the Scheme, required to be furnished pursuant to Section 166A of the above mentioned Ordinance, are incorporated in the composite document of which this Notice forms part.

The above-mentioned holders of the Scheme Shares may vote in person at the Meeting or they may appoint not more than two persons, whether a member of the Company or not, as their proxy or proxies to attend and, on a poll, vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the composite document of which this Notice forms part.

In the case of joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the share.

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## NOTICE OF COURT MEETING

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It is requested that forms appointing proxies, together with the letter or power of attorney under which it is signed or a notarially certified copy thereof, in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer in that behalf and to the satisfaction of the directors of the Company, be deposited at the registered office of the Company at Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings. Forms of proxy may also be handed to the Chairman of the Meeting at the Meeting if not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings.

By the Order, the High Court has appointed Mr. Nelson Hon Sang Chiu, or, failing him, Dr. Chow Yei Ching, or, failing him, Ms. Ng Julie Yuk Shun to act as chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the High Court.

The Scheme will be subject to the subsequent approval of the High Court as set out in the Explanatory Statement contained in the document of which this Notice forms part.

Dated the 3rd day of February 2009.

**Herbert Smith**

23rd Floor  
Gloucester Tower  
15 Queen's Road Central  
Hong Kong

Solicitors for Shaw Brothers (Hong Kong) Limited

The directors of the Company as at the date of this notice are as follows:

Sir Run Run Shaw (GBM), Ms. Mona Fong and Mr. Jeremiah Rajakulendran as executive Directors, Dr. Chow Yei Ching, Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu as independent non-executive Directors.

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## NOTICE OF EGM

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### **Shaw Brothers (Hong Kong) Limited**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00080)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the **Meeting**) of Shaw Brothers (Hong Kong) Limited (the **Company**) will be held at the Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, Tsim Sha Tsui East, Kowloon, Hong Kong on Friday, 27 February 2009 at 10:30 a.m. (or so soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution:

#### **SPECIAL RESOLUTION**

**“THAT:**

- (A) the proposed scheme of arrangement (the **Scheme**) between the Company and holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the High Court of the Hong Kong Special Administrative Region (the **High Court**), be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
  - (i) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
  - (ii) subject to and forthwith upon the said reduction of share capital taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares (as defined in the Scheme) as is equal to the number of Scheme Shares cancelled; and
  - (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up the New Shares referred to in paragraph (ii) above in full at par and those New Shares shall be allotted and issued, credited as fully paid, to Shaw Holdings Inc.;
- (C) the directors of the Company be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (the **Stock Exchange**) for the withdrawal of the listing of the Company's shares on the Stock Exchange, subject to the Scheme taking effect; and

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## NOTICE OF EGM

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(D) the directors of the Company be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the High Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the Proposal (as defined in the document of which the notice of this resolution forms part) as a whole.”

By Order of the Board  
**Jeremiah Rajakulendran**  
*Company Secretary*

Dated 3rd day of February 2009

*Registered Office:*

Lot 220 Clear Water Bay Road  
Kowloon  
Hong Kong

*Notes:*

- (i) A white form of proxy for use at the Meeting is enclosed to the composite document.
- (ii) A member entitled to attend and vote at the Meeting is entitled to appoint not more than two persons as proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- (iii) In order to be valid, the white form of proxy, together with the letter or power of attorney under which it is signed or a notorially certified copy thereof, in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer in that behalf and to the satisfaction of the directors of the Company must be deposited at the registered office of the Company at Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company at the registered office of the Company, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings.
- (iv) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.

The directors of the Company as at the date of this notice are as follows:

Sir Run Run Shaw (GBM), Ms. Mona Fong and Mr. Jeremiah Rajakulendran as executive Directors, Dr. Chow Yei Ching, Ms. Ng Julie Yuk Shun and Mr. Nelson Hon Sang Chiu as independent non-executive Directors.