THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Star Entertainment Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

MAJOR AND CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING

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

大華證券(香港)有限公司
GRAND CATHAY SECURITIES (HONG KONG) LIMITED

A letter from the board of directors of China Star Entertainment Limited is set out on pages 3 to 8 of this circular, and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 13 of this circular.

A notice convening the special general meeting of China Star Entertainment Limited to be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 3rd December 2007 at 12:00 noon is set out on pages 117 and 118 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

16th November 2007

CONTENTS

In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"Announcement"	the announcement dated 26th October 2007 issued by the Company in relation to the Loan Agreement
"Board"	the board of Directors
"Company"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Directors"	directors of the Company
"Dorest"	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany through Porterstone and as to 40% by Mr. Heung Wah Keung;
"Grand Cathay" or "Independent Financial Adviser"	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation registered under the SFO to carry on types 1, 6 and 9 regulated activities as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan Facility
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent board committee comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, all of whom are independent non-executive Directors, to advise Independent Shareholders in relation to the terms of the Loan Agreement
"Independent Shareholders"	Shareholders other than the parties involved in the Loan Agreement and their associates
"KHL"	Kingsway Hotel Limited, a company incorporated in Macau whose principal asset is the Kingsway Hotel
"Latest Practicable Date"	13th November 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreement"	the conditional loan agreement dated 23rd October 2007 entered into between KHL as lender and Most Famous as borrower in respect of the Loan Facility
"Loan Facility"	a loan facility of up to HK$196,000,000 to be granted by KHL to Most Famous pursuant to the terms of the Loan Agreement
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Most Famous" or "Borrower"	Most Famous Enterprises Limited, a company incorporated in the British Virgin Islands and wholly equally owned by Mr. Li Chi Keung and Ms. Wong Hoi Ping
"Mr. Heung"	Mr. Heung Wah Keung, a Director
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, a Director
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen, is deemed to be interested in the Shares held by Porterstone
"SGM"	a special general meeting of the Company to be convened and held at 12:00 noon on Monday, 3rd December 2007 at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong to consider and, if thought fit, to approve, among other things, the Loan Agreement and the transaction contemplated thereunder
"Share(s)"	ordinary shares of HK$0.05 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

Executive Directors:
Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*
Ms. Li Yuk Sheung

Independent Non-executive Directors:
Mr. Hung Cho Sing
Mr. Ho Wai Chi, Paul
Mr. Leung Hok Man

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3409, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

16th November 2007

To the Shareholders and, for information only, the holders of options

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 23rd October 2007 (after trading hours), KHL, a non wholly-owned subsidiary of the Company, entered into the Loan Agreement with Most Famous, pursuant to which KHL has conditionally agreed to make available a loan facility of up to HK$196,000,000 to Most Famous.

Most Famous is a substantial shareholder of KHL (a non wholly-owned subsidiary of the Company) and is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules. As such, the grant of the Loan Facility by KHL to Most Famous constitutes a connected transaction of the Company under Rule 14A.13(2)(a)(i) of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM.

Given that the relevant percentage ratios under Rule 14.07 of the Listing Rules for the grant of the Loan Facility are more than 25%, the grant of the Loan Facility constitutes a major transaction of the Company under the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Loan Agreement. Grand Cathay has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Loan Agreement.

The purpose of this circular is to provide Independent Shareholders (i) further information on the Loan Agreement; (ii) the advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in relation to the Loan Agreement; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Loan Agreement; and (iv) a notice of SGM at which resolution will be proposed to consider and if thought fit, approve the Loan Agreement and the transaction contemplated thereunder.

THE LOAN AGREEMENT

Date 23rd October 2007 (after trading hours)

Parties

Lender: KHL, a non wholly-owned subsidiary of the Company

Borrower: Most Famous, a company wholly equally owned by Mr. Li Chi Keung and Ms. Wong Hoi Ping. Neither has any position or role in the Company.

Amount

Subject to the terms and conditions of the Loan Agreement, KHL has agreed to grant the Loan Facility to Most Famous. The Loan Facility is of up to HK$196,000,000 and will be financed by a HK$650,000,000 banking facility granted to KHL by Seng Heng Bank Limited in mid July 2007 part of which was used for the Company's financial requirements in acquiring a 51% interest in Best Mind International Inc. The banking facility granted to KHL was secured by guarantees given by the shareholders of KHL in proportion to their percentage holdings and a charge over the Kingsway Hotel and its staff quarters.

Interest

The Loan Facility is interest free. A default interest rate of 9% per annum is payable on any overdue amount whether principal or interest.

Term

The Loan Facility is for a term not exceeding 3 years commencing in the drawdown date.

Conditions Precedent

The drawdown of the Loan Facility is subject to, amongst others, the condition that the Loan Facility having been approved by the Independent Shareholders at the SGM.

Security

None. The credit risk in granting the Loan Facility to Most Famous is considered acceptable as the ultimate beneficial owners of Most Famous are reputable persons of high status in Macau and Hong Kong and Mr. Li Chi Keung, the shareholder of Most Famous is also one of the guarantors in the HK$650,000,000 banking facility granted to KHL by Seng Heng Bank Limited in July 2007.

Repayment

Most Famous shall repay the Loan Facility advance in full on or before the maturity date.

REASONS FOR, BENEFITS OF AND FINANCIAL EFFECT BY THE ENTERING INTO OF THE LOAN AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, the provision of post-production services and property and hotel investment. Most Famous is principally engaged in investment holding.

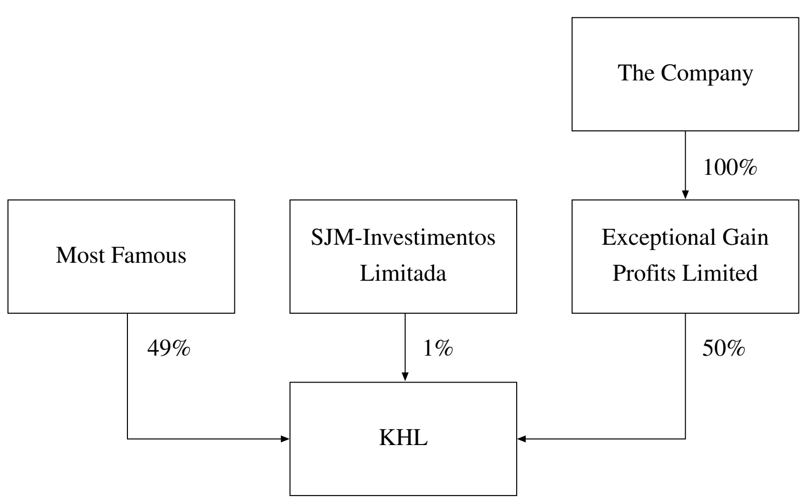
On 17th August 2007, KHL made an interest-free loan of HK$200,000,000 to Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company. In light of that interest-free loan, Most Famous has requested that in all fairness to all shareholders of KHL, a pro rated interest-free loan should also be made to the shareholders of KHL on the same terms. The Directors believe that this request is reasonable and KHL has therefore entered into the Loan Agreement. The Directors are of the view that the Loan Facility is not on normal commercial terms as it is interest-free, not in the ordinary course of the Company's business but it is fair and reasonable and in the interest of Shareholders as a whole.

As the Loan Facility will be financed by the banking facility granted to KHL by Seng Heng Bank Limited, no material effect on the earnings, assets and liabilities of the Company will be caused from the Loan Facility.

Future Prospect

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, gaming business. After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry. As announced by the Company on 10th October 2007, the proposed acquisition of Best Mind International Inc., expect to broaden the Group's revenue sources and provide a stable income stream to the Group, given the recent booming economy of Macau and the prospects of Macau's gaming business. Currently, the Group is in various preliminary negotiations with different parties regarding the proposed acquisitions of certain entertainment and leisure businesses, including gaming, in Macau. The Group will sourced any possible investments with a positive impact on the Group's return in the long run.

SHAREHOLDING RELATIONSHIP BETWEEN THE COMPANY, KHL, MOST FAMOUS AND EXCEPTIONAL GAIN PROFITS LIMITED



LISTING RULES IMPLICATIONS

Given that the relevant percentage ratios under Rule 14.07 of the Listing Rules for the grant of the Loan Facility are more than 25%, the grant of the Loan Facility constitutes a major transaction of the Company under the Listing Rules.

Most Famous is a substantial shareholder of KHL (a non wholly-owned subsidiary of the Company) and is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules. As such, the grant of the Loan Facility by KHL to Most Famous constitutes a connected transaction of the Company under Rule 14A.13(2)(a)(i) of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM under Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief, no Shareholder has a material interest in the Loan Facility different from the other Shareholders and therefore no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Loan Agreement at the SGM.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 70 of the Bye-laws of the Company, at any general meeting 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 result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the Meeting; or

(ii) by at least three members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

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

SGM

A notice convening the SGM to be held on Monday, 3rd December 2007 at 12:00 noon at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong is set out on pages 117 and 118 of this circular for the purpose of considering and, if thought fit, passing, with or without amendments, the resolution in respect of the Loan Agreement. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors are of the view that the Loan Facility is not on normal commercial terms as it is interest-free, not in the ordinary course of the Company's business but it is fair and reasonable and in the interest of Shareholders as a whole. Accordingly, the Board recommends that all Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve the Loan Agreement.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on page 9 of this circular, the letter from Independent Financial Adviser set out on pages 10 to 13 of this circular and the additional information set out in the appendices to this circular.

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

16th November 2007

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 16th November, 2007 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used therein unless the context requires otherwise.

We have been appointed to the Independent Board Committee to advise you in connection with the Loan Facility, details of which are set out in the letter from the Board in the Circular. Grand Cathay has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Facility. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 10 to 13 of the Circular.

Having considered the terms of the Loan Agreement, the interest of the Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the Loan Agreement is in the interests of the Company and the Independent Shareholders as a whole given that it is not on normal commercial terms as it is interest-free, not in the ordinary course of the Company's business. Accordingly, we recommend that the Independent Shareholders should vote in favour of the relevant resolution to be proposed at the SGM to approve the Loan Agreement.

Yours faithfully,
Independent Board Committee
Mr. Hung Cho Sing **Mr. Ho Wai Chi, Paul** **Mr. Leung Hok Man**
Independent non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Grand Cathay, the Independent Financial Adviser, dated 16 November 2007 prepared for incorporation in this circular.

大華證券(香港)

GRAND CATHAY SECURITIES (HONG KONG) LIMITED
香港中環花園道3號中國工商銀行大廈7樓705至706室
Room 705-706, 7/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
Tel: 852-2521-2982 Fax: 852-2521-0085 www.gcsc.com.tw

16th November 2007

To the Independent Board Committee and the Independent Shareholders of China Star Entertainment Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular dated 16th November 2007 (the "Circular") issued by the Company to its Shareholders of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement, details of which are set out in the "Letter from the Board" (the "Letter") contained in the Circular and in which this letter is reproduced. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

On 23rd October 2007 (after trading hours), KHL, a non wholly-owned subsidiary of the Company, entered into the Loan Agreement with Most Famous, pursuant to which KHL has conditionally agreed to make available a loan facility of up to HK$196 million to Most Famous.

As Most Famous is a substantial shareholder of KHL and a connected person of the Company under Rule 14A.11 of the Listing Rules. As such, the grant of the Loan Facility by KHL to Most Famous constitutes a connected transaction for the Company under Rules 14A.13(2)(a)(i) of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, all being independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Loan Agreement are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. We advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion and representations contained or referred to in the Circular and all information, opinion and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the management of the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into the Loan Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Loan Agreement, we have considered the following factors and reasons:

1. Background and reason for entering into the Loan Agreement

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, the provision of post-production services and property and hotel investment.

On 17th August 2007, KHL, a non wholly-owned subsidiary of the Company, made an unsecured and interest-free loan of HK$200 million to Exceptional Gain Profit Limited ("Exceptional Gain"), a wholly-owned subsidiary of the Company. In light of that interest-free loan, Most Famous, one of the shareholders of KHL who holds approximately 49% issued share capital of KHL, has requested that in all fairness to all shareholders of KHL, a pro rated interest-free loan should also be made to the shareholders of KHL on the same terms.

The Directors believe that the aforesaid request is reasonable and KHL has, therefore, entered into the Loan Agreement. The Directors are of the view that although the Loan Facility is not on normal commercial terms as it is interest-free and not in the ordinary course of the Company's business, it is fair and reasonable. The Directors have considered that the loan to Most Famous should not be interest-free and so as Exceptional Gain. Nevertheless, Most Famous insists that the same term apply to Exceptional Gain, i.e. interest-free, should also be applied to it.

After discussion with the Directors, based on: (i) KHL made an unsecured and interest-free loan of HK$200 million to Exceptional Gain, one of the shareholders of KHL, on 17th August 2007 to finance the deposit payment of the proposed acquisition of 51% equity interest in Best Mind International Inc. as announced by the Company on 30th August 2007 (the "Acquisition"); (ii) Most Famous is also one of the shareholders of KHL who holds 49% of the issued share capital of KHL; (iii) Most Famous has given its consent on the granting of the unsecured and interest-free loan of HK$200 million to Exceptional Gain, which facilities the Acquisition; and (iv) in light of the essence of fairness and equity to shareholders of KHL (including the Group), we consider that it is reasonable for Most Famous to request for a loan pro rated to its shareholding in KHL, with same terms to those of Exceptional Gain, i.e. HK$196 million, which is based on the loan amount of Exceptional Gain.

We concur with the views of the Directors. In addition, we are of the view that the granting of the Loan Facility to Most Famous would enhance the reputation of the Company as the Company embody the essence of fairness and equity and maintain the business relationship with other shareholders in its non wholly-owned subsidiaries.

2. Terms of the Loan Agreement

In order to compare the fairness of the terms of the Loan Agreement, we consider that it is appropriate to compare the terms of the Loan Agreement with those of the loan to Exceptional Gain as (i) the lender is the same entity; and (ii) the borrowers are also the shareholders of the same entity.

Please refer to the section headed "The Loan Agreement" in the Letter for the detailed information of the Loan Agreement.

After reviewing the terms of the loan to Exceptional Gain and discussing with the Directors, we consider that the terms of the Loan Agreement is the same as those of the loan to Exceptional Gain.

Based on the above, we are of the view and concur with the view of the Directors that the terms of the Loan Agreement is fair and reasonable.

RECOMMENDATIONS ON THE LOAN AGREEMENT

Having considered the above principal factors concerning the Loan Agreement, we are of the view that the Loan Facility is not on normal commercial terms as it is interest-free, not in the ordinary course of the Company's business but the terms of the Loan Agreement are fair and reasonable and in the interest of Shareholders as a whole and would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM in respect of the Loan Agreement.

Yours faithfully,
For and on behalf of
Grand Cathay Securities (Hong Kong) Limited
Kim Chan **Kevin Chan**
Director *Director*

I. SUMMARY OF AUDITED FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for the three years ended 31st December 2004, 2005 and 2006 as extracted from the respective published audited financial statements of the Group:

RESULTS

	For the year ended 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
Turnover	152,777	92,234	165,307
Profit/(loss) before taxation	38,769	(20,889)	(303,152)
Taxation	(1,918)	(124)	(268)
Profit/(loss) for the year	36,851	(21,013)	(303,420)
Attributable to:			
Equity holders of the Company	36,880	(20,961)	(303,219)
Minority interests	(29)	(52)	(201)
	36,851	(21,013)	(303,420)
Earnings/(loss) per Share for profit/(loss) attributable to the equity holders of the Company during the year (HK$)	0.06	(0.04)	(0.99)

ASSETS AND LIABILITIES

	As at 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
Assets and Liabilities			
Total assets	789,037	743,396	667,880
Total liabilities	(92,828)	(144,408)	(153,777)
	696,209	598,988	514,103
Net assets attributable to equity holders of the Company	694,827	597,556	512,639
Minority interests	1,382	1,432	1,464
	696,209	598,988	514,103
Net assets per Share attributable to equity holders of the Company (HK$)	0.99	1.15	1.40
Number of Shares issued	704,646,000	520,541,000	365,406,000

II. AUDITED FINANCIAL STATEMENTS

The following is an extract of the financial statements of the Group from the latest annual report of the Company for the year ended 31st December 2006:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	*7*	152,777	92,234
Cost of sales		(103,365)	(60,825)
Gross profit		49,412	31,409
Other revenue	*8*	9,068	8,204
Other income	*9*	3,682	5,919
Administrative expenses	*10*	(38,309)	(37,012)
Marketing and distribution expenses	*10*	(9,777)	(22,353)
Share-based payment expenses		(11,340)	(24,057)
Fair value loss on financial assets at fair value through profit or loss		(21,757)	(5,510)
Impairment loss on trade receivables		–	(1,101)
Net gain on disposals of financial assets at fair value through profit or loss		5,501	1,493
Increase in fair value of investment properties	*18*	2,880	3,540
Loss from operations		(10,640)	(39,468)
Finance costs	*11*	(2,212)	(1,929)
Share of results of associates		(9,796)	(10,013)
Gain on deemed disposal of interest in an associate	*22*	62,582	45,021
Gain on disposal of an associate	*22*	21,400	–
Impairment loss recognised in respect of goodwill arising on acquisition of associates	*22*	(32,565)	(4,500)
Impairment loss reversed/(recognised) in respect of convertible notes receivables	*25*	10,000	(10,000)
Profit/(loss) before taxation		38,769	(20,889)
Taxation	*12*	(1,918)	(124)
Profit/(loss) for the year		36,851	(21,013)
Attributable to:			
Equity holders of the Company		36,880	(20,961)
Minority interests		(29)	(52)
		36,851	(21,013)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
Basic	*13*	HK$0.06	HK$(0.04)
Diluted	*13*	HK$0.06	N/A

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	9,630	19,147
Interests in leasehold land	17	5,807	13,684
Investment properties	18	40,880	42,190
Goodwill	20	59,203	59,203
Available-for-sale financial assets	21	42,700	–
Interests in associates	22	198,113	166,473
		356,333	300,697
Current assets			
Loan receivable	23	–	25,000
Inventories	24	364	362
Convertible notes receivables	25	52,000	42,000
Film rights	26	97,427	135,998
Films in progress	27	29,469	47,461
Trade receivables	28	8,016	14,597
Deposits, prepayments and other receivables	29	45,161	80,547
Deposit for investment	30	40,000	–
Financial assets at fair value through profit or loss	31	64,560	23,345
Amounts due from associates	32	5,905	41,760
Prepaid tax		455	129
Cash and cash equivalents	33	89,347	31,500
		432,704	442,699
Total assets		789,037	743,396
Capital and reserve attributable to Company's equity holders			
Share capital	34	35,232	26,027
Reserves		659,595	571,529
		694,827	597,556
Minority interests		1,382	1,432
		696,209	598,988

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	36	10,948	13,193
Unsecured convertible loan notes	37	–	19,434
Deferred taxation	38	1,888	–
		12,836	32,627
Current liabilities			
Trade payables	39	18,310	18,892
Deposits received, accruals and other payables	40	39,561	80,692
Bank borrowings – due within one year	36	2,254	12,197
Unsecured convertible loan notes	37	19,867	–
		79,992	111,781
Total equity and liabilities		789,037	743,396
Net current assets		352,712	330,918
Total assets less current liabilities		709,045	631,615

BALANCE SHEET

At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	19	488,744	480,058
Current assets			
Deposits, prepayments and other receivables	29	1,437	20,290
Deposit for investment	30	40,000	–
Amounts due from subsidiaries	19	137,957	145,900
Amounts due from associates	32	602	34,832
Cash and cash equivalents	33	87,837	22,063
		267,833	223,085
Total assets		756,577	703,143
Capital and reserves attributable to Company's equity holders			
Share capital	34	35,232	26,027
Reserves	35	609,683	550,331
		644,915	576,358
Non-current liabilities			
Unsecured convertible loan notes	37	–	19,434
Amounts due to subsidiaries	19	76,875	94,422
		76,875	113,856
Current liabilities			
Unsecured convertible loan notes	37	19,867	–
Deposits received, accruals and other payables	40	12,813	11,105
Amounts due to subsidiaries		2,107	1,824
		34,787	12,929
Total equity and liabilities		756,577	703,143
Net current assets		233,046	210,156
Total assets less current liabilities		721,790	690,214

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2006

The Group	Attributable to the equity holders of the Company												Minority interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible loan notes reserve	Financial assets reserve	Capital reduction reserve	Investment revaluation reserve	Accumulated losses	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)			*(note b)*	*(note c)*		*(note d)*					
At 1st January 2005	18,270	778,975	186,624	680	–	7,841	566	–	316,008	479	(796,804)	512,639	1,464	514,103
Exchange adjustment	–	–	–	(292)	–	–	–	–	–	–	–	(292)	20	(272)
Transferred to interests in associates	–	–	–	–	–	–	–	–	–	(479)	–	(479)	–	(479)
Net income/(expense) directly recognised in equity	–	–	–	(292)	–	–	–	–	–	(479)	–	(771)	20	(751)
Net loss for the year	–	–	–	–	–	–	–	–	–	–	(20,961)	(20,961)	(52)	(21,013)
Total recognised income and expense for the year	–	–	–	(292)	–	–	–	–	–	(479)	(20,961)	(21,732)	(32)	(21,764)
Placement of shares	6,868	67,891	–	–	–	–	–	–	–	–	–	74,759	–	74,759
Share issuing expenses	–	(1,759)	–	–	–	–	–	–	–	–	–	(1,759)	–	(1,759)
Share-based payment expenses	–	–	–	–	–	24,057	–	–	–	–	–	24,057	–	24,057
Exercise of share options	889	8,703	–	–	–	–	–	–	–	–	–	9,592	–	9,592
At 31st December 2005 and 1st January 2006	26,027	853,810	186,624	388	–	31,898	566	–	316,008	–	(817,765)	597,556	1,432	598,988
Exchange adjustment	–	–	–	856	–	–	–	–	–	–	–	856	(21)	835
Share of reserve changes of associates	–	–	–	2,479	(6,867)	–	–	–	–	–	–	(4,388)	–	(4,388)
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	(9,800)	–	–	–	(9,800)	–	(9,800)
Net income/(expense) directly recognised in equity	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	–	(13,332)	(21)	(13,353)
Net profit for the year	–	–	–	–	–	–	–	–	–	–	36,880	36,880	(29)	36,851
Total recognised income and expense for the year	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	36,880	23,548	(50)	23,498
Placement of shares	9,205	54,350	–	–	–	–	–	–	–	–	–	63,555	–	63,555
Share issuing expenses	–	(1,172)	–	–	–	–	–	–	–	–	–	(1,172)	–	(1,172)
Share-based payment expenses	–	–	–	–	–	11,340	–	–	–	–	–	11,340	–	11,340
At 31st December 2006	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	–	(780,885)	694,827	1,382	696,209

Notes:

(a) The contributed surplus of the Group represents the amount transferred from the capital account due to the capital reduction effective on 10th September 2002.

(b) Share-based payment reserves represents the fair value of services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

(c) Under HKAS 32, convertible loan notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible loan notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

(d) The capital reduction reserve of the Group represents the amount arising in relation to the reduction of the nominal value of 332,640,000 issued shares of the Company from HK$1.00 each to HK$0.05 each in 1998. Pursuant to a resolution passed by the directors, to Bye-law 129 of the Company's Bye-laws, the capital reduction reserve shall be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	2006 *HK$'000*	2005 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	38,769	(20,889)
Adjustments for:		
Interest expenses	2,212	1,929
Interest income	(3,603)	(3,053)
Dividend income	(290)	–
Impairment loss on trade receivables	–	1,101
Reversal of impairment loss on trade receivables	(5)	(3,811)
Reversal of impairment loss on other receivables	(763)	–
Utilisation of prepayment for advertising services	–	5,345
Depreciation and amortisation of property, plant and equipment	6,580	9,810
Impairment loss recognised in respect of goodwill arising on acquisition of associates	32,565	4,500
Increase in fair value of investment properties	(2,880)	(3,540)
Gain on disposal of property, plant and equipment	(973)	–
Gain on disposal of investment properties	(1,810)	–
Gain on disposal of an associate	(21,400)	–
Gain on deemed disposal of interest in an associate	(62,582)	(45,021)
Net realised gain on disposals of financial assets at fair value through profit or loss	(5,501)	(1,493)
Fair value loss on financial assets at fair value through profit or loss	21,757	5,510
Recognition of unrealised gain eliminated on consolidation in prior year on sales to associates	–	(624)
Impairment loss (reversed)/recognised in respect of convertible note receivables	(10,000)	10,000
Share of results of associates	9,796	10,013
Waive of other payable	–	(1,194)
Share-based payment expenses	11,340	24,057
Operating cash flows before movements in working capital	13,212	(7,360)
(Decrease)/increase in inventories	(2)	629
Decrease in film rights	38,571	17,880
Decrease/(increase) in films in progress	17,992	(15,853)
Decrease/(increase) in trade receivables	6,586	(3,730)
Decrease/(increase) in deposits, prepayments and other receivables	36,149	(36,689)
Increase in deposit for investment	(40,000)	–
Decrease in amounts due from associates	2,055	1,152
Decrease in trade payables	(582)	(6,395)
(Increase)/decrease in deposits received, accruals and other payables	(41,131)	7,836
Cash generated from/(used in) operations	32,850	(42,530)
Tax (paid)/refunded	(356)	174
Net cash generated from/(used in) in operating activities	32,494	(42,356)

	2006	2005
	HK$'000	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,603	3,053
Dividend income	290	–
Proceeds from disposal of financial assets at fair value through profit or loss	34,727	23,416
Proceeds from disposal of property, plant and equipment	15,188	–
Proceeds from disposal of investment properties	6,000	–
Proceeds from disposal of an associate	25,000	–
Repayment of loan from an investee company	25,000	–
Loan repaid from/(advance to) an associate	33,800	(33,800)
Acquisition of interest in an associate	(19,407)	(60,506)
Refund of deposit for investment	–	12,000
Repayment of convertible notes receivables	–	33,800
Purchases of available-for-sale financial assets	(52,500)	–
Purchases of financial assets at fair value through profit or loss	(92,198)	(16,962)
Purchases of property, plant and equipment	(3,401)	(10,573)
Net cash used in investing activities	(23,898)	(49,572)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	63,555	84,351
Interest paid	(1,779)	(1,929)
Share issuing expenses	(1,172)	(1,759)
Repayment of bank loans	(12,188)	(10,810)
Net cash generated from financing activities	48,416	69,853
Net increase/(decrease) in cash and cash equivalents	57,012	(22,075)
Cash and cash equivalents at the beginning of the year	31,500	54,108
Effect of foreign exchange rate changes	835	(533)
Cash and cash equivalents at the end of the year		
Cash and cash equivalents	89,347	31,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The head office and principal place of business of the Company is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

The principal activities of the Group are film production, distribution of motion pictures and television drama series, provision of artists management services and provision of post-production services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1st January 2006. A summary of the new HKFRSs are set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's results and financial position for the current and prior periods.

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

HKAS 1 (Amendment)	*(Note a)*	Capital Disclosures
HKFRS 7	*(Note a)*	Financial Instruments: Disclosures
HKFRS 8	*(Note b)*	Operating Segments
HK(IFRIC) – Int 7	*(Note c)*	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	*(Note d)*	Scope of HKFRS 2
HK(IFRIC) – Int 9	*(Note e)*	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	*(Note f)*	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	*(Note g)*	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	*(Note h)*	Service Concession Arrangements

Notes:

a. Effective for annual periods beginning on or after 1st January 2007
b. Effective for annual periods beginning on or after 1st January 2009
c. Effective for annual periods beginning on or after 1st March 2006
d. Effective for annual periods beginning on or after 1st May 2006
e. Effective for annual periods beginning on or after 1st June 2006
f. Effective for annual periods beginning on or after 1st November 2006
g. Effective for annual periods beginning on or after 1st March 2007
h. Effective for annual periods beginning on or after 1st January 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The financial statements have been prepared under historical cost convention except for certain investment properties and financial assets which are carried at fair values. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

(i) Subsidiaries

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 aggregate of the fair values 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.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. 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.

(ii) 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. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any impairment losses) identified in acquisition.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(c) Revenue recognition

Distribution fee income is recognised when the master materials have been delivered.

Sales of film rights are recognised when the films are delivered and the film title has passed perpetually.

Sales of video products are recognised when goods are delivered and title has passed.

Service income, management fee income and production fee income are recognised when the services are rendered.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised on a straight-line basis over the relevant lease term.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	4.5% – 5%
Leasehold improvements	20% – 33%
Furniture and fixtures	10% – 20%
Machinery and equipment	18% – 25%
Motor vehicles	15% – 20%

The gain or loss arising from disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(e) Interests in leasehold land

Interests in leasehold land represents prepaid lease payment for leasehold land. Interests in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of interests in leasehold land are amortised on a straight-line basis over the shorter of the relevant interests in leasehold land or the operation period of the relevant company.

(f) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their fair value at balance sheet date. Any gain or loss arising from a change in the fair value of the investment properties are recognised directly in the income statement. Gain or loss on disposal of investment properties are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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

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

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

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

(h) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

(i) Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(j) Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivables during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(k) Inventories

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

(l) Convertible notes receivables

Convertible notes receivables are separately disclosed and regarded as assets unless conversion actually occurs. The interest income recognised in the income statement in respect of the convertible notes receivables is calculated so as to produce a constant periodic rate of income on the remaining balances of the convertible notes receivables for each financial year.

Convertible notes receivables are stated at fair value. Realised and unrealised gains or losses arising from changes in the fair value of convertible notes receivables are recognised in the income statement.

(m) Film rights

Film rights represent films and television drama series produced by the Group or acquired by the Group and are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. The amortisation of film rights will not exceed twenty years. In the case where there is any impairment in value, the unamortised balance is written down to its estimated recoverable amount.

(n) Films in progress

Films in progress represents films and televisions drama series under production and is stated at cost incurred to date, less any identified impairment loss. Cost is transferred to film rights upon completion.

(o) Trade and other receivables

Trade 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 trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(p) Financial instruments

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

i. Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

ii. Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the asset of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arises.

Other financial liabilities

Other financial liabilities including creditors and accruals, securities trading and margin payable, deposits and receipts in advance, bank and other borrowings and amounts due to associates are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible loan notes – equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes – equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes – equity reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible loan notes – equity reserve.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designated as financial assets at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

iii. Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

(q) Cash and cash equivalents

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

(r) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(t) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the accounts of Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Hong Kong dollars ("HK$").

(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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(u) Operating leases

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

(v) Retirement benefits costs

Payments to the Group's retirement benefits schemes are charged as an expense as they fall due.

(w) Employee benefits

(i) Bonuses

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

(ii) Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

(iii) Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(x) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate 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. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in both the People's Republic of China ("the PRC") and Hong Kong and majority of transactions are dominated in United States dollars, Hong Kong dollars and Renminbi. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss and available-for-sale financial assets which are measured at fair value at each balance sheet date. The Group manages the price risk exposure by maintaining a portfolio of investments with different risk profiles.

(b) Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that films are only licensed or distributed to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

4.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

5. 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.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in notes 3(i) and 3(m). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances 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 trade receivable balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables balances 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 collectability of trade receivables for which provisions are not made could affect our results of operations.

(c) 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.

(d) Estimate of fair values of investment properties

As described in note 18, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(e) Impairment of films in progress

The management of the Group reviews an aging analysis at each balance sheet date, and identifies the slow-moving films in progress that is no longer suitable for use in production. The management estimates the net realisable value for such films in progress based primarily on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at each balance sheet date and makes allowance for any films in progress that productions no longer proceed.

6. SEGMENT INFORMATION

The directors of the Company report the geographical segments as the Group's primary segment information.

Geographical segments

The following table provides an analysis of the Group's sales by location of markets:

Income statement for the year ended 31st December 2006:

	Hong Kong and Macau	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC")	America and Europe	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	36,960	8,783	1,093	11,532	94,409	152,777
Cost of sales	(23,749)	(3,984)	(697)	(6,921)	(68,014)	(103,365)
Marketing and distribution expenses	(9,018)	(396)	(52)	(191)	(120)	(9,777)
Segment results	4,193	4,403	344	4,420	26,275	39,635
Share-based payment expenses	(11,340)	–	–	–	–	(11,340)
Net gain on disposals of financial assets at fair value through profit or loss	5,501	–	–	–	–	5,501
Other revenue	8,228	–	–	–	840	9,068
Other income	2,783	–	–	–	899	3,682
Increase in fair value of investment properties	2,880	–	–	–	–	2,880
Fair value loss on financial assets at fair value through profit or loss	(21,757)	–	–	–	–	(21,757)
Unallocated corporate expenses						(38,309)
Loss from operations						(10,640)
Finance costs						(2,212)
Share of results of associates						(9,796)
Impairment loss reversed in respect of convertible notes receivables	10,000	–	–	–	–	10,000
Impairment loss recognised in respect of goodwill arising on acquisition of associates						(32,565)
Gain on disposal of an associate						21,400
Gain on deemed disposal of interest in an associate						62,582
Profit before taxation						38,769
Taxation						(1,918)
Profit for the year						36,851

Income statement for the year ended 31st December 2005:

	Hong Kong and Macau	The PRC	America and Europe	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	49,805	10,217	8,046	22,589	1,577	92,234
Cost of sales	(33,925)	(6,915)	(4,878)	(14,320)	(787)	(60,825)
Marketing and distribution expenses	(10,505)	(9,666)	(529)	(1,552)	(101)	(22,353)
Segment results	5,375	(6,364)	2,639	6,717	689	9,056
Share-based payment expenses	(24,057)	–	–	–	–	(24,057)
Net gain on disposals of financial assets at fair value through profit or loss	1,493	–	–	–	–	1,493
Other revenue	6,943	–	–	–	1,261	8,204
Other income	–	–	–	–	5,919	5,919
Increase in fair value of investment properties	3,540	–	–	–	–	3,540
Fair value loss on financial assets at fair value through profit or loss	(5,510)	–	–	–	–	(5,510)
Unallocated corporate expenses						(38,113)
Loss from operations						(39,468)
Finance costs						(1,929)
Share of results of associates						(10,013)
Impairment loss recognised in respect of convertible notes receivables	(10,000)	–	–	–	–	(10,000)
Impairment loss recognised in respect of goodwill arising on acquisition of associates						(4,500)
Gain on deemed disposal of interest in an associate						45,021
Loss before taxation						(20,889)
Taxation						(124)
Loss for the year						(21,013)

No analysis of assets and liabilities by location of markets is disclosed as, in the opinion of the directors, there is no appropriate basis in allocating the assets and liabilities by location of markets.

No analysis of the carrying amount of segment assets, additions of property, plant and equipment and the depreciation and segment liabilities analysed by the geographical area are disclosed as more than 90% of the group assets are located in Hong Kong and Macau. The directors of the Company are also of the opinion that the segment for the PRC is of no continuing significant influence. The geographical segment for the year ended 31st December 2005 is presented for information purpose.

Balance sheet as at 31st December 2005

	Hong Kong and Macau	The PRC	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	743,086	310	743,396
Segment liabilities	142,637	1,771	144,408
Additions of property, plant and equipment	5,606	–	5,606
Additions of interests in leasehold land	4,967	–	4,967
Depreciation and amortisation	9,810	–	9,810

Business segments

No business segments are presented in the financial statements as more than 90% of the Group's turnover, total assets and capital expenditure were derived from film distributions.

7. TURNOVER

	2006	2005
	HK$'000	*HK$'000*
Distribution fee income	52,833	85,970
Sales of film rights	92,976	–
Sales of video products	72	661
Service income	1,790	240
Production fee income	5,106	5,363
	152,777	92,234

8. OTHER REVENUE

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	2,763	1,792
Loan receivable interest income	218	741
Convertible notes receivables interest income	520	520
Rental income from investment properties	315	291
Management fee income from associates	4,860	4,860
Other interest income	102	–
Dividend income	290	–
	9,068	8,204

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Reversal of impairment loss on trade receivables	5	–
Reversal of impairment loss on other receivables	763	3,811
Gain on disposal of property, plant and equipment	973	–
Gain on disposal of investment properties	1,810	–
Exchange gain	–	820
Waiver of loan	–	1,194
Others	131	94
	3,682	5,919

10. EXPENSES BY NATURE

Expenses included cost of sales, administrative expenses and marketing and distribution expenses are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Amortisation of film rights (included in cost of sales)	100,850	57,646
Auditors' remuneration	606	838
Cost of inventories (included in cost of sales)	33	664
Depreciation of property, plant and equipment	6,294	9,491
Amortisation of interest in leasehold land	286	319
Net foreign exchange losses	1,095	–
Operating lease rental in respect of rented premises	2,286	2,174
Employee benefit expenses *(note 14)*	26,285	39,740

11. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Imputed interest on convertible loan notes wholly repayable within five years	1,233	800
Interest on bank borrowings wholly repayable within five years	873	524
Interest on bank borrowings not wholly repayable within five years	106	605
	2,212	1,929

12. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The taxation charge is as follows:		
Current tax:		
Taxation in other jurisdictions:		
Provision for the year	30	124
Deferred tax *(note 38)*		
Current year	504	–
Underprovision in prior years	1,384	–
	1,888	–
	1,918	124

No provision for Hong Kong Profits Tax has been made for both years either as the Company and its subsidiaries have no assessable profits arising in Hong Kong or as assessable profits were wholly absorbed by estimated tax losses brought forward.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

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

	2006		2005	
	HK$'000	*%*	*HK$'000*	*%*
Profits/(loss) before taxation	38,769		(20,889)	
Taxation at domestic income tax rate of 17.5%	6,785	17.5	(3,656)	(17.5)
Tax effect of expenses not deductible for tax purpose	3,179	8.2	1,649	7.9
Tax effect of income not taxable for tax purpose	(5,394)	(13.9)	(705)	(3.4)
Tax effect of estimated tax losses not recognised	206	0.5	3,260	15.6
Tax effect of utilisation of estimated tax losses previously not recognised	(4,746)	(12.2)	(424)	(2)
Deferred tax liability	1,888	4.8	–	–
Tax charge for the year	1,918	4.9	124	0.6

13. EARNINGS/(LOSS) PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	36,880	(20,961)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	631,665,019	501,724,214
Effect of dilutive potential ordinary shares:		
Share options	12,203,820	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	643,868,839	501,724,214

The computation of diluted earnings per share for the year ended 31st December 2006 did not assume exercise of the Company's certain outstanding share options and the conversion of the convertible loan notes existing during the year since their conversion would result in an increase in earnings per share.

The computation of diluted loss per share for the year ended 31st December 2005 did not assume the exercise of the Company's outstanding share options and convertible loan notes existed during the year 2005 since their exercise would reduce loss per share.

14. EMPLOYEE BENEFIT EXPENSES

	2006	2005
	HK$'000	*HK$'000*
Directors' remuneration	4,536	4,464
Directors' fee	360	360
Salaries and bonuses	9,585	10,360
Share-based payment expenses	11,340	24,057
Mandatory provident fund	389	428
Staff welfare expenses	75	71
	26,285	39,740

(a) Directors' emoluments

The Company's Board is currently composed of three independent non-executive Directors and three executive Directors.

The aggregate amount of emoluments payable to the Directors of the Company during the year was HK$4,932,000 (2005: HK$4,860,000). The remuneration of every director for the year ended 31st December 2006 and 31st December 2005 is as below:

Name of director	Fee		Salaries and bonuses		Mandatory provident fund		Employee share-based payment		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	2,040	2,160	12	12	–	–	2,052	2,172
Ms. Chen Ming Yin, Tiffany	–	–	1,950	1,800	12	12	–	–	1,962	1,812
Ms. Li Yuk Sheung	–	–	546	504	12	12	–	–	558	516
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Fung Ho Sum	120	120	–	–	–	–	–	–	120	120
	360	360	4,536	4,464	36	36	–	–	4,932	4,860

The emoluments of the directors fell within the following bands:

	Number of directors	
	2006	2005
Nil to HK$1,000,000	4	4
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	1
	6	6

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emolument during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: two) Directors whose emoluments are reflected in note (a) above and amounted to HK$4,014,000 (2005: HK$3,984,000). The emoluments payable to the remaining individual (2005: three) during the year were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other allowances	988	1,668
Retirement benefits scheme contributions	32	36
Share-based payment expenses	3,755	4,115
	4,775	5,819

The aggregated emoluments of each of these remaining three (2005: three) highest paid individuals fell within the following bands:

	Number of individuals	
	2006	**2005**
	HK$'000	*HK$'000*
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	–	1
	3	3

15. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1st December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' monthly relevant income but limited to the mandatory cap of HK$20,000. The contributions are charged to the income statements as incurred. In respect of those employees who leave the Group prior to completion of qualifying service period, the relevant portion of the employer's voluntary contributions forfeited (represents the assets transferred from the Old Scheme) will be reverted to the Group. The assets of the MPF Scheme is held separately from those of the Group in an independently administrative fund.

(b) Employees of subsidiaries in the PRC are members of the Central Pension Scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is the required contribution under the Central Pension Scheme.

During the year, the retirement benefits schemes contributions net of forfeited contributions of HK$22,000 (2005: HK$19,000) amounted to HK$389,000 (2005: HK$428,000).

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1st January 2005	10,450	5,508	15,111	43,681	2,864	77,614
Additions	4,412	–	230	728	236	5,606
Disposals	–	–	–	(861)	(625)	(1,486)
At 31st December 2005 and 1st January 2006	14,862	5,508	15,341	43,548	2,475	81,734
Additions	–	1,246	246	114	1,795	3,401
Disposals	(7,546)	(5,508)	(4,882)	(6,271)	(428)	(24,635)
At 31st December 2006	7,316	1,246	10,705	37,391	3,842	60,500
Accumulated depreciation						
At 1st January 2005	3,778	4,974	10,732	33,160	1,823	54,467
Charge for the year	576	200	2,159	6,166	390	9,491
Eliminated on disposals	–	–	–	(751)	(620)	(1,371)
At 31st December 2005 and 1st January 2006	4,354	5,174	12,891	38,575	1,593	62,587
Charge for the year	520	310	1,474	3,329	661	6,294
Eliminated on disposals	(1,404)	(5,358)	(4,759)	(6,262)	(228)	(18,011)
At 31st December 2006	3,470	126	9,606	35,642	2,026	50,870
Net book value						
At 31st December 2006	3,846	1,120	1,099	1,749	1,816	9,630
At 31st December 2005	10,508	334	2,450	4,973	882	19,147

At 31st December 2006, none of the Group's buildings (2005: HK$2,329,000) were pledged to secure banking facilities granted to the Group.

17. INTERESTS IN LEASEHOLD LAND

	2006	2005
	HK$'000	*HK$'000*
Cost		
At 1st January	15,417	10,450
Additions	–	4,967
Disposals	(8,123)	–
At 31st December	7,294	15,417
Accumulated amortisation		
At 1st January	1,733	1,414
Charge for the year	286	319
Eliminated on disposals	(532)	–
At 31st December	1,487	1,733
Net book value		
At 31st December	5,807	13,684

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

	2006	2005
	HK$'000	*HK$'000*
Land in Hong Kong, held on:		
Long-term leases	2,800	3,295
Medium-term leases	3,007	10,389
	5,807	13,684

At 31st December 2006, none of the Group's interests in leasehold land (2005: HK$2,671,000) were pledged to secure banking facilities granted to the Group.

18. INVESTMENT PROPERTIES

	2006	2005
	HK$'000	*HK$'000*
At 1st January	42,190	38,650
Disposals	(4,190)	–
Increase in fair value	2,880	3,540
At 31st December	40,880	42,190

Investment properties were valued at their open market values at 31st December 2006 by Grant Sherman Appraisal Limited, an independent firm of professional valuers who have recent experience in valuation of similar properties in the relevant locations. These valuations gave rise to a revaluation surplus of HK$2,880,000 (2005: HK$3,540,000), of which the whole amount has been credited to the income statement in accordance with HKAS 40.

All investment properties included building cost held under finance leases with the carrying amount of approximately HK$40,880,000 (2005: HK$42,190,000) have been pledged to secure banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

The Group's investment properties at their carrying amounts are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Investment properties in Hong Kong, held on:		
Medium-term leases	40,880	42,190

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	30,708	30,708
Impairment loss recognised	(30,299)	(30,299)
	409	409
Amounts due from subsidiaries	1,504,319	1,495,633
Provision for amounts due from subsidiaries	(1,015,984)	(1,015,984)
	488,335	479,649
	488,744	480,058

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, the Company will not demand for repayment within twelve months from the balance sheet date and the amounts due from subsidiaries are therefore shown as non-current.

The fair value of the amounts due from subsidiaries classified under non-current assets at 31st December 2006 determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to its carrying value.

The amounts due from/to subsidiaries classified under current assets/liabilities are unsecured, interest-free and repayable on demand. In the opinion of the Directors, the carrying amounts of the amounts due from/to subsidiaries as at 31st December 2006 approximate to their fair values.

The carrying amounts of the interests in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

Details of the Company's principal subsidiaries as at 31st December 2006 are set out in note 45.

20. GOODWILL

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to business as follow:

	2006	**2005**
	HK$'000	*HK$'000*
Film production	59,203	59,203

During the year under review, the directors of the Company reassessed the recoverable amount of the CGU of film production with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers and determined that no impairment loss on goodwill associated with the CGU of film production was identified.

The recoverable amount of the CGU of film production was assessed by reference to value-in-use calculation. A discount rate of 18.04% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which the CGU of film production operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included gross margin, growth and discount rate which are determined by the management of the Group based on the past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the CGU Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	HK$'000	*HK$'000*
Equity securities, listed in Hong Kong, at fair values	42,700	–

The fair values of equity securities listed in Hong Kong have been determined by reference to the quoted market bid prices available on the relevant stock market.

Disclosures pursuant to the requirement of section 129(1) and the disclosure requirement of the Listing Rules are as follows:

Name of entity	Country of incorporation	Principal of place of operation	Class of share held	Proportion of nominal value issued capital held by the Group	Proportion of voting power held	Principal activities
Daido Group Limited	Bermuda	Hong Kong	Ordinary	20.11%	20.11%	Cold storage and logistic services manufacturing and trading of ice and property investment

The Group holds 20.11% of the issued share capital of Daido Group Limited and controls 20.11% of the voting power in general meeting. However, the other shareholders significantly control the composition of the board of directors of Daido Group Limited and therefore the directors of the Company consider that the Group does not exercise significant influence on Daido Group Limited.

22. INTERESTS IN ASSOCIATES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets of associates *(Note a)*	143,346	79,704
Goodwill *(Note b)*	54,767	86,769
	198,113	166,473
Market value of listed shares	317,016	463,533

(a) Share of net assets of associates

	2006	2005
	HK$'000	*HK$'000*
At 1st January	79,704	38,249
Share of losses of associates	(9,796)	(10,013)
Disposal of an associate *(note c)*	(3,600)	–
Increase in share of net assets on deemed disposal of 8.43% (2005: 3.3%) interest in Riche Multi-Media Holdings Limited ("Riche Multi-Media") *(note d)*	73,708	47,326
Further acquisition of 1.79% (2005: 3.7%) interest in Riche Multi-Media in the year *(note d)*	7,718	3,997
Recognition of unrealised gain eliminated on consolidation	–	624
Share of foreign exchange and special reserve of an associate	(4,388)	–
Elimination of revaluation reserve of Riche Multi-Media	–	(479)
At 31st December	143,346	79,704

(b) Goodwill

	2006	2005
	HK$'000	*HK$'000*
At 1st January	86,769	37,065
Decrease in goodwill on deemed disposal of 8.43% (2005: 3.3%) interest in Riche Multi-Media *(note d)*	(11,126)	(2,305)
Impairment loss recognised for the year	(32,565)	(4,500)
Further acquisition of 1.79% (2005: 3.7%) interest in Riche Multi-Media in the year *(note d)*	11,689	56,509
At 31st December	54,767	86,769

Goodwill will not be tested for impairment separately and the entire carrying amount of the interests in associates is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associates with their corresponding carrying amounts. Impairment losses identified is recognised and is first allocated to goodwill.

During the year under review, the directors of the Company reassessed the recoverable amount of goodwill and determined that impairment loss on goodwill associated with the Group's associate, Together Again Limited ("TAL") and its subsidiaries (the "TAL Group") amounted to approximately HK$32,565,000 (2005: HK$4,500,000) was identified. The main factor contributing to the impairment was the failure of certain major artists to contribute to the revenue of the TAL Group. The balance of the goodwill of the Group amounted to approximately HK$54,767,000 at 31st December 2006 was related to Riche Multi-Media.

The recoverable amount of TAL Group was assessed by reference to value-in-use calculation. A discount rate of 15.72% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Approved Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Approved Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Approved Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

During the year under review, the Group assessed the recoverable amount of goodwill of Riche Multi-Media and determined that no impairment loss was identified. The recoverable amount of Riche Multi-Media was assessed by reference to value-in-use calculation of its investment properties which is the major cash generating unit of Riche Multi-Media. A discount rate of 16.14% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Riche Forecast") covering a five-year period. Cash flows beyond the five year period have been extrapolated using a steady 7% growth rate per annum. This growth rate was made by reference to National Bureau of Statistics of China and does not exceed the long term average growth rate for the market in which Riche Multi-Media operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Riche Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on the past experience and its expectation for the market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Riche Forecast. The discount rates used are pre-tax and reflect specific risks relating to the market.

(c) Disposal of an associate:

On 15th March 2004, the shareholder of Golden Capital International Limited ("Golden Capital"), an associate of the Group, granted to the Group an option ("Option") to require Golden Capital's shareholder to purchase from the Group an aggregate of 356 shares of US$1 each in the share capital of Golden Capital which represents the Group's entire shareholding in Golden Capital, at an aggregate consideration of HK$25,000,000 ("Consideration"). The Group may exercise the Option in the event that the net profits after taxation but before extraordinary items as shown in the audited accounts ("Audited Accounts") of Golden Capital for year ended 31st December 2004 is less than HK$14,600,000.

As the net profits after taxation but before extraordinary items as shown in the Audited Accounts was less than HK$14,600,000, the Group exercised the Option in April 2006 and the shareholder of Golden Capital repaid the Consideration to the Group by two installments within the same month.

(d) Interests in Riche Multi-Media:

During the period, Riche Multi-Media issued 1,330,321,745 ordinary shares of HK$0.01 ("Riche Shares") at a price of HK$0.20 each amounted to approximately HK$266,064,000 as consideration in relation to an acquisition of a group of companies which major assets is the 96.7% equity interest in Beijing Jianguo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Group's interest in Riche Multi-Media was diluted by 8.43% from 41.07% to 32.64% immediately upon the issuance of the Riche Shares.

Thereafter, the Group acquired 1.79% equity interest in Riche-Multi Media in the open market with a total consideration of approximately HK$19,407,000. As a result, goodwill of approximately HK$11,689,000 was recorded and the Group's interest in Riche Multi-Media increased to 34.43% as at 31st December 2006.

Details of the principal associates at 31st December 2006 are set out in note 46.

The following details have been extracted from the audited consolidated financial statements of the Group's significant associates:

	2006	**2005**
	HK$'000	*HK$'000*
Turnover	25,900	61,861
Loss before taxation	(27,125)	(28,298)
Loss after taxation attributable to the Group	(9,796)	(10,613)
Non-current assets	758,222	7,834
Current assets	195,344	262,311
Non-current liabilities	(408,274)	–
Current liabilities	(132,760)	(93,363)
Net assets	412,532	176,782
Net assets attributable to the Group	143,346	79,704

23. LOAN RECEIVABLE

The loan receivable as at 31st December 2006 represented a shareholder's loan made to finance the activity of investee company. The Group entered into letters of intent and deed with a third party during 2002 for the purchase of 49% of equity interest in a company ("Potential Investee Company") which principally engages in video advertising business on coaches in the PRC. The purchases were terminated in 2003 as the Group did not satisfy with the results of the financial and legal due diligence review on the Potential Investee Company. Therefore during the year ended 31st December 2004, the Group's entire interest of the amount was settled by the investee company and sold to the other shareholders of the investee company. The loan receivable bears an interest at 2% per annum, payable semi-annually, and is guaranteed by another third party. The loan receivable was repaid on 28th March 2006.

24. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Finished goods	364	362

Included above are finished goods of HK$188,000 (2005: HK$222,000) which are carried at net realisable value.

25. CONVERTIBLE NOTES RECEIVABLES

	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	42,000	52,000
Impairment loss recognised in respect of convertible notes receivables	–	(10,000)
Impairment loss reversed in respect of convertible notes receivables	10,000	–
At 31st December	52,000	42,000

Notes:

On 15th March 2004, the Group entered into two subscription agreements with two shareholders ("Note Issuers") of Colima Enterprises Holdings Inc. ("Colima"), the holding company of TAL, pursuant to which the Group subscribed for two convertible notes of HK$26,000,000 each ("Convertible Notes") issued by the Note Issuers for an aggregate consideration of HK$52,000,000.

On 14th March 2007, the Note Issuers redeemed all of the Convertible Notes and the whole amount of principal of HK$52,000,000 repaid to the Group by the Note Issuers. As a result, HK$10,000,000 was reversed in respect of the impairment loss recognised during the year 2005.

26. FILM RIGHTS

	HK$'000
Cost	
At 1st January 2005	1,071,756
Additions	39,766
At 31st December 2005 and 1st January 2006	1,111,522
Additions	62,279
Disposals	(535,943)
At 31st December 2006	637,858
Amortisation and impairment	
At 1st January 2005	917,878
Amortised for the year	57,646
At 31st December 2005 and 1st January 2006	975,524
Amortised for the year	100,850
Eliminated on disposals	(535,943)
At 31st December 2006	540,431
Carrying amounts	
At 31st December 2006	97,427
At 31st December 2005	135,998

During the year under review, the directors of the company reassessed the recoverable amount of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers and determined that no impairment loss on goodwill associated with the film rights was identified.

The recoverable amount of film rights was assessed by reference to value-in-use calculation. A discount rate of 20.04% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Film Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Film Forecast. Key assumptions included gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Film Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

27. FILMS IN PROGRESS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Films in progress	29,469	47,461

The films in progress were valued at cost less any identifiable impairment loss.

The directors reassessed the recoverable amount of films in progress as at 31st December 2006. Having taken into account of the additional costs to be incurred and estimated revenue to be generated from these films in progress, the directors determined no impairment should be recognised in the income statement for the year (2005: $Nil).

28. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The aged analysis of the trade receivables is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
The Riche Group		
0 to 30 days	–	18
91 to 180 days	–	–
	–	18
Others		
0 to 30 days	683	1,148
31 to 60 days	575	4,471
61 to 90 days	826	300
91 to 180 days	373	393
Over 180 days	8,776	11,489
	11,233	17,801
Less: Impairment loss on trade receivables	(3,217)	(3,222)
	8,016	14,579
	8,016	14,597

The carrying amounts of the Group's trade receivables approximate to their fair values.

29. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	39,573	73,931	1,086	20,025
Prepayments	623	1,871	351	265
Other receivables	4,965	4,745	–	–
	45,161	80,547	1,437	20,290

The carrying amounts of deposits, prepayments and other receivables approximate to their fair value.

30. DEPOSIT FOR INVESTMENT

On 15th June 2006, the Company entered into three sale and purchase agreements (the "Sale and Purchase Agreement") with three vendors (the "Vendors") in respect of acquisition of certain entities which indirectly held equity interest in Kingsway Hotel Limited ("KHL") for an aggregated consideration of HK$490,000,000 (the "Initial Acquisition"). The Company paid HK$40,000,000 as deposit to the Vendors upon entering into the Sale and Purchase Agreements and subsequent deed of variations. Details of the Initial Acquisition were set out in the Company's circular dated 8th September 2006. Subsequent to the year end date, the Company entered into further transactions to acquire and dispose the equity interest of KHL. Details of these transactions were set out in note 47(a), (b) and (c) to the financial statements.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	**2005**
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong, at fair value	64,560	23,345

At the balance sheet date, all financial assets at fair value through profit or loss are stated at fair value. Fair value of those listed investments have been determined by reference to the quoted market bid prices available on the relevant stock exchanges.

32. AMOUNTS DUE FROM ASSOCIATES – THE GROUP AND THE COMPANY

The amounts due from associates of the Group and of the Company are unsecured, interest free and repayable on demand.

33. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1,597	5,568	187	2,273
Time deposits	87,750	25,932	87,650	19,790
Cash and cash equivalents	89,347	31,500	87,837	22,063

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

34. SHARE CAPITAL

	Number of shares		Amount	
	2006	**2005**	**2006**	**2005**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.05 each				
Authorised	20,000,000	20,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of year	520,541	365,406	26,027	18,270
Exercise of share options	–	17,770	–	889
Placement of shares *(Note a & b)*	184,105	137,365	9,205	6,868
At end of year	704,646	520,541	35,232	26,027

Notes:

(a) On 17th May 2006, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany (Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate of 104,105,000 existing shares of the Company to independent investors at a price of HK$0.33 per share. Pursuant to the top-up subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for an aggregate of 104,105,000 new shares at a price of HK$0.33 per share. The net proceeds of approximately HK$33,300,000 was intended to be used as to HK$20,000,000 for future investment and as to the balance for general working capital of the Group.

(b) On 6th June 2006, the Company had conditionally agreed to place 80,000,000 new shares to independent investors at a price of HK$0.365 per share, representing a discount of approximately 6.4% to the closing price of HK$0.39 per Company's share on 5th June 2006. The net proceeds of approximately HK$29,000,000 were intended to be used for the proposed acquisition of a hotel in Macau.

35. RESERVES

The Company	Share premium *HK$'000* *(Note a)*	Contributed surplus *HK$'000* *(Note b)*	Convertible loan notes reserve *HK$'000* *(Note c)*	Share-based payment reserve *HK$'000* *(Note d)*	Capital reduction reserve *HK$'000* *(Note e)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1st January 2005	778,975	207,548	566	7,841	316,008	(834,091)	476,847
Net loss for the year	–	–	–	–	–	(25,408)	(25,408)
Share-based payment expenses	–	–	–	24,057	–	–	24,057
Placement of shares	67,891	–	–	–	–	–	67,891
Share issuing expenses	(1,759)	–	–	–	–	–	(1,759)
Exercise of share options	8,703	–	–	–	–	–	8,703
At 31st December 2005 and at 1st January 2006	853,810	207,548	566	31,898	316,008	(859,499)	550,331
Net loss for the year	–	–	–	–	–	(5,166)	(5,166)
Share-based payment expenses	–	–	–	11,340	–	–	11,340
Placement of shares	54,350	–	–	–	–	–	54,350
Share issuing expenses	(1,172)	–	–	–	–	–	(1,172)
At 31st December 2006	906,988	207,548	566	43,238	316,008	(864,665)	(609,683)

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the company as fully paid bonus shares.

(b) The contributed surplus of the Company represents the amount transferred from the capital account due to the capital reduction effective on 10th September 2002. The difference between the underlying net tangible assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company at the time of the Group reorganisation in 1992 and the amount transferred from the capital account due to the capital reduction effective on 10th September 2002.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) Under HKAS 32, convertible loan notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible loan notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

(d) Share-based payment reserve represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

(e) The capital reduction reserve of the Company represents the amount arising in relation to the reduction of the nominal value of 332,640,000 issued shares of the Company from HK$1.00 each to HK$0.05 each in 1998. Pursuant to a resolution passed by the directors pursuant to Bye-law 129 of the Company's Byelaws, the capital reduction reserve shall be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied.

36. BANK BORROWINGS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	13,202	25,390

The maturity of the above borrowings is as follows:

Within one year	2,254	12,197
Between one and two years	2,380	2,252
Between two and five years	7,966	7,538
Over five years	602	3,403
	13,202	25,390
Less: Amount due within one year shown under current liabilities	(2,254)	(12,197)
Amount due after one year	10,948	13,193

Secured bank loans comprise a mortgage loan which bears interest at commercial rates. The mortgage loan is secured by the Group's investment properties with carrying value of approximately HK$40,880,000 (2005: HK$42,190,000). The mortgage loan is repayable in installments over a period of ten years.

All interest-bearing borrowings are denominated in Hong Kong dollar. The effective interest rates at the balance sheet date were as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	5.45-5.70%	1.70%-6.50%

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans	13,202	25,390	13,202	25,390

The fair values are based on cash flows discounted using a rate based on the current bank borrowing rate per annum of the Group.

The carrying amounts of short-term borrowings approximate to their fair values.

37. UNSECURED CONVERTIBLE LOAN NOTES

As at 31st December 2006, there was an unsecured convertible loan notes (the "Notes") of principal value HK$20,000,000 bearing interest at 4 per cent per annum and was originally issued on 14th June 2001.

The interest of Notes were repayable semi-annually in arrears. It was originally matured on 30th June 2004. On 14th June 2004, the Company and the noteholder entered into a supplementary deed, pursuant to which the Company and the noteholder agreed to extend the maturity date of the Notes to 30th June 2007. The Notes carry the right to convert the principal amount of the Notes into shares of HK$0.05 each in the share capital of the Company at a conversion price of HK$5.83 per share (after adjustments), subject to adjustment. From 14th June 2004 to the 14 business day immediately preceding 30th June 2007, the noteholder can convert the outstanding principal amount of the Notes into shares of the Company and may request early repayment of the outstanding principal amount of the Notes together with accrued interest.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible loan notes reserves.

	The Group and Company	
	Liability component of the convertible loan notes	**Equity component of the convertible loan notes**
	HK$'000	*HK$'000*
At 1st January 2005	19,434	566
Imputed interest expenses	800	–
Interest paid	(800)	–
At 31st December 2005 and 1st January 2006	19,434	566
Imputed interest expenses	1,233	–
Interest paid	(800)	–
At 31st December 2006	19,867	566

The effective interest rate on the liability component of the note is approximately 5.43%.

The maturity of the unsecured convertible loan notes is as follows:

	The Group and Company	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	19,867	–
Between one and two years	–	19,434
	19,867	19,434

38. DEFERRED TAXATION

The Group

The followings are the major deferred tax liabilities and assets recognised by the Group and movements thereon:

	Accelerated tax depreciation	Estimated tax losses	Fair value changes of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005, 31st December 2005 and 1st January 2006	(1,438)	1,438	–	–
Charge to income statement	–	–	1,888	1,888
At 31st December 2006	(1,438)	1,438	1,888	1,888

At 31st December 2006, the Group had unused estimated tax losses of approximately HK$414,330,605 (2005: HK$370,667,110 (agreed)) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Company

No deferred tax assets has been recognised in respect of estimated tax losses of approximately HK$79,315,842 (2005: HK$91,108,273 (agreed)) due to the unpredictability of future profit streams.

39. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	The Group 2006	2005
	HK$'000	*HK$'000*
0 to 30 days	1,523	2,680
31 to 60 days	839	836
61 to 90 days	1,923	1,368
91 to 180 days	2,450	3,123
Over 180 days	11,575	10,885
	18,310	18,892

The carrying amounts of the Group's trade payables approximate to their fair values.

40. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	32,949	77,692	10,000	10,000
Accruals	4,009	2,188	2,558	1,027
Other payables	2,603	812	255	78
	39,561	80,692	12,813	11,105

The carrying amounts of the Group's deposits received, accruals and other payables approximate to their fair values.

41. LEASE COMMITMENTS

At 31st December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	940	1,059
In the second to fifth year inclusive	1,089	–
	2,029	1,059

Operating lease payments represented rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

42. CAPITAL COMMITMENTS

At 31st December 2006, the Group had the following outstanding commitments in respect of acquisitions of an investment at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for	450,000	–

43. EQUITY SETTLED SHARE-BASED TRANSACTION

Pursuant to a resolution passed at the annual general meeting of the Company held on 27th May 2002, the share option scheme adopted by the Company on 23rd October 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

The Old Option Scheme

The major terms of the Old Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to the participants.

(ii) The participants included any employee or director of any members of the Group.

(iii) The maximum number of shares in respect of which share options might be granted must not exceed 10% of the issued share capital of the Company from time to time.

(iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregate with shares issued and issuable under any share option granted to the same participant, must not exceed 25% of the maximum shares form time to time.

(v) Any share option may be exercised in whole or in part at any time after the date on which the share option is deemed to be granted.

(vi) The exercisable period of a share option must not exceed a period of 10 years commencing on the date of acceptance.

(vii) The acceptance of a share option, if accepted, must be made within 30 days from the date of the offer of the grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of a share option must be the higher of:

a. a price not less than 80% of the average closing price of a share of the Company for the 5 trading days immediately preceding the grant; and

b. the nominal value of a share of the Company.

As the Old Option Scheme was terminated on 27th May 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

The New Option Scheme

The major terms of the New Option Scheme are summarised as follows:

(i) The purpose is to provide incentives and rewards to the participants for their contribution or potential contribution to the Group.

(ii) The participants include:

(1) (a) any directors or proposed director (whether executive or non-executive including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Company and any entity in which the Company, directly or indirectly, holds any equity interests (collectively the "Interested Group") or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(b) any individual for the time being seconded to work for any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(c) any holder of any securities issued by any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(d) any business or joint venture partner, contractor, agent or representative of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(e) any research assistant, technician, adviser, consultant, artist, actor, actress of, and any research company, technical support company, advisory company, consultancy company, production company, advertising company, distribution company and professional services company to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(f) any supplier, producer, director or licensor of films, television programmes, video features, goods or services to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(g) any customer, licensee (including any sub-licensee) or distributor of films, television programmes, video features, goods or services of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(h) any landlord or tenant (including any sub-tenant) of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company; and

(2) any company controlled by one or more persons belonging to any of the above classes of participants.

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of share options available for issue under the New Option Scheme (after refreshment) as at the date of this annual report was 2,064,660, which represented approximately 0.25% of the issued share capital of the Company at the date of this annual report.

(iv) The total number of shares issued and to be issued upon exercise of the share options granted to each participant (including exercised, cancelled and outstanding share options) in 12 month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

(v) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of offer for grant.

(vi) Save as determined by the board of directors provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

(vii) The acceptance of a share option, if accepted, must be made within 30 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of a share option must be the highest of:

a. the closing price of a share of the Company on the date of grant;

b. the average closing price of a share of the Company for the 5 trading days immediately preceding the date of grant; and

c. the nominal value of a share of the Company.

(ix) The New Option Scheme is effective for 10 years from the date of adoption until 26th May 2012.

The following table discloses details of the Company's share options held by the Company's substantial shareholders, directors, the Group's employees and other participants and movements in such holdings:

					Number of share options							
Category of Participants	Name of scheme	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 01.01.2005	Granted during 2005 *(Note i)*	Exercised during 2005 *(Note ii)*	Lapsed during 2005	Outstanding as at 31.12.2005 and 01.01.2006	Granted during 2006 *(Note iii)*	Expired during 2006	Outstanding as at 31.12.2006
Substantial shareholders and directors of the Company*	Old Option Scheme	21.11.1996	21.11.1996 – 20.11.2006	60.510	674,269	–	–	–	674,269	–	(674,269)	–
	New Option Scheme	28.03.2000	28.03.2000 – 27.03.2010	16.783	922,123	–	–	–	922,123	–	–	922,123
		02.06.2000	02.06.2000 – 01.06 2010	8.134	417,506	–	–	–	417,506	–	–	417,506
		16.07.2002	16.07.2002 – 15.07.2012	1.716	221,446	–	–	–	221,446	–	–	221,446
		17.07.2003	17.07.2003 – 16.07.2013	0.564	457,000	–	–	–	457,000	–	–	457,000
					2,692,344	–	–	–	2,692,344	–	(674,269)	2,018,075
Director of the Company**	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	1,109,557	–	–	–	1,109,557	–	–	1,109,557
		17.07.2003	17.07.2003 – 16.07.2013	0.564	2,285,000	–	–	–	2,285,000	–	–	2,285,000
					3,394,557	–	–	–	3,394,557	–	–	3,394,557
Employees of the Group	Old Option Scheme	05.01.1999	05.01.1999 – 04.01.2009	5.011	44	–	–	–	44	–	–	44
	New Option Scheme	28.03.2000	28.03.2000 – 27.03.2010	16.783	250,539	–	–	(10,440)	240,099	–	–	240,099
		02.06.2000	02.06.2000 – 01.06.2010	8.134	417,508	–	–	–	417,508	–	–	417,508
		16.07.2002	16.07.2002 – 15.07.2012	1.716	3,328,671	–	–	(1,109,557)	2,219,114	–	–	2,219,114
		17.07.2003	17.07.2003 – 16.07.2013	0.564	10,254,939	–	(7,969,939)	–	2,285,000	–	–	2,285,000
		13.12.2004	13.12.2004 – 12.12.2014	0.520	15,800,000	–	(9,800,000)	–	6,000,000	–	–	6,000,000
		04.02.2005	04.02.2005 – 03.02.2015	0.538	–	28,110,000	–	–	28,110,000	–	–	28,110,000
		30.12.2005	30.12.2005 – 29.12.2015	0.242	–	18,005,000	–	–	18,005,000	–	–	18,005,000
		21.11.2006	21.11.2006 – 20.11.2016	0.277	–	–	–	–	–	40,000,000	–	40,000,000
					30,051,701	46,115,000	(17,769,939)	(1,119,997)	57,276,765	40,000,000	–	97,276,765
Other participants	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	4,438,228	–	–	–	4,438,228	–	–	4,438,228
		17.07.2003	17.07.2003 – 16.07.2013	0.564	7,055,000	–	–	–	7,055,000	–	–	7,055,000
		13.12.2004	13.12.2004 – 12.12.2014	0.520	11,820,000	–	–	–	11,820,000	–	–	11,820,000
		04.02.2005	04.02.2005 – 03.02.2015	0.538	–	10,205,000	–	–	10,205,000	–	–	10,205,000
		30.12.2005	30.12.2005 – 29.12.2015	0.242	–	33,995,000	–	–	33,995,000	–	–	33,995,000
		21.11.2006	21.11.2006 – 20.11.2016	0.277	–	–	–	–	–	20,400,000	–	20,400,000
					23,313,228	44,200,000	–	–	67,513,228	20,400,000	–	87,913,228
					59,451,830	90,315,000	(17,769,939)	(1,119,997)	130,876,894	60,400,000	(674,269)	190,602,625

* *Represented the share options held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany, the substantial shareholders and directors of the Company.*

** *Represented the share options held by Ms. Li Yuk Sheung, a director of the Company.*

Notes:

(i) The closing prices of the Company's shares immediately before the dates of grant of share options in 2005 were HK$0.500 per share and HK$0.248 per share.

(ii) The closing prices of the Company's shares immediately before the dates on which the share options were exercised in 2005 were HK$1.110 per share in respect of 800,000 shares and HK$0.720 per share in respect of 16,969,939 shares.

(iii) The closing price of the Company's shares immediately before the date of grant of share options in 2006 was HK$0.28 per share.

(iv) No share option was exercised, lapsed or cancelled during the year 2006.

The exercise in full of the outstanding 190,602,625 share options as at 31st December 2006 would, under the present capital structure of the Company, result in the issue of 190,602,625 additional ordinary shares for a total cash consideration, before expenses, of approximately HK$106,015,000.

Total consideration received during the year from the grantees for taking up the share options granted amounted to HK$15 (2005: HK$28).

(a) Share-based payment expenses

Following to the adoption of HKFRS2, Share-based Payment, the fair value of the employee services received in exchange for the grant of the options after 7th November 2002 is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of Instruments	Exercisable period
Options granted to substantial shareholders and directors		
– on 17th July 2003	457,000	17th July 2003 – 16th July 2013
Options granted to directors		
– on 17th July 2003	2,285,000	17th July 2003 – 16th July 2013
Options granted to employees of the Group		
– on 17th July 2003	11,254,939	17th July 2003 – 16th July 2013
– on 13th December 2004	15,800,000	13th December 2004 – 12th December 2014
– on 4th February 2005	28,110,000	4th February 2005 – 3rd February 2015
– on 30th December 2005	18,005,000	30th December 2005 – 29th December 2015
– on 21st November 2006	40,000,000	21st November 2006 – 20th November 2016
Options granted to other participant		
– on 17th July 2003	8,855,000	17th July 2003 – 16th July 2013
– on 13th December 2004	11,820,000	13th December 2004 – 12th December 2014
– on 4th February 2005	10,205,000	4th February 2005 – 3rd February 2015
– 30th December 2005	33,995,000	on 30th December 2005 – 29th December 2015
– on 21st November 2006	20,400,000	21st November 2006 – 20th November 2016
	201,186,939	

(ii) The estimated fair value of the options is measured based on Black-Scholes Model. The variables input into the model are as follows:

	2006	2005
Weighted average share price at measurement date *(HK$)*	0.28	0.35
Weighted average exercise price *(HK$)*	0.277	0.37
Expected volatility (expressed as weighted average volatility used in the modeling of Black-Scholes Model)	70.51%	65.82%
No. of years for option life (expressed as weighted average life used in the modeling of Black-Scholes Model)	6	10
Expected dividends	–	–
Risk-free interest rate	5.0%	4.0%
Weighted average fair value at measurement date *(HK$)*	0.19	0.27

The expected volatility is based on historical volatility (calculated based on the weighted average remaining life of the share options). Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

44. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with Riche Group:

		2006	2005
Nature of transactions	*Note*	*HK$'000*	*HK$'000*
Interest income			
– Loan interest	*(i)*	100	238
– Interest on convertible notes	*(i)*	–	100
Term loan granted	*(i)*	–	33,800
Term loan repayment	*(i)*	33,800	–
Post-production fee received	*(ii)*	90	736
Film exhibition income received	*(iv)*	–	7,947
Royalty paid	*(ii)*	200	–
Acquisition of leasehold land and buildings	*(iii)*	–	9,000

Notes:

(i) On 19th April 2005, the convertible notes of HK$33,800,000 issued by the Riche Group were matured. The Group did not exercise the right to convert the outstanding principal amount of HK$33,800,000 into share capital of the Riche Group and Riche Multi-Media repaid HK$33,800,000 to the Group. On the same date, the Company granted a one year term loan of HK$33,800,000 to Riche Muti-Media. The loan is unsecured, bears interest at 1% per annum and was repaid on 19th April 2006.

(ii) The amounts were determined at prices agreed between the parties.

(iii) During the year 2005, the Group acquired leasehold land and buildings from the Riche Group at a total consideration of HK$9,000,000. The consideration for the acquisition was fully settled in cash on 7th July 2005.

(iv) On 5th February 2002, the Group and the Riche Group entered into a territory supply agreement whereby the Group, during the term of three years from 8th April 2002, granted in favour of the Riche Group a first right of refusal to acquire the exclusive distribution rights of refusal to acquire the exclusive distribution rights excluding the theatrical and internet rights in respect of each film in the PRC and Mongolia and an option to acquire the theatrical rights. This agreement was expired in the year 2005 and no new agreement was entered into between the Group and the Riche Group.

(b) During the year, the Group entered into the following transactions with TAL Group:

		2006	**2005**
Nature of transactions	*Note*	*HK$'000*	*HK$'000*
Management fee income from the TAL Group	*(i) & (ii)*	4,860	4,860
Services charges paid and payable to the TAL Group	*(i) & (ii)*	5,752	2,880
Artists promotion charges paid and payable to the TAL Group	*(i) & (ii)*	4,193	4,382

Notes:

(i) The amounts were determined at prices agreed between the parties.

(ii) Ms. Chen Ming Yin, Tiffany is a common director of TAL.

(c) During the year, the Company issued 104,105,000 ordinary shares to the directors and their associates (2005: 137,365,000). Details of these subscriptions are set out in note 34.

(d) For the years ended 31st December 2006 and 2005, Mr. Heung Wah Keung and Ms Chen Ming Yin, Tiffany provided personal guarantees to a bank to secure banking facilities granted to the Group. No fee was paid to them by the Group.

(e) Details of the amounts due from associates are set out in note 32.

(f) Key management personnel

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in note 14, is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other short-term benefits	5,732	5,568
Pension scheme contributions	60	60
Share-based payment	2,253	3,981
	8,045	9,609

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$	Holding of cable right
China Star Entertainment (BVI) Limited	Incorporated	British Virgin Islands	Ordinary	100	200 shares of US$1 each	Investment holding
China Star Entertainment Holding Company	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each and 1,000,000 deferred non-voting shares of HK$ 1 each *(Note b)*	Investment holding
China Star HK Distribution Limited	Incorporated	Hong Kong	Ordinary	100	100,000 ordinary shares of HK$1 each	Distribution of motion pictures and television drama series
China Star HK Entertainment Company Limited	Incorporated	Hong Kong	Ordinary	100	1,000,000 ordinary shares of HK$1 each	Distribution of video rights and investment holding
China Star International Distribution Limited *(Note a)*	Incorporated	British Virgin Islands	Ordinary	100	8,001 shares of US$1 each	Distribution of motion pictures and television drama series
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of management services and investment holding
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
China Star Production Services Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Provision of post-production services
China Star Trademark Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of trademark and copyrights
China Star Worldwide Distribution B.V. *(Note b)*	Incorporated	Netherlands	Ordinary	100	400 ordinary shares of Dutch Guilders 100 each	Distribution of motion pictures and television drama series
Classical Statue Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Property investment
Newrich (HK) Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Property holding
One Hundred Years of Film Company Limited	Incorporated	Hong Kong	Ordinary	100	3,000,000 ordinary shares of HK$1 each	Film production
S & W Entertainment Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Production of motion pictures and television drama series

Notes:

(a) Operating internationally.

(b) The non-voting deferred shares practically carry no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the company nor to participate in any distribution on winding up.

China Star Entertainment (BVI) Limited and China Star Worldwide Distribution B.V. are directly held by the Company. All other subsidiaries are indirectly held by the Company.

Except otherwise stated, the principal place of operation of the subsidiaries is Hong Kong.

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

46. PARTICULARS OF PRINCIPAL ASSOCIATES

The following table lists the associates of the Group which, in the opinion of the directors, principally affected the results and assets of the Group. To give details of other associates would, in the opinion of directors, result in particulars of excessive length.

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Riche Multi-Media Holdings Limited**	Incorporated	Bermuda	34.43	4,752,000,000 ordinary shares of HK$0.1 each	Investment holding in Hong Kong
Bluelagoon Investment Holding Limited*	Incorporated	British Virgin Islands	34.43	1 share of US$1	Investment holding, sales of financial assets, distribution of films and sub-licensing of film rights in the PRC
Riche Advertising Limited*	Incorporated	British Virgin Islands	34.43	1 ordinary shares of US$1 each	Sales of financial assets
Riche (BVI) Limited*	Incorporated	British Virgin Islands	34.43	1,000 ordinary shares of US$1 each	Investment holding in Hong Kong
Riche Distribution Limited*	Incorporated	Hong Kong	34.43	1,000,000 ordinary shares of HK$1 each	Sub-licensing of film rights in Hong Kong and sales of financial assets
Riche International (Macao Commercial Offshore) Limited*	Incorporated	Macau	34.43	1 share of MOP100,000	Distribution of films and sub-licensing of film rights in the PRC
Riche Video Limited*	Incorporated	Hong Kong	34.43 10	ordinary shares of HK$100 each and 20,000 non-voting deferred shares of HK$100 each$^{\Delta}$	Distribution of video products in Hong Kong
Shinhan-Golden Faith International Development Limited*	Incorporated	British Virgin Islands	34.43	10,000,000 ordinary share of US$1 each	Investment holding in the PRC
(“Beijing Jian Guo Real Estate Development Co. Ltd”)	Incorporated	PRC	33.29	Registeral capital of US$15,000,000	Property investment in the PRC
Together Again Limited	Incorporated	British Virgin Islands	49.00	48,080 shares of US$1 each	Investment Holding and provision of artists management services

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
China Entertainment Group, Inc.***#	Incorporated	United States of America	41.65	128,963,425 of US$0.001 each common stock	Investment Holding
China Star Management Limited***	Incorporated	Hong Kong	41.65	1,000,000 ordinary shares of HK$1 each	Provision of artists management services
Anglo Market International Limited***	Incorporated	British Virgin Islands	41.65	1 share of US$1 each	Provision of artists management services
Metrolink Global Limited***	Incorporated	British Virgin Islands	41.65	100 shares of US$1 each	Provision of artists management services

* *These companies are subsidiaries of Riche Multi-Media.*

** *The shares of Riche Multi-Media are listed on the Stock Exchange.*

*** *These companies are subsidiaries of TAL.*

\# *China Entertainment Group, Inc. is a U.S. public company traded on the Over-The-Counter Bulletin Board.*

Δ *The non-voting deferred shares, which are not held by Riche Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.*

47. SUBSEQUENT EVENTS

(a) On 13th June 2006, the Company had entered into agreements with the relevant vendors, Harvest Metro Corporation, Top Region Assets Limited and Mr. Chan Chak Mo in relation to the acquisition (the "Initial Acquisition") of the entire issued share capital of Triumph Up Investments Limited and Great Chain Limited which indirectly hold in aggregate appropriately 61.5% interest in the issued share capital of Kingsway Hotel Limited ("KHL") for an aggregate consideration of HK$490,000,000. The principal asset of Kingsway Hotel Limited is Kingsway Hotel, a three star hotel with a total 383 guests rooms located in Macau. The Initial Acquisition constitute a very substantial acquisition for the Company under the Listing Rules and approval of the shareholders of the Company was obtained at a special general meeting held on 29th September 2006. Details of the Initial Acquisition were set out in the Company's circular dated 8th September 2006. As at 31st December 2006, the Initial Acquisition has not yet been completed.

(b) On 3rd January 2007, the Company had entered into agreement with the vendor, Great Trust – Gestao E Participacoes Limitada in relation to the acquisition (the "Acquisition") of the entire 19.25% of the equity interest of KHL, 38.5% of the equity interest of Xin Wei which directly holds 50% equity interest in the issued share capital of KHL and the relevant sale loans for an aggregate consideration of HK$240,000,000. Upon completion of the Acquisition, the Company would hold 38.5% equity interest in KHL. The Acquisition also constitute a very substantial acquisition for the Company under the Listing Rules and approval of the shareholders of the Company was obtained at a special general meeting held on 27th March 2007. Details of the Acquisition were set out in the Company's circular dated 10th March 2007.

On 19th January 2007, the Company entered into three unsecured subscription agreements with three subscribers in relation to the subscription of the zero coupon unsecured convertible bonds (the "Firm Bonds") due 2012 in an aggregate principal face value of HK$168,500,000 at an issue price of 95% of the face value amount to be issued by the Company at an initial conversion price of the lower (i) HK$0.32 per conversion share and (ii) the average closing price of the shares for ten trading days prior to 19th May 2007 or date to be agreed by both parties, provided that the initial conversion price shall in no event be less than HK$0.25 per conversion share (subject to adjustment), of which the proceeds would be for financing the Acquisition. The issue of the Firm Bonds was approved by the Company's shareholders in the special general meeting held on 23rd March 2007. Should the Firm Bonds be fully converted at the initial conversion price of HK$0.32 or HK$0.25 per share, the Firm Bonds will be convertible into approximately 526,562,500 or 674,000,000 shares of the Company (subject to adjustment), representing approximately 42.76% or 48.89% of the enlarged share capital of the Company. Details of the Firm Bonds were set out in the Company's circular dated 7th March 2007.

(c) On 19th March 2007, the Company had entered into two sales and purchase agreements with relevant vendors, SJM - Investimentos Limitada ("SJM Agreement") and Most Famous Enterprises Limited ("Most Famous Agreement") respectively. Pursuant to the SJM Agreement and the Most Famous Agreement, the Company agreed to sell 1% of issued quota of KHL and the relevant sale loan and 49% of issued quota of KHL and the relevant sale loan for an aggregate consideration of HK$6,300,000 and HK$308,700,000 respectively (the "Disposals"). It is proposed that upon the SJM Completion, Dr. Stanley Ho will be appointed as the chairman of KHL. The Disposals constitute a very substantial disposal for the Company under the Listing Rules and approval of the shareholders of the Company was required at a special general meeting to be held by the Company. Details of the Disposals were set out in the Company's announcement dated 19th March 2007.

(d) On 19th March 2007, Classical Statue Limited ("Classical Statue"), a subsidiary of the Company entered into a placing agreement and a subscription agreement with a placing agent, Kingston Securities Limited and Riche Multi-Media respectively pursuant to which Classical Statue has (1) agreed to place, through the placing agent on a fully underwritten basis 1,296,860,000 placing shares to independent investors at a price of HK$0.04 per placing share and (2) conditionally agreed to subscribe for 1,296,860,000 subscription shares at the placing price. On 22nd March 2007, the placing agreement was completed, upon completion, Classical Statue's interest in Riche Multi-Media would be reduced from approximately 34.43% to 28.69% of the enlarged issued share capital of Riche Multi-Media.

(e) On 12th March 2007, Classical Statute entered a subscription agreement with Milkyway Image Holdings Limited ("Milkyway"), in relation to the subscription of the zero coupon convertible notes (the "Convertible Notes") in aggregate principle amount of HK$25,000,000 due 2012. The conversion price is initially at HK$0.33 per share of Milkyway (subject to adjustment). Other terms and conditions of the subscription agreements were set out in the Company's announcement dated 14th March 2007. Details of the Convertible Notes were set out in the Company's circular dated 3rd April 2007.

48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26th April 2007.

III. UNAUDITED INTERIM FINANCIAL STATEMENTS

The following is an extract of the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2007:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30th June 2007

		Six months ended 30th June	
		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	70,030	56,042
Cost of sales		(43,043)	(33,125)
Gross profit		26,987	22,917
Other revenue	*5*	4,302	4,063
Other income	*6*	2,710	2,105
Administrative expenses		(27,067)	(17,581)
Marketing and distribution expenses		(561)	(9,009)
Share-based payment expenses		(14,631)	–
Net gain on disposals of financial assets at fair value through profit or loss		10,538	4,936
Fair value gain/(loss) on financial assets at fair value through profit or loss		6,752	(12,069)
Profit/(loss) from operations	*7*	9,030	(4,638)
Finance costs		(3,818)	(984)
Share of results of associates		33,227	(1,043)
Discount on acquisition of subsidiaries		15,498	–
Discount on acquisition of interest in associates		2,659	–
Loss on disposal of interest in subsidiaries	*8*	(45,471)	–
Gain on disposal of an associate		–	21,400
(Loss)/gain on deemed disposal of interest in associates		(35,873)	62,582
Impairment loss recognized in respect of goodwill arising on acquisition of associates		–	(6,300)
(Loss)/profit before taxation		(24,748)	71,017
Taxation	*9*	(15)	(28)
(Loss)/profit for the period		(24,763)	70,989
Attributable to:			
Equity holders of the Company		(24,754)	71,002
Minority interests		(9)	(13)
		(24,763)	70,989
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company during the period			
Basic	*10*	(3.03 cents)	13.17 cents
Diluted	*10*	N/A	13.17 cents

The accompanying notes form an integral part of these financial statements.

All of the Group's operations are classed as continuing.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30th June 2007

	Notes	30th June 2007 HK$'000 (Unaudited)	31st December 2006 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*12*	275,858	9,630
Interests in leasehold land	*12*	541,109	5,807
Investment properties	*13*	40,880	40,880
Goodwill		59,203	59,203
Available-for-sale financial assets		88,200	42,700
Convertible notes receivable from an associate	*14*	634	–
Conversion options embedded in convertible notes receivable from an associate	*14*	645	–
Interests in associates	*15*	261,052	198,113
		1,267,581	356,333
Current assets			
Inventories		750	364
Convertible notes receivables		–	52,000
Film rights		58,926	97,427
Films in progress		34,169	29,469
Trade receivables	*16*	56,511	8,016
Deposits, prepayments and other receivables		50,734	45,161
Deposit for investment		–	40,000
Financial assets at fair value through profit or loss		8,216	64,560
Amounts due from associates		6,532	5,905
Prepaid tax		514	455
Cash and cash equivalents		107,031	89,347
		323,383	432,704
Total assets		1,590,964	789,037

	Notes	30th June 2007 HK$'000 (Unaudited)	31st December 2006 HK$'000 (Audited)
Capital and reserve attributable to Company's equity holders			
Share capital	*17*	68,699	35,232
Reserves		919,639	659,595
		988,338	694,827
Minority interests		321,844	1,382
		1,310,182	696,209
Non-current liabilities			
Bank borrowings – due after one year	*19*	9,775	10,948
Deferred taxation		88,106	1,888
		97,881	12,836
Current liabilities			
Trade payables	*18*	14,462	18,310
Amounts due to minority shareholders		39,999	–
Deposits received, accruals and other payables		66,122	39,561
Bank borrowings – due within one year	*19*	2,315	2,254
Unsecured convertible notes payable	*20*	60,003	19,867
		182,901	79,992
Total equity and liabilities		1,590,964	789,037
Net current assets		140,482	352,712
Total assets less current liabilities		1,408,063	709,045

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30th June 2007

	Attributable to equity holders of the Company												
	Share capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Contributed surplus HK$'000 (Unaudited)	Exchange reserve HK$'000 (Unaudited)	Special reserve HK'000 (Unaudited)	Share-based payment reserve HK$'000 (Unaudited)	Convertible notes reserve HK$'000 (Unaudited)	Financial assets reserve HK$'000 (Unaudited)	Capital reduction reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Sub-total HK$'000 (Unaudited)	Minority interests HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1st January 2006	26,027	853,810	186,624	388	–	31,898	566	–	316,008	(817,765)	597,556	1,432	598,988
Exchange alignment	–	–	–	873	–	–	–	–	–	–	873	8	881
Issue of new shares	5,205	27,986	–	–	–	–	–	–	–	–	33,191	–	33,191
Net profit for the period	–	–	–	–	–	–	–	–	–	71,002	71,002	(13)	70,989
At 30th June 2006	31,232	881,796	186,624	1,261	–	31,898	566	–	316,008	(746,763)	702,622	1,427	704,049
At 1st January 2007	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	(780,885)	694,827	1,382	696,209
Placing of new shares	18,596	123,986	–	–	–	–	–	–	–	–	142,582	–	142,582
Share issuing expenses	–	(3,824)	–	–	–	–	–	–	–	–	(3,824)	–	(3,824)
Share-based payment expenses	–	–	–	–	–	14,631	–	–	–	–	14,631	–	14,631
Share of reserves of an associate	–	–	–	(105)	–	3,915	–	–	–	–	3,810	–	3,810
Exercise of share options	3,284	27,901	–	–	–	(13,301)	–	–	–	–	17,884	–	17,884
Redemption of convertible notes	–	–	–	–	–	–	(566)	–	–	566	–	–	–
Issue of convertible notes	–	–	–	–	–	–	54,307	–	–	–	54,307	–	54,307
Conversion of convertible notes	11,587	58,999	–	–	–	–	(23,850)	–	–	–	46,736	–	46,736
Deferred tax	–	–	–	–	–	–	(5,330)	–	–	–	(5,330)	–	(5,330)
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	45,500	–	–	45,500	–	45,500
Disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	320,471	320,471
Exchange alignment	–	–	–	1,969	–	–	–	–	–	–	1,969	–	1,969
Loss for the period	–	–	–	–	–	–	–	–	–	(24,754)	(24,754)	(9)	(24,763)
At 30th June 2007	68,699	1,114,050	186,624	5,587	(6,867)	48,483	25,127	35,700	316,008	(805,073)	988,338	321,844	1,310,182

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2007

	Six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	12,702	8,034
Net cash (used in)/generated from investing activities	(289,878)	10,282
Net cash generated from financing activities	292,891	21,181
Net increase in cash and cash equivalents	15,715	39,497
Cash and cash equivalents at beginning of the period	89,347	31,500
Effect of foreign exchange rate change	1,969	873
Cash and cash equivalents at the end of the period	107,031	71,870
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	107,031	71,870

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2007

1. BASIS OF PREPARATION

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

The Interim Financial Statements have been prepared on the historical cost basis except certain investment properties and financial assets, which are measured at fair values, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's accounting period beginning 1st January 2007. The adoption of the new HKFRSs had no material effect on the results of financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

Standards, amendments or interpretations issued but not yet effective

The Group has not applied the new standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[1]

1 *Effective for financial period commencing on or after 1st January 2009*

2 *Effective for financial period commencing on or after 1st March 2007*

3 *Effective for financial period commencing on or after 1st January 2008*

The Group is still considering the potential impact of these new HKFRSs but is not yet in a position to determine whether the adoption of these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

The directors of the Company report the geographical segments as the Group's primary segment information.

Geographical segments

The following table provides an analysis of the Group's sales and results from operation by location of markets:

For the six months ended 30th June 2007:

	Hong Kong and Macau	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC")	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	20,426	–	922	48,682	70,030
Segment results	14,589	–	(283)	12,120	26,426
Other revenue and income					24,302
Unallocated corporate expenses					(41,698)
Profit from operations					9,030

For the six months ended 30th June 2006:

	Hong Kong and Macau	The PRC	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	34,923	8,783	10,817	1,519	56,042
Segment results	5,642	4,012	3,858	396	13,908
Other revenue and income					11,104
Unallocated corporate expenses					(29,650)
Loss from operations					(4,638)

4. TURNOVER

	Six months ended 30th June 2007	2006
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Distribution fee income	4,695	51,923
Sales of film rights	48,672	–
Sales of video products	–	58
Service income	150	1,670
Production fee income	2,640	2,391
Hotel operation income	13,873	–
	70,030	56,042

5 OTHER REVENUE

	Six months ended 30th June 2007	2006
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividend income	79	79
Interest income	1,673	1,369
Rental income	120	185
Management fee income received from associates	2,430	2,430
	4,302	4,063

6. OTHER INCOME

	Six months ended 30th June 2007	2006
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Gain on disposal of property, plant and equipment	20	1,290
Gain on redemption of convertible notes	2,315	–
Gain on fair value change of convertible options	373	–
Other	2	815
	2,710	2,105

7. PROFIT/(LOSS) FROM OPERATIONS

	Six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit/(loss) from operations has been arrived at after charging/(crediting):		
Amortisation of film rights (included in cost of sales)	37,735	30,834
Amortisation of interests in leasehold land	3,115	132
Cost of inventories (included in cost of sales)	–	38
Depreciation of property, plant and equipment	3,120	4,627
Net foreign exchange losses	78	811
Gain on disposal of property, plant and equipment	(20)	(1,290)
Employee benefit expenses	10,017	7,010
Share-based payment expenses	14,631	–

8. DISPOSAL OF INTEREST IN SUBSIDIARIES

During the period under review, the Group disposed 50% of its equity interests in Kingsway Hotel Limited ("KHL") together with the relevant sale loans of approximately HK$40,000,000 to third parties at an aggregate consideration of HK$315,000,000. The fair value of the 50% net assets in KHL at the date of disposal was approximately HK$320,471,000. As a results of the disposal, the Group recognised a loss of HK$45,471,000 in the condensed consolidated income statement.

9. TAXATION

	Six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The taxation charge comprises:		
Taxation in other jurisdictions	15	28

No provision of Hong Kong Profits Tax has been made in the condensed consolidated financial statements for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong or as assessable profits were wholly absorbed by estimated tax losses brought forward. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit attributable to equity holders of the Company	(24,754)	71,002

	2007	**2006**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share	816,503	538,947

The computation of diluted loss per share for the six months ended 30th June 2007 did not assume the exercise of the Company's outstanding share options and conversion of the convertible notes outstanding during the period since their exercise and conversion would have an anti-dilutive effect on loss per share.

Diluted earnings per share is equal to the basic earnings per share for the six months ended 30th June 2006 as the exercise price of the outstanding share options granted by the Company and the conversion price of the convertible notes outstanding were higher than the average market price of the shares of the Company, and the exercise of the outstanding share options and convertible loan notes would have an anti-dilutive effect to the basic earnings per share.

11. DIVIDEND

The directors of the Company did not recommend the payment of any interim dividend for the six months ended 30th June 2007 (Six months ended 30th June 2006: Nil).

12. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND

During the period under review, additions of property, plant and equipment of approximately HK$269,348,000 and interest in leasehold land of approximately HK$538,417,000 were majority pertained to acquisition of the entire equity interest of KHL.

13. INVESTMENT PROPERTIES

The directors of the Company have considered the carrying amounts of the Group's investment properties are carried at fair values and have estimated that their carrying amounts did not different significantly from the fair values as at 31st December 2006.

14. CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE

The convertible note is held by Classical Statue Limited ("CSL"), a wholly-owned subsidiary of the Company.

During the period under review, CSL entered into an agreement to subscribe a convertible note ("Brilliant Arts CN") with an aggregate principal amount of HK$25,000,000 from Brilliant Arts Multi- Media Holding Limited (formerly known as "Milkyway Image Holdings Limited") ("Brilliant Arts"). Brilliant Arts has its shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Brilliant Arts CN carries zero coupon and will mature on 24th May 2012. The initial conversion price is HK$0.33 per share (subject to adjustments). Unless previously converted or lapsed, Brilliant Arts will redeem the Brilliant Arts CN on 24th May 2012 at the redemption amount which is 100% of the principal amount of outstanding Brilliant Arts CN.

The Group has measured the Brilliant Arts CN in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". The debt element of the Brilliant Arts CN were measured initially at fair value and subsequently at amortised cost and classified as convertible note receivable from an associate. The conversion options element of Brilliant Arts CN were measured initially and subsequently at fair value in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" and classified as conversion options embedded in convertible notes receivable from an associate.

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts become an associate of the Company and details were set out in note 15 to the condensed consolidated financial statements.

For the period ended 30th June 2007, the Group recognized fair value gain of approximately HK$373,000 for conversion options element of the remaining Brilliant Arts CN in the condensed consolidated income statement.

15. INTERESTS IN ASSOCIATES

	As at 30th June 2007	As at 31st December 2006
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Share of net assets of associates *(note a)*	203,777	143,346
Goodwill *(note b)*	57,275	54,767
	261,052	198,113
Market value of listed shares	189,083	317,016

Notes:

(a) Share of net assets

	HK$'000
At 1st January 2007	143,346
Share of results of associates	33,227
Decrease in share of net assets on deemed disposal of 11.32% interest in Riche Multi-Media Holdings Limited ("Riche Multi-Media") *(note d)*	(17,867)
Further acquisition of 5.49% interest in Riche Multi-Media in the period *(note d)*	37,645
Acquisition of 29.17% equity interest in Brilliant Arts *(note c)*	3,616
Share of reserves of an associate	3,810
At 30th June 2007	203,777

(b) Goodwill

	HK$'000
At 1st January 2007	54,767
Decrease in goodwill on deemed disposal of 11.32% interest in Riche Multi-Media *(note d)*	(18,006)
Goodwill arising on acquisition of 29.17% equity interest in Brilliant Arts *(note c)*	20,514
At 30th June 2007	57,275

(c) Acquisition of an associate

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 of Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts becomes an associate of the Company.

(d) Interests in Riche Multi-Media

During the period under review, Riche Multi-Media issued total number of 317,706,000 new shares of Riche Multi-Media (after considering the effect of consolidation of 10 shares into 1 new share of Riche Multi-Media) through placing to the Company, independent third parties and share option holders of Riche Multi-Media. As a result, the Group's interest in Riche Multi-Media was diluted by 11.32% from 34.43% to 23.11%. Thereafter, the Group further acquired 5.49% equity interest in Riche Multi-Media in the open market at a total consideration of approximately HK$34,986,000. As a result, discount on acquisition of HK$2,659,000 was recorded in the income statement and the Group's interest in Riche Multi-Media increased to 28.60% as at 30th June 2007.

16. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The aged analysis of the trade receivables is as follows:

	30th June 2007	**31st December 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts") and its subsidiaries ("Brilliant Arts Group")		
0 to 30 days	34	–
31 to 60 days	–	–
61 to 90 days	–	–
91 to 180 days	–	–
Over 180 days	–	–
	34	–
Others		
0 to 30 days	46,828	683
31 to 60 days	3,317	575
61 to 90 days	751	826
91 to 180 days	213	373
Over 180 days	8,633	8,776
	59,742	11,233
Less: Impairment loss on trade receivables	(3,265)	(3,217)
	56,477	8,016
	56,511	8,016

The carrying amounts of the Group's trade receivables approximate to their fair values.

17. SHARE CAPITAL

	Number of shares		Amount	
	As at 30th June 2007	As at 31st December 2006	As at 30th June 2007	As at 31st December 2006
	'000	*'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Ordinary shares of HK$0.05 each ("Shares")				
Authorised:	20,000,000	20,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of period	704,646	520,541	35,232	26,027
Exercise of share options *(Note c)*	65,685	–	3,284	–
Conversion of convertible notes *(Note 20)*	231,746	–	11,587	–
Placing of new shares *(Notes a & b)*	371,905	184,105	18,596	9,205
At end of period	1,373,982	704,646	68,699	35,232

Notes:

(a) On 29th March 2007, the Company entered into placing agreements with a placing agent. Pursuant to the placing agreements, the Company agreed to place an aggregate of 206,000,000 Shares to independent investors at a price of HK$0.37 per Share. 124,900,000 Shares and 81,100,000 Shares were allotted and issued on 17th April 2007 and 30th May 2007 respectively. The net proceeds of approximately HK$74,000,000 were intended to be used for general working capital of the Group.

(b) On 4th June 2007, the Company entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place an aggregate of 165,905,000 Shares to independent investors at a price of HK$0.40 per Share and the Shares were subsequently alloted and issued on 25th June 2007. The net proceeds of approximately HK$64,600,000 were intended to be used for general working capital of the Group.

(c) During the period, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 Shares at an exercise price of HK$0.242 per Share, an aggregated of 26,800,000 Shares at an exercise price of HK$0.277 per Share and an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per Share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$17,884,000.

18. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	As at 30th June 2007	**As at 31st December 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Brilliant Arts Group		
0 to 30 days	43	–
31 to 60 days	2,051	–
61 to 90 days	–	–
91 to 180 days	247	–
Over 180 days	427	–
	2,768	–
Others		
0 to 30 days	416	1,523
31 to 60 days	376	839
61 to 90 days	266	1,923
91 to 180 days	319	2,450
Over 180 days	10,317	11,575
	11,694	18,310
	14,462	18,310

The carrying amounts of the Group's trade payables approximate to their fair values.

19. BANK BORROWINGS

	As at 30th June 2007 *HK$'000* (Unaudited)	As at 31st December 2006 *HK$'000* (Audited)
Secured bank loans	12,090	13,202
The maturity of the above borrowings is as follows:		
Within one year	2,315	2,254
Between one and two years	2,446	2,380
Between two and five years	6,865	7,966
Over five years	464	602
	12,090	13,202
Less: Amount due within one year shown under current liabilities	(2,315)	(2,254)
Amount due after one year	9,775	10,948

Secured bank loans comprise a mortgage loan which bears interest at commercial rates. The mortgage loan is secured by the Group's investment properties with carrying value of approximately HK$40,880,000 (31st December 2006: HK$40,880,000). The mortgage loan is repayable by 79 monthly instalments.

20. UNSECURED CONVERTIBLE NOTES PAYABLES

During the period under review, the Company issued convertible notes in the principal amount HK$168,500,000 at an issue price of 95% of fair value. The fair value of the liability component at date of issue is approximately HK$105,768,000. The convertible notes are zero coupon, unsecured and will be matured on 17th May 2012. The convertible notes are denominated in Hong Kong dollars. The initial conversion price is HK$0.32 per Share and subject to anti-dilutive adjustments. The effective interest rate of the liability component is 9.75% per annum.

Unless previously converted by the convertible note holder, the Company will redeem the convertible notes on the maturity date at the principal amount of the convertible notes then outstanding.

The fair value of the liability component of the convertible notes payable, determined based on the present value of the estimated future cash outflows discounted at the effective interest rates of 9.75% per annum at the balance sheet, was approximate to their corresponding carrying amount.

During the period, convertible notes of HK$74,000,000 were converted into 231,746,000 Shares.

Subsequent to the balance sheet date, the remaining principal balance of the convertible notes of HK$94,500,000 were converted into 300,955,410 Shares.

The comparative figure in 2006 of HK$19,867,000 represented the liability component of an unsecured convertible loan notes of principal value of HK$20,000,000 bearing interest at 4% per annum which was matured and repaid on 30th June 2007.

21. ACQUISITION OF SUBSIDIARIES

On 30th March 2007, the Group acquired 38.5% interest in KHL and related sales loan (the "Initial Acquisition") at a consideration of approximately HK$231,777,000. The principal assets of KHL were Kingsway Hotel which located in Macau. The fair value of the net assets of KHL which attributable to the Group and the related sale loan as at the date of the completion of the the Initial Acquisition were approximately HK$310,733,000 and a negative goodwill of approximately HK$78,956,000 was recognised.

On 30th May 2007, the Group further acquired 61.5% interest in KHL and related sales loan (the "Second Acquisition") through acquisitions of the entire interest in Triumph Up Investments Limited and its subsidiaries and Great Chain Limited and its subsidiaries, at a consideration of approximately HK$490,000,000. The fair value of the net assets of KHL which attributable to the Group and the related sales loan as at the date of completion of the Second Acquisition were approximately HK$426,542,000 and goodwill of approximately HK$63,458,000 was recognised.

Following the Initial Acquisition and the Second Acquisition, the Group recognised a net negative goodwill of approximately HK$15,498,000. Such negative goodwill was directly recognised as income in the condensed consolidated income statement for the six months ended 30th June 2007.

22. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period under review, the Group entered into the following transactions with Riche Multi-Media and its subsidiaries ("Riche Group"):

	For the six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loan interest income	–	100
Production fee income	–	85
Sub-licensing expenses	–	(200)

The amounts were determined at prices agreed between parties.

(b) During the period under review, the Group entered into the following transactions with TAL and its subsidiaries ("the TAL Group"):

	For the six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Management fee income received and receivable	2,430	2,430
Services charges paid and payable	–	5,752
Artists promotion charges paid and payable	–	3,318

The amounts were determined at prices agreed between parties.

(c) During the period under review, the Group entered into the following transactions with Brilliant Arts Group:

	For the six months ended 30th June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Production fee income	2	–
Distribution fee	205	–

The amounts were determined at prices agreed between parties.

23. LEASE COMMITMENTS

The Group leases certain of its properties and office equipments under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 30th June 2007, the Group had commitments for total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30th June 2007	**As at 31st December 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	1,193	940
In the second to fifth years, inclusive	622	1,089
	1,815	2,029

24. SUBSEQUENT EVENTS

On 24th July 2007, CSL had entered into a top-up placing agreement. Pursuant to the top-up placing agreement, CSL agreed to place an aggregate of 173,000,000 shares of Riche Multi-Media to third parties independent of Riche Multi-Media and its connected persons at a price of HK$0.83 per Share. Details of this transaction were set out in the Company's announcement dated 25th July 2007.

On 1st August 2007, the Company entered into a sales and purchase agreement with Riche Multi-Media and Legend Rich Limited, a wholly-owned subsidiary of Riche Multi-Media, to sell 100% of the issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, at an aggregate consideration of HK$447,000,000. Details of this transaction were set out in the Company's announcement dated 8th August 2007.

On 16th August 2007, the Company entered into an acquisition agreement with an independent third party. Pursuant to the acquisition agreement, the Company has conditionally agreed to acquire 51% of the entire issued share capital of Best Mind International Inc. ("Best Mind"), free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of completion or subsequently becoming attached to them, at a total consideration of HK$538,000,000, which will be satisfied as to HK$300,000,000 in cash, HK$196,000,000 by the issue of a 5% per annum interest bearing unsecured convertible note in the principal amount of HK$196,000,000 due 2017 and the balance of HK$42,000,000 by allotment and issue of 140,000,000 Shares, credited as fully paid. Details of this transaction were set out in the Company's announcement dated 31st August 2007.

On 5th September 2007, the Company and the placing agent entered into placing agreements, whereby the Company has conditionally agreed to place, through the placing agent on a fully underwritten basis of 274,790,000 Shares to independent investors at a price of HK$0.21 per Share and on a best effort basis up to a maximum of 5,000,000,000 Shares respectively. Details of this transaction were set out in the Company's announcement dated 7th September 2007.

On 30th August 2007, the Company announced to raise approximately HK$168,754,000 before expenses by way of a rights issue of not less than 843,769,799 rights Shares and not more than 940,393,799 rights Shares at HK0.20 each on the basis of one rights Share for every two existing Shares held on 18th September 2007. Details of this transaction were set out in the Company's announcement dated 30th August 2007.

25. APPROVAL OF INTERIM FINANCIAL STATEMENT

The Interim Financial Statements were approved and authorised for issue by the Board on 24th September 2007.

IV. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30th September 2007, being the latest practicable date for the purpose of the indebtedness, the Group had outstanding bank borrowings and overdrafts of approximately HK$411,524,000, which were secured by the leasehold land and building and investment properties of the Group.

Contingent liabilities

As at 30th September 2007, save as the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Group to the extent of HK$325,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30th September 2007, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees, convertible bonds or other material contingent liabilities.

V. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the Loan Facility, the available credit facilities as described in more detail in the above section "Statement of indebtedness" and internal resources (for example, cash generated from operating activities) of the Group, the Directors are of opinion that the Group has sufficient working capital for its normal business for the next twelve months from the date of this circular.

VI. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

VII. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion and analysis of the Group for the six months ended 30th June 2007:

Financial review

The Group recorded a turnover of HK$70,030,000 for the six months ended 30th June 2007, a 25% increase from HK$56,042,000 for the same period in the previous year. Of the total turnover amount, HK$53,367,000 or 76% was generated from film distribution and sales of film rights, HK$13,873,000 or 20% was generated from hotel operation and HK$2,790,000 or 4% was generated from production services and other service income.

Profit from operations and loss attributable to equity holders of the Company for the six months ended 30th June 2007 amounted to approximately HK$9,030,000 and HK$24,754,000 respectively.

The Company had completed its acquisitions of 38.5% and 61.5% interest in the issued quota of KHL on 30th March 2007 and 30th May 2007 respectively and disposed of a 50% interest in KHL on 22nd June 2007. A discount on acquisition of HK$15,498,000 was credited to the income statement as a result of the acquisitions of KHL and a loss on disposal of interest in subsidiaries of HK$45,471,000 was charged to the income statement on the disposal of 50% of KHL. Besides, the Group had recognized a loss on deemed disposal of interest in associates of HK$35,873,000 from Riche Multi-Media Holdings Limited (“Riche”) and its subsidiaries (the “Riche Group”).

Business Review

With effect from 30th March 2007, KHL become a subsidiary of the Group. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. As a result, the Group has consolidated KHL into the results of the Group for the period from 30th March 2007 to 30th June 2007. Turnover from hotel operation is recognized by the Group during this period. Kingsway Hotel ceased its operation starting from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel.

This period, the Group had released only 1 new film in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Venders"), all wholly-owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). Part of the income had recorded in the income statement for the year ended 31st December 2006 and the balance recorded in the income statement during this period.

During the six months ended 30th June 2007, turnover and segment result for Hong Kong and Macau amounted to HK$20,426,000 (2006: HK$34,923,000) and HK$14,589,000 (2006: HK$5,642,000) respectively. The turnover mainly comprises post production fees income of films, film distribution and hotel operation in Macau.

Turnover and segment profit from elsewhere amounted to HK$48,682,000 (2006: HK$1,519,000) and HK$12,120,000 (2006: HK$396,000) respectively. It mainly represent the sales of film rights to Fortune Star during this period.

To stay competitive in the market, the Group has regularly review its costs structure in these years by exercised prudence measures on cost policies and reduced its headcount. As a result, administrative expenses keep at a reasonable basis. For the six months ended 30th June 2007, administrative expenses increased to HK$27,067,000, a 54% increase from HK$17,581,000 of the previous period because administrative expenses of HK$10,808,000 were related to KHL's hotel operation.

Liquidity and Financial Resources

As at 30th June 2007, the Group had total assets of approximately HK$1,590,964,000 and a net current assets of HK$140,482,000 representing a current ratio of 1.8 (31st December 2006: 5.4). The Group had a total cash and bank balances of approximately HK$107,031,000 (31st December 2006: HK$89,347,000). As at 30th June 2007, the Group had total borrowings of HK$12,090,000 comprising a bank mortgage loan which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 79 monthly instalments. The Group's gearing remained low during the year with total debts of HK$12,090,000 against shareholders' funds of HK$988,338,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 1% (31st December 2006: 5%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2007, the Group had no contingent liability.

On 19th January 2007, the Company entered into three subscription agreements with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK$168,500,000 to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is HK$0.32 per conversion Share (subject to adjustments). The net proceeds of approximately HK$159,000,000 had been used for the acquisition of KHL. The Firm Bonds were issued on 18th May 2007. During the period ended 30th June 2007, HK$64,000,000 Firm Bonds were converted into 200,000,000 Shares at the conversion price of HK$0.32 per Share and HK$10,000,000 Firm Bonds were converted into 31,746,031 Shares at the conversion price of HK$0.315 per Share (after adjustment) respectively. The balance of HK$94,500,000 Firm Bonds were converted into 300,955,410 Shares at the conversion price of HK$0.314 per Share (after adjustment) subsequent to the balance sheet date.

On 12th March 2007, Classical Statue Limited ("Classical"), a wholly-owned subsidiary of the Company entered into a subscription agreement with Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts"), a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical had conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK$25,000,000 due 2012 ("Convertible Bonds") to be issued by Brilliant Arts at an issue price of HK$22,500,000. The conversion price of the Convertible Bonds is initially HK$0.33 per shares of Brilliant Arts (subject to adjustments). The Convertible Bonds has been issued on 25th May 2007. On 15th June 2007, 72,727,272 shares of Brilliant Arts, representing 29.17% of the issued share capital of Brilliant Arts were allotted and issued as a result of the conversion of HK$24,000,000 Convertible Bonds. Brilliant Arts becomes an associate of the Company with effect from 15th June 2007.

On 28th March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK$55,000,000 ("Loan") for the period from 28th March 2007 to 18th April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Corporation Limited to finance the completion of the acquisition of KHL. The Loan was repaid on 18th April 2007.

On 29th March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche I Placing"). 124,900,000 new Shares was issued for the Tranche I Placing on 17th April 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23rd June 2006. The net proceeds of approximately HK$44,800,000 was intended to be used for general working capital of the Group.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche II Placing"). The issue of 81,100,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 18th May 2007. The net proceeds of approximately HK$29,200,000 was used for general working capital of the Group.

On 4th June 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 165,905,000 new Shares to independent investors at a price of HK$0.40 per Share. 165,905,000 new Shares was issued on 25th June 2007 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 18th May 2007. The net proceeds of approximately HK$64,600,000 was intended to be used for general working capital of the Group.

During this period, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 Shares at an exercise price of HK$0.242 per Share, an aggregated 26,800,000 Shares at an exercise price of HK$0.277 per Share and an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per Share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$17,884,000. Subsequent to the balance sheet date, 12,600,000 options are exercised and converted into 12,600,000 Shares at an exercise price of HK$0.277 and net proceeds from the exercise of option rights amounted to approximately HK$3,490,000.

Subsequent to the balance sheet date, on 20th July 2007, a license bank in Macau has agreed to grant a term loan of HK$450,000,000 and overdraft facility of HK$200,000,000 to KHL, a subsidiary of the Company. The term loan and overdraft facility were secured by a first legal charge on the properties held by Kingsway Hotel, interest bearing at 2% per annum and 1% per annum below the bank's best lending rate respectively. The term loan has to be repaid by 18 equal consecutive quarterly installments of HK$25,000,000 each and the first principal repayment will commence on the 9th month after the date of first loan drawdown. The overdraft facility is repayable on demand. HK$400,000,000 term loan has been drawdown at the end of July 2007 of which HK$200,000,000 has been used by the Group to financed the Acquisition (as defined herein).

On 30th August 2007, the Company announced that not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at a subscription price of HK$0.20 each will be issued by the Company on the basis of one right Shares for every two Shares held on 18th September 2007. The estimated net proceeds of approximately HK$162,600,000 was intended to be used for the Acquisition (as defined herein).

On 5th September 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 274,790,000 new Shares to independent investors at a price of HK$0.21 per Share. 274,790,000 new Shares will be issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2007. The net proceeds of approximately HK$56,200,000 will be used for partial payment of the Acquisition (as defined herein).

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a best effort basis up to a maximum of 5,000,000,000 new Shares to independent investors at a price of HK$0.21 per Share. This placing is subject to the approval of the shareholders of the Company at a special general meeting to be convened. The net proceeds of approximately HK$1,023,500,000 will be used by the Group to fund the consideration for future acquisition of gaming businesses in Macau.

Associates

Riche Multi-Media Holdings Limited

As at 30th June 2007, the Group had approximately 28.6% equity interest in Riche. Riche Group are principally engaged in the distribution of films, sub-licencing of film rights and sale of financial assets and property investment. As at 30th June 2007, Riche Group had net assets of approximately HK$659,134,000. Turnover and net profit of Riche Group for the six month ended 30th June 2007 were approximately HK$29,191,000 and HK$90,948,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$26,014,000 for the six months ended 30th June 2007. Taking into account the loss on deemed disposal of interest in associates of HK$35,873,000 and discount on acquisition of interest in associates of HK$2,659,000 from the following transactions, the Group had recorded an aggregate result of loss of approximately HK$7,200,000 from Riche Group.

On 19th March 2007, Classical entered into a placing and subscription agreement with a placing agent and Riche. Pursuant to the placing and subscription agreement, Classical has agreed to place 1,296,860,000 existing shares of Riche ("Riche Shares") to not less than six independent investors at a price of HK$0.04 per Riche Share and conditionally agreed to subscribe for 1,296,860,000 new Riche Shares at a price of HK$0.04 per Riche Share. The Group's interest in Riche decreased from 34.43% to 28.69% immediately after the completion of the placing and subscription. Due to the exercise of share options of Riche of 324,000,000 Riche Shares by certain option holders on 17th May 2007 and the placing of 155,620,000 new Riche Shares on 31st May 2007, the Group's interest in Riche was further decreased to 23.11%. On 22nd May 2007, 10 Riche Shares were consolidated into 1 new Riche Share and the interest in Riche remained at 23.11%. Thereafter, the Group acquired 5.49% equity interest in Riche in the open market and increased its interest in Riche to 28.6% as at 30th June 2007.

On 16th October 2007, Classical entered into an undertaking with Riche, pursuant to which Classical has agreed to subscribe for 138,175,500 new Riche Shares to which it is entitled under the open offer of Riche at a price of HK$0.30 each and to submit an excess application for a maximum of 169,079,628 new Riche Shares at a price of HK$0.30 each. On the assumption that the total of 307,254,628 new Riche Shares are allotted and issued to Classical, Classical's interest in the issued share capital of Riche will be increased from 21.24% to 29.90%.

Together Again Limited

As at 30th June 2007, the Group held 49% equity interest in the group headed by Together Again Limited ("TAL Group"), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 30th June 2007, TAL Group had net assets of HK$6,927,000. Turnover and loss of TAL Group for the six months ended 30th June 2007 were HK$2,238,000 and HK$2,081,000, respectively. Accordingly, the Group had shared a loss of HK$1,016,000 for the six months ended 30th June 2007.

Brilliant Arts Multi-Media Holding Limited

As at 30th June 2007, the Group had approximately 29.17% equity interest in Brilliant Arts. Brilliant Arts Group are principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. As at 30th June 2007, Brilliant Arts Group had net assets of approximately HK$40,607,000. The Group had shared a net profit of approximately HK$8,229,000 for the period from 15th June 2007 to 30th June 2007.

Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of Riche, an associate of the Group, and Riche relating to the sale of 100% of the issued share capital of Exceptional Gain Profits Limited (“Exceptional Gain”) and the relevant sale loan for an aggregate consideration of HK$447,000,000 (the “Disposal”). Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. Following the completion of the Disposal, KHL will cease to be a subsidiary of the Group. The directors of the Company (the “Directors”) believe that the Disposal will provide an opportunity to the Group and Riche to allocate their resources effectively and to avoid duplication of resources as Riche already possessed appropriate expertise and resources in hotel and property management and the value of Kingsway Hotel will be better realized and reflected in Riche as the Disposal will enable Riche to build up its own branding in hotel and hospitality industry and in turn will have a positive impact on the Group’s return on investment in Riche.

Acquisition of Best Mind International Inc.

On 16th August 2007, the Company had entered into an acquisition agreement (the “First Acquisition Agreement”) in relation to the acquisition (the “First Acquisition”) of 51% issued share capital of Best Mind International Inc. (“Best Mind”) at a total consideration of HK$538,000,000 to be satisfied as to HK$300,000,000 in cash, HK$196,000,000 by the issue of a 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK$0.30 per Share and the balance of HK$42,000,000 by the allotment and issue of 140,000,000 Shares credited as fully paid. On 5th October 2007, the Company had entered into an acquisition agreement (the “Second Acquisition Agreement”) in relation to the acquisition (the “Second Acquisition”) of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 to be satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of a 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK$0.30 per Share and the balance of HK$28,900,000 by allotment and issue of 96,333,333 Shares credited as fully paid.

Best Mind has entered into profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau.

After the completion of the First Acquisition and Second Acquisition, Best Mind becomes a wholly-owned subsidiary of the Group. In view of the recent booming economy of Macau and the prospects of Macau's gaming business, the Directors believe that the First Acquisition and Second Acquisition will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's announcement dated 30th August 2007 and 10th October 2007 for details of the First Acquisition and Second Acquisition respectively.

Employees

As at 30th June 2007, the Group employed 248 staffs (2006: 46 staffs), including 203 staffs employed by KHL. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

Prospect

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, gaming business. After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry. The proposed acquisition of Best Mind expect to broaden the Group's revenue sources and provide a stable income stream to the Group, given the recent booming economy of Macau and the prospects of Macau's gaming business. Currently, the Group is in various preliminary negotiations with different parties regarding the proposed acquisitions of certain entertainment and leisure businesses, including gaming, in Macau. The Group will sourced any possible investments with a positive impact on the Group's return in the long run.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the Shares and the underlying Shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung	Beneficial owner/ interest of spouse/ interest of controlled corporation	619,819,115 *(Note a)*	2,190,892 *(Note b)*	622,010,007	22.16
Ms. Chen	Beneficial owner/ interest of spouse/ interest of controlled corporation	619,819,115 *(Note a)*	2,190,892 *(Note b)*	622,010,007	22.16
Ms. Li Yuk Sheung	Beneficial owner	16	3,685,251 *(Note c)*	3,685,267	0.13

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 54,592,500 Shares by Mr. Heung, as to 31,716,615 Shares by Ms. Chen (the spouse of Mr. Heung), as to 505,865,000 Shares by Porterstone and as to 27,645,000 Shares by Dorest.

(b) These underlying Shares comprised outstanding share options of the Company are held as to 1,095,446 options by Mr. Heung and as to 1,095,446 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the share options of each other.

(c) These underlying Shares comprised outstanding share options of the Company held by Ms. Li Yuk Sheung.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of held Shares	Approximate % of interest held
Porterstone	Beneficial owner	505,865,000	
	Interest of controlled corporation	27,645,000*	
		533,510,000	19.01

Name	Capacity	Number of held Shares	Approximate % of interest held
Ng Cheuk Fai	Interest of controlled corporation	1,516,333,332	49.83

All interests stated above represent long positions.

* *These Shares are held by Dorest, a wholly owned subsidiary of Glenstone Investments Limited which is in turn beneficially owned as to 60% by Porterstone. Ms. Chen, a Director is also a director of Porterstone. Mr. Heung is a director of Dorest and Glenstone Investments Limited.*

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

5. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the member of the Group within the two years immediately preceding the Latest Practicable Date:

(i) a top up subscription agreement dated 17th May 2006 entered into between Mr. Heung, Ms. Chen, Porterstone and Dorest and the Company, pursuant to which Mr. Heung, Ms. Chen, Porterstone and Dorest had agreed to subscribe for an aggregate of 104,105,000 new Shares at a price of HK$0.33 per Share.

(ii) conditional agreements dated 6th June 2006 entered into between PMA Capital Management Limited as agent for and on behalf of PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company and the Company respectively for the placing of an aggregate 80,000,000 Shares at a price of HK$0.365 per Share;

(iii) a sale and purchase agreement dated 3rd August 2006 entered into between Classical Statue Limited ("Classical"), Vision Harvest Limited, an independent third party (as defined in the Listing Rules) and its guarantor, Mr. To Shu Fai, for the purchase of 700,000,000 shares of HK$0.01 each in the share capital of Daido Group Limited at an aggregate consideration of HK$52,500,000;

(iv) a conditional sale and purchase agreement dated 13th June 2006 ("Harvest Metro Agreement") entered into between Harvest Metro Corporation ("Harvest Metro"), the Company and Wing On Travel (Holdings) Limited ("Wing On") relating to the acquisition of approximately 56.91% equity interest in Triumph Up Investments Limited ("Triumph Up") at a consideration of HK$252,789,344.97;

(v) a conditional sale and purchase agreement dated 13th June 2006 ("CCM Agreement") entered into between Mr. Chan Chak Mo ("Mr. Chan") and the Company relating to the acquisition of approximately 34.96% equity interest in Triumph Up at a consideration of HK$155,284,883.34;

(vi) a conditional sale and purchase agreement dated 13th June 2006 ("Top Region Agreement") entered into between Top Region Assets Limited, the Company and Macau Success Limited relating to the acquisition of approximately 8.13% equity interest in Triumph Up at a consideration of HK$36,112,763.57;

(vii) a conditional sale and purchase agreement dated 13th June 2006 ("Great Chain Agreement") entered into between Mr. Chan and the Company relating to the acquisition of the entire issued share capital of Great Chain Limited at a consideration of HK$45,813,008.13;

(viii) a deed of variation dated 12th July 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 30 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 60 days from the date of the Harvest Metro Agreement;

(ix) a second deed of variation dated 11th August 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 60 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 90 days from the date of the Harvest Metro Agreement;

(x) a third deed of variation dated 12th September 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 90 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 140 days from the date of the Harvest Metro Agreement;

(xi) the sale and purchase agreement dated 13th September 2006 entered into between One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited; the Company and Fortune Star Entertainment (HK) Limited in relation to the sale and purchase of a film library together with rights thereto at a total consideration of US$18,000,000 (approximately HK$140,000,000);

(xii) a fourth deed of variation dated 31st October 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion on or before 28th February 2007 and to extend the longstop date of the fulfilment of the conditions precedent to 28th February 2007;

(xiii) Deeds of variation dated 31st October 2006 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 28th February 2007;

(xiv) the acquisition agreement dated 3rd January 2007 between the Company and Great Trust relating to the sale and purchase of a 19.25% interest in the issued quota in the capital of KHL and a sale loan, and 38.5% interest in the issued quota in the capital of Xin Wei Property Investment Company Limited and a sale loan;

(xv) the three subscription agreements dated 19th January 2007 entered into between the Company and Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited respectively in relation to the subscription of zero coupon unsecured convertible bonds due 2012 in the principal face volume amount of HK$168,500,000;

(xvi) Deeds of variation dated 28th February 2007 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 31st May 2007;

(xvii) a subscription agreement dated 12th March 2007 entered into between Classical and Brilliant Arts Multi-Media Holding Limited (formerly known as Milkyway Image Holdings Limited) ("Brilliant Arts") relating to the subscription of zero coupon convertible bonds in principal amount of HK$25,000,000 due 2012 to be issued by Brilliant Arts at an issue price of HK$22,500,000;

(xviii) the agreement dated 19th March 2007 entered into between Most Famous and the Company relating to the disposal of 49% of the issued quota of KHL and 49% of the amount of the shareholders' loan owing by KHL to the Company;

(xix) the agreement dated 19th March 2007 entered into between SJM-Investimentos Limitada and the Company relating to the disposal of 1% of the issued quota of KHL and 1% of the amount of the shareholders' loan owing by KHL to the Company;

(xx) the placing agreement dated 19th March 2007 entered into between Classical and Kingston Securities Limited ("Kingston") relating to the placing of 1,296,860,000 existing shares of Riche beneficially owned by Classical;

(xxi) the subscription agreement dated 19th March 2007 entered into between Classical and Riche Multi-Media Holdings Limited ("Riche") relating to the subscription of 1,296,860,000 new shares of Riche by Classical;

(xxii) conditional placing agreements dated 29th March 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 124,900,000 new Shares and 81,100,000 new Shares respectively on a fully underwritten basis to independent investors at a price of HK$0.37 per Share;

(xxiii) the conditional placing agreement dated 4th June 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 165,905,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.40 per Share;

(xxiv) the top-up placing agreement dated 24th July 2007 entered into between Classical, Kingston and Riche relating to the placing of 173,000,000 existing shares of Riche beneficially owned by Classical;

(xxv) the sale and purchase agreement dated 1st August 2007 entered into between the Company, Legend Rich and Riche relating to the sale and purchase of the 1 ordinary share in issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, and the sale loan;

(xxvi) the acquisition agreement dated 16th August 2007 entered into among the Company, Mr. Ng Cheuk Fai and Lucky State Group Limited in respect of the acquisition of 51 ordinary shares of US$1.00 each in the issued share capital of Best Mind International Inc.;

(xxvii) the underwriting agreement dated 17th August 2007 entered into between the Company and Kingston relating to the issue of not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at HK$0.20 each on the basis of one rights Share for every two existing Shares held;

(xxviii) conditional placing agreement dated 5th September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing of 274,790,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.21 per Share;

(xxix) conditional placing agreement dated 5th September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing of up to a maximum of 5,000,000,000 new Shares on a best effort basis to independent investors at a price of HK$0.21 per Share;

(xxx) the sale and purchase agreement dated 5th October 2007 entered into among the Company, Mr. Ng Cheuk Fai, an independent third parties and Lucky State Group Limited, a company wholly owned by Mr. Ng Cheuk Fai in respect of the acquisition of 49 ordinary share of US$1.00 each in the issued share capital of Best Mind International Inc.;

(xxxi) the undertaking dated 16th October 2007 entered into between Classical and Riche, pursuant to which Classical has agreed to subscribe for 138,175,500 offer shares of Riche to which it is entitled under the open offer of Riche as announced on 18th October 2007 and to submit an excess application for a maximum of 169,079,628 offer shares of Riche at a price of HK$0.30 each; and

(xxxii) the Loan Agreement.

7. MISCELLANEOUS

(i) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(iii) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

(v) The English text of this circular shall prevail over the Chinese text.

(vi) None of the Directors as materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

(vii) None of the Directors has or had any direct or indirect in any assets which have been acquired or disposed of by or leased to any member of the Group are proposed to be acquired or disposed of by or leased to member of the Group since 31st December 2006, being the date to which the latest published audited accounts of the Group were made up.

8. EXPERT AND CONSENT AND EXPERTS INTEREST IN ASSETS

The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	**Qualification**
Grand Cathay	a licensed corporation registered under the SFO to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management regulated activity)

Grand Cathay is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Grand Cathay has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which it appear.

As at Latest Practicable Date, Grand Cathay; (a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31st December 2006, being the date to which the latest published audited accounts of the Company were made up; and (b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

(a) the Memorandum and Bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(c) the annual reports of the Group for the three financial years ended 31st December 2004, 2005 and 2006;

(d) the interim report of the Company for the six months ended 30th June 2007;

(e) the letter of consent from Grand Cathay referred to in the section headed "Expert and Consent" in this appendix;

(f) all circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued since 31st December 2006; and

(g) the Loan Agreement.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Entertainment Limited (the "Company") will be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 3rd December 2007 at 12:00 noon for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the loan agreement dated 23rd October 2007 (the "Loan Agreement") entered into between Kingsway Hotel Limited as lender and Most Famous Enterprises Limited as borrower relating to a loan facility of up to HK$196,000,000, a copy of which is tabled at the meeting and marked "A" and initially by the chairman of the meeting for identification purposes, be and is hereby approved, ratified and confirmed in all respects and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem to be necessary, desirable or expedient to carry into effect or to give effect to the granting of the loan under the Loan Agreement."

By Order of the Board
Wong Shuk Han, Dorothy
Company Secretary

Hong Kong, 16th November 2007

Head office and principal place of business in Hong Kong:
Unit 3409, Shun Tak Centre, West Tower,
168-200 Connaught Road Central, Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.