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

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

**If you have sold or transferred** all your shares in China Star Entertainment Limited (the "**Company**"), you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

## VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION AND THE SALE LOAN; VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE GRANTING OF LOAN AND THE ACCEPTANCE OF CALL OPTION; AND NOTICE OF SPECIAL GENERAL MEETING

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

A notice convening the special general meeting of the Company to be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 31 March 2017 at 4:00 p.m. is set out on pages SGM-1 and SGM-2 of this circular. Whether or not you are able to attend, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the meeting. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

10 March 2017

# CONTENTS

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

| | |
|---|---|
| "Acquisition" | the proposed acquisition of the entire issued share capital of Modern Vision and the Sale Loan |
| "Announcement" | the Company's announcement dated 5 December 2016 in relation to, among other things, the Acquisition and the granting of the Loan and the acceptance of the Call Option |
| "Approved Figures" | has the meaning as set out in the section headed "Purchase Price" |
| "associate" | has the meaning as ascribed to it under the Listing Rules |
| "Best Combo" | Best Combo Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company |
| "Board" | the board of Directors |
| "Business Day" | a day (other than a Saturday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business |
| "Call Option" | the option granted by Ms. Chen to Best Combo to acquire the Call Option Shares at the Call Option Price |
| "Call Option Price" | principal amount of the Loan minus the Loan Amount Adjustment, if any |
| "Call Option Shares" | the entire issued share capital of Reform Base held by Ms. Chen |
| "Company" | China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Stock Exchange |
| "Completion" | the completion of the Acquisition |
| "Development Period" | has the meaning as set out in the section headed "Information on the Property and the Prelim Figures" |
| "Development Plan" | has the meaning as set out in the section headed "Information on the Property and the Prelim Figures" |
| "Director(s)" | the director(s) of the Company |

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|---|---|
| "DSSOPT" | the Land, Public Works and Transport Bureau of Macau |
| "Enlarged Group" | the Group after the Completion |
| "Exclusion Arrangement" | has the meaning as set out in the section headed "Reasons for and Benefits of the Acquisition and the Granting of the Loan and the Acceptance of the Call Option" |
| "Group" | the Company and its subsidiaries |
| "Hercules" | Hercules – Holding Company Limited, a company incorporated in Macau with limited liability and an indirect wholly owned subsidiary of Over Profit |
| "Hong Kong" | 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. Tang Chak Lam, Gilbert, all of which are independent non-executive Directors to advise the Independent Shareholders on the Acquisition and the granting of the Loan and the acceptance of the Call Option |
| "Independent Financial Adviser" | Royal Excalibur Corporate Finance Company Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the granting of the Loan and the acceptance of the Call Option |
| "Independent Shareholders" | Shareholders other than Ms. Chen and her associates |
| "Independent Third Party" | person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules) |
| "Land Grant" | has the meaning as set out in the section headed "Information on the Property and the Prelim Figures" |
| "Land Grant Figures" | the land grant for the Property issued by the Macau Government which contemplates the following as to the construction purposes and gross floor areas: (in square meters): (a) residential 25,832 (b) commerce 215 and (c) parking 3,930 |

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|---|---|
| "Last Trading Day" | 29 November 2016, being the last full trading day of the Shares on the Stock Exchange immediately prior to the date of the Announcement |
| "Latest Practicable Date" | 8 March 2017, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Loan" | a sum of HK$500 million, subject to the Loan Amount Adjustment |
| "Loan Agreement" | a loan agreement entered into between Ms. Chen and Best Combo on 29 November 2016 and as supplemented by a deed of variation dated 5 December 2016 between the same parties regarding the granting of the Loan in the principal sum of HK$500 million, subject to the Loan Amount Adjustment |
| "Loan Amount Adjustment" | has the meaning as set out in the section headed "The Loan Agreement" |
| "New Development Period" | has the meaning as set out in the section headed "Information on the Property and the Prelim Figures" |
| "Macau" | Macau Special Administrative Region of the People's Republic of China |
| "Macau Co" | Splendid Construction and Investment Company Limited and in Portuguese "Splendid-Construção E Investimento Imobiliário, Limitada", a company incorporated in Macau with limited liability and an indirect wholly-owned subsidiary of Over Profit |
| "Modern Vision" | Modern Vision (Asia) Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Ms. Chen |
| "Mr. Heung" | Mr. Heung Wah Keung, an executive Director and a substantial Shareholder, the husband of Ms. Chen |
| "Ms. Chen" | Ms. Chen Ming Yin, Tiffany, an executive Director and a substantial Shareholder |
| "Over Profit" | Over Profit International Limited, a company incorporated in the British Virgin Islands with limited liability and which indirectly owns the entire issued quota of Macau Co |

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| "Prelim Figures" | the gross construction floor area of the Property in the Development Plan to be submitted and subject to approval and revision of the Land Grant issued by the Macau Government which contemplates construction purposes and gross floor areas as follows: (in square meters): (a) residential 26,047 and (b) parking 5,200 |
| "Promissory Note" | the 2-year term 5% coupon promissory note to be issued by the Company to Ms. Chen of up to the principal amount of HK$600 million pursuant to the terms of the S&P Agreement |
| "Property" | a lot of land granted by the land lease concession under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau which is published in the Macau SAR Government Gazette no. 34, dated 22 August 2001, with the area of 4,669 square meters, named "Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho S/N, registered with the Macau Land and Real Estate Registry under No. 23070 |
| "Purchase Price" | the total consideration payable by Best Combo for the Acquisition pursuant to the S&P Agreement, being HK$1,000 million, subject to the Purchase Price Adjustment |
| "Purchase Price Adjustment" | has the meaning as set out in the section headed "Purchase Price" |
| "Reform Base" | Reform Base Holdings Limited, a company incorporated in the British Virgin Islands and wholly-owned by Ms. Chen |
| "Sale Loan" | the total obligations, liabilities and debts owing or incurred by Modern Vision to Ms. Chen at Completion |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM" | the special general meeting of the Company to be convened and held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 31 March 2017 at 4:00 p.m. to consider and, if thought fit, to approve, among other things, (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option |
| "Share(s)" | the ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | the holder(s) of the Share(s) |
| "Site" | the four undeveloped parcel of lands named as Lot 6B, Lot 6C, Lot 6D and Lot 6E located at Zona de Aterros do Porto Exterior (ZAPE), Macau |

| | |
|---|---|
| "S&P Agreement" | the conditional sale and purchase agreement entered into between Best Combo and Ms. Chen dated 29 November 2016 (as supplemented by the Supplemental Agreement) in respect of the Acquisition |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Stronghold" | Stronghold – Holding Company Limited, a company incorporated in Macau with limited liability and an indirect wholly-owned subsidiary of Over Profit |
| "substantial shareholder" | has the meaning as ascribed to it under the Listing Rules |
| "Summer Sound" | Summer Sound Investments Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Over Profit |
| "Supplemental Agreement" | the supplemental agreement dated 8 March 2017 entered into between Best Combo and Ms. Chen to fix the time frame in respect of the Purchase Price Adjustment |
| "Target Group" | Modern Vision and its associates and subsidiaries from time to time |
| "UCP" | the Urbanistic Conditions Plan of the Property |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "MOP" | Macau Pataca, the lawful currency of Macau; and |
| "%" | 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. Tang Chak Lam, Gilbert

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

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

10 March 2017

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION AND THE SALE LOAN**
**AND**
**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE GRANTING OF LOAN AND THE ACCEPTANCE OF CALL OPTION**

We refer to the Announcement in relation to, among other things, (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option.

## INTRODUCTION

On 29 November 2016, the S&P Agreement was entered into between Best Combo as purchaser and Ms. Chen as vendor, pursuant to which Best Combo has agreed to acquire and Ms. Chen has agreed to dispose of the entire issued share capital of Modern Vision and the Sale Loan, at an aggregate consideration of HK$1,000 million, subject to the Purchase Price Adjustment. The Purchase Price shall be satisfied by (i) the payment of HK$400 million as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the Promissory Note by the Company to Ms. Chen for the balance on Completion.

Concurrently on 29 November 2016, Best Combo as lender entered into the Loan Agreement with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan in the principal amount of HK$500 million, subject to the Loan Amount Adjustment. The Loan will be secured by way of a share charge over the entire issued share capital of Reform Base.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price at any time within 60 months after the date of drawdown of the Loan.

On 8 March 2017 (after trading hours of the Stock Exchange), Best Combo and Ms. Chen entered into the Supplemental Agreement to fix the time frame in respect of the Purchase Price Adjustment.

The purpose of this circular is to provide you with, among other things, (i) further information in respect of (a) the Acquisition and (b) the granting of the Loan and the acceptance of the Call Option; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders and the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (a) the Acquisition and (b) the granting of the Loan and the acceptance of the Call Option; (iii) the accountants' report on the Target Group; (iv) the independent valuation report of the Property; and (v) the notice of the SGM.

## THE S&P AGREEMENT

**Date:**

29 November 2016 (as supplemented by the Supplemental Agreement date 8 March 2017)

**Parties:**

| | | |
|---|---|---|
| (i) | Purchaser: | Best Combo Limited,<br>a wholly-owned subsidiary of the Company |
| (ii) | Vendor: | Ms. Chen Ming Yin, Tiffany |

The vendor is Ms. Chen Ming Yin, Tiffany, who is a merchant, an executive Director and a substantial Shareholder. As at the date of the S&P Agreement and the Latest Practicable Date, Ms. Chen and her associates held in aggregate 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company. As such, Ms. Chen is a connected person of the Company under Chapter 14A of the Listing Rules.

**The Acquisition**

Pursuant to the S&P Agreement, Best Combo has agreed to acquire and Ms. Chen has agreed to dispose of 100% of the issued share capital of Modern Vision and the Sale Loan.

Modern Vision was incorporated in the British Virgin Islands with limited liability on 25 May 2007. Modern Vision is an investment holding company. The major asset of Modern Vision is its 50% equity interest in Over Profit. Other than holding the 50% equity interest in Over Profit, Modern Vision has not carried out any other business since its date of incorporation.

According to the unaudited management accounts of Modern Vision for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net liabilities of Modern Vision as at 31 December 2014, 31 December 2015 and 30 September 2016 were approximately HK$39,000, HK$44,000 and HK$49,000 respectively. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were all approximately HK$5,000.

Over Profit is an investment holding company which indirectly holds a 100% equity interest in Macau Co. Macau Co is the registered and beneficial owner of the Property. Details of which are set out in the paragraph headed "Information on the Property and the Prelim Figures" below.

Over Profit is accounted for as a subsidiary of Modern Vision, where the financial results of Over Profit and its subsidiaries are consolidated into those of Modern Vision.

According to the unaudited consolidated financial statements of the Target Group for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 30 September 2016, which were prepared in accordance with the Hong Kong Financial Reporting Standards, the net liabilities of the Target Group as at 31 December 2014, 31 December 2015 and 30 September 2016 were approximately HK$522.28 million, HK$522.30 million and HK$522.33 million respectively. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were approximately HK$20,000, HK$20,000 and HK$21,000 respectively.

Macau Co was incorporated in Macau with limited liability on 20 June 1989. Macau Co is principally engaged in property investment and development in Macau, with its principal asset being that of the Property.

According to the unaudited management accounts of Macau Co for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net assets value of Macau Co as at 31 December 2014, 31 December 2015 and 30 September 2016 were all approximately HK$1.39 million. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were HK$369, HK$58 and HK$618 respectively.

The Sale Loan amounted to approximately HK$499.91 million as at the date of the S&P Agreement. The Sale Loan represents the interest-free loan advanced by Ms. Chen to Modern Vision from time to time. As at the Latest Practicable Date, the amount of the Sale Loan is approximately HK$499.91 million.

**Information on the Property and the Prelim Figures**

The Property is a lot of land granted by the land lease concession (the "**Land Grant**") to Macau Co under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau published in the Macau Government Gazette No. 34 dated 22 August 2001, with the area of 4,669 square meters, named "Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho S/N and is registered with the Macau Land and Real Estate Registry under No. 23070.

According to the Land Grant, the Property is leased to Macau Co for a term of 25 years commencing on 22 August 2001, i.e. until 21 August 2026, and subject to the completion of the development, shall be automatically renewable for periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau. Under the Land Grant, the Property shall be developed into a building under strata title, for residential, commerce and parking, with the gross floor areas (in square meters): (i) residential 25,832; (ii) commerce 215; and (iii) parking 3,930. The development of the Property should have been completed within a term of 60 months commencing on 22 August 2001, i.e. until 21 August 2006 (the "**Development Period**").

Due to the pending of the finalization by the Macau Government of the master plan for the development of the Nam Van District, of which the Property comprises a portion, DSSOPT has not granted a permit for the development of the Property and the Development Period has expired.

In light of the master plan for the Nam Van District being at a final stage, the draft Urbanistic Conditions Plan of the Property was issued by DSSOPT on 3 August 2016 for public consultation and the UCP have recently issued on 15 September 2016. Under the UCP, the Property shall be developed for residential and parking purpose, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilization rate of 5.58 (parking not included).

An architect has been engaged to compile a development plan of the Property (the "**Development Plan**") in accordance with the parameters of the UCP for submission to DSSOPT's approval. Based on the project summary of the Development Plan, the Property shall be developed into a building under strata title, for residential and parking, with the gross floor areas (in square meters): (i) residential 26,047; and (ii) parking 5,200, which are the Prelim Figures.

Given that the Development Plan is different from the Land Grant in term of gross floor area and purposes and the Development Period has expired, a new amendment to the Land Grant in respect of the Development Plan and an application for extending the Development Period or obtaining a new development period of the Property (the "**New Development Period**") will be submitted to DSSOPT for approval.

As advised by the Company's Macanese lawyers, the new amendment to the Land Grant in respect of the Development Plan shall be completed upon the gazetting of the contract of the amendment of the Land Grant and Macau Co shall be required to pay additional land premium for the additional gross floor area in comparing the gross floor area and purposes of the Development Plan with the Land Grant.

The Company's Macanese lawyers also advise that, despite the fact that DSSOPT did not grant the permit for the development of the Property under the Land Grant, the application for extending the Development Period or obtaining the New Development Period will attract a penalty to be paid by Macau Co.

As the lease term of the Property under the Land Grant has not yet expired, the Company's Macanese lawyers are of the opinion that, in accordance with the relevant laws of Macau, they do not foresee any legal impediment for Macau Co to apply for an extension of the Development Period or obtaining the New Development Period within the lease term of the Property under the Land Grant.

Given that the lease term of the Property under the Land Grant has not yet expired and the UCP has recently been issued on 15 September 2016, the Company's Macanese lawyers are of the opinion that, on the basis of the Development Plan is within the parameters of the UCP and Macau Co pays the additional land premium and the penalty, they do not foresee any legal impediment for Macau Co to obtain approvals of (i) the new amendment of the Land Grant in respect of the Development Plan and (ii) the extension of the Development Period or obtaining the New Development Period.

The Company currently cannot ascertain the amount to be paid for the aforementioned land premium or penalty. Therefore, Ms. Chen undertakes with Best Combo that, in the event, Macau Co is required to pay the aforementioned land premium and penalty, (i) under the S&P Agreement, Ms. Chen shall pay to Best Combo 50% of the land premium and penalty; and (ii) under the Loan Agreement, Ms. Chen shall pay to Best Combo 25% of the land premium and penalty (to the extent that the Call Option has been exercised), within 14 days of Macau Co's payment/demand for payment of such amount.

As the Development Plan is being compiled by the architect, no application has yet been made to DSSOPT for amending the Land Grant, extending the Development Period and/or obtaining the New Development Period as at the Latest Practicable Date.

As advised by the Company's Macanese lawyers and the architect, the expected timeline relating to the new amendment to the Land Grant in respect of the Development Plan is as follows:

| **Events** | **Expected Duration of the Event** |
|---|---|
| Completion of compiling of the Development Plan. | 9 months after the Latest Practicable Date. |
| Submission of the Development Plan to DSSOPT for approval. | Immediately after the completion of compiling of the Development Plan. |
| Approval of the Development Plan by DSSOPT. | 8 months after submission of the Development Plan. |
| Submission of the application of new amendment to the Land Grant in respect of the Development Plan, including the proposed development period of the Property, to DSSOPT. | Immediately after the approval of the Development Plan. |
| Completion of the new amendment to the Land Grant in respect of the Development Plan. | 6 months after submission of the application of new amendment to the Land Grant. |

Based on the above expected timeline relating to the new amendment to the Land Grant in respect of the Development Plan, it is estimated that:

(a) the Development Plan will be approved by DSSOPT in 17 months from the Latest Practicable Date, i.e. in August 2018; and

(b) the new amendments to the Land Grant in respect of the Development Plan will be completed in 23 months from the Latest Practicable Date, i.e. in February 2019.

Upon the completion of the new amendment to the Land Grant in respect of the Development Plan, a Dispatch will be published in the Macau Official Gazette. The extension of the Development Period or obtaining the New Development Period will be provided in the said Dispatch.

**Purchase Price**

The Purchase Price, being HK$1,000 million (subject to the Purchase Price Adjustment), was determined between Best Combo and Ms. Chen on a "willing buyer – willing seller" basis having regards to (i) the UCP issued by DSSOPT; (ii) the Prelim Figures of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which are compiled in accordance with the parameters of the UCP; (iii) Modern Vision's 50% indirect interest in the Property; and (iv) the preliminary property valuation of HK$2,000 million conducted by Roma Appraisals Limited, an independent valuer appointed by the Company based on the Prelim Figures. The date of the preliminary valuation of the Property is 31 October 2016 based on market approach by making reference to comparable sales transactions as available in the relevant market. The Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Acquisition) consider that the terms of the S&P Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Ms. Chen had acquired 50% interest in the Property in July 2007 at a consideration of HK$500 million.

The Purchase Price shall be satisfied by Best Combo by:

(i) the payment of HK$400 million (the "**Initial Deposit**") upon the signing of the S&P Agreement by Best Combo to Ms. Chen; and

(ii) the issue of the Promissory Note by the Company to Ms. Chen for the balance on Completion.

The Initial Deposit shall immediately be returned to Best Combo without interest in the event of termination or non-completion of the S&P Agreement for whatever reason.

In the event that the gross construction floor areas of the Property approved by DSSOPT (the "**Approved Figures**") are less than the Prelim Figures, then the Purchase Price shall be reduced by an adjustment (the "**Purchase Price Adjustment**"). For the avoidance of doubt, there will be no Purchase Price Adjustment if the Approved Figures are greater than the Prelim Figures. The Purchase Price Adjustment is calculated as follows:

$$\text{Purchase Price Adjustment} = \frac{\text{HK\$1,000 million}}{\text{Prelim Figures}} \text{ x (Prelim Figures – Approved Figures)}$$

*Note:* For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor areas for residential and parking purpose, i.e. 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor areas for residential and parking purpose.

The Purchase Price Adjustment shall be made within 30 days after the Approved Figures are obtained and/or approved by DSSOPT.

If the Approved Figures could not be obtained and/or approved by DSSOPT on or before 21 August 2026, the Approved Figures would be treated as zero and the Purchase Price Adjustment will be deemed to be equal to the Purchase Price.

The Purchase Price Adjustment shall be initially offset against the Promissory Note on a dollar for dollar basis. In the event that the Promissory Note is insufficient to settle the Purchase Price Adjustment, Ms. Chen shall settle the remaining balance of the Purchase Price Adjustment in cash within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures or 21 August 2026, whichever is earlier. No interest will be charged on the Purchase Price Adjustment as this forms part of the Purchase Price regardless of the Prelim Figures.

The Directors (including the Independent non-executive Directors who have taken into consideration the advice of the Independent Financial Adviser) are of the view that the terms of the S&P Agreement (including the interest rate and default interest rate of the Promissory Note as detailed in the section headed "Terms of the Promissory Note") are fair and reasonable.

Based on the above expected timeline relating to the new amendment to the Land Grant in respect of the Development Plan as disclosed under the section headed "Information on the Property and the Prelim Figures", the Company expects the Approved Figures will be known in 17 months from the Latest Practicable Date, i.e. in August 2018.

For the purpose of allowing Ms. Chen to arrange funding for settling the Purchase Price Adjustment (if any), Best Combo and Ms. Chen have reached an agreement to fix the Purchase Price Adjustment shall be made within 30 days after the Approved Figures are obtained and/or approved by DSSOPT.

After the issue of the UCP on 15 September 2016, various meetings have been held between Macau Co and DSSOPT. In the meetings, Macau Co has been advised to submit the Development Plan to DSSOPT for approval as soon as possible. However, no indication has been made to Macau Co as regards the duration for DSSOPT to approve the Development Plan and to complete the new amendment to the Land Grant in respect of the Development Plan. Therefore, instead of setting an artificial nominal ending date, Best Combo and Ms. Chen have reached an agreement to set the period of the Purchase Price Adjustment ending on 21 August 2026, which is the expiry date of the lease term under the Land Grant. In setting the period of the Purchase Price Adjustment being ended on 21 August 2026, Best Combo and Ms. Chen have taken the following into consideration:

(a) Control by the Group

Upon Completion, Best Combo will become the largest beneficial owner of Macau Co and take up a leading role in each stage of the development of the Property. Accordingly, the Group will take control of every aspect of the development of the Property, including the submission of the Development Plan to DSSOPT for approval, and the lodging of applications for the new amendment of Land Grant in respect of the Development Plan, the extension of the Development Period and/or the obtaining the New Development Period. Therefore, the Group has control on the timing to determine the Purchase Price Adjustment.

(b) Sufficient time to the Group

The Group has a strategic reason to diversify its stock of properties and strengthen its property development footprint in Macau through the Acquisition. Following the Completion, substantial resources and time will be invested by the Group in the early development stage of the Property. Both Best Combo and Ms. Chen consider that the use of the expiry date of the lease term under the Land Grant as the ending of the period of the Purchase Price Adjustment allows sufficient time to the Group to carry out the early development stage of the Property, without rushing for an artificial nominal ending date of the period of the Purchase Price Adjustment.

(c) Full protection to the Group

In view of the control of the timing in determining the Purchase Price Adjustment by the Group as mentioned in (a) above and the Purchase Price Adjustment mechanism enabling the Group to recover the entire Purchase Price from Ms. Chen, both Best Combo and Ms. Chen consider that the period of the Purchase Price Adjustment ending on 21 August 2026 is not commercially unreasonable to the parties to the S&P Agreement.

(d) Elimination of administrative works and costs for extending the period of the Purchase Price Adjustment

If the period of Purchase Price Adjustment is insufficient, the Company is required to seek Independent Shareholders' approval for extending the period of the Purchase Price Adjustment in accordance with the Listing Rules. By setting a longer period of the Purchase Price Adjustment, the Company can eliminate administrative works and costs for extending the period of the Purchase Price Adjustment.

Based on the above considerations which have been taken into account by Best Combo and Ms. Chen, the Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Acquisition) consider that the time frame of making the Purchase Price Adjustment and the period of the Purchase Price Adjustment ending on 21 August 2026 is fair and reasonable.

As shown in the above expected timeline relating to the new amendment to the Land Grant in respect of the Development Plan as disclosed under the section headed "Information on the Property and the Prelim Figures", it is expected that the Development Plan will be approved by DSSOPT and the Approved Figures will be known approximately 17 months after the Latest Practicable Date, i.e. in August 2018. Assuming the Completion takes place in April 2017 and the Promissory Note is issued in April 2017, the maturity date of the Promissory Note will be in March 2019. The Approved Figures are expected to be known within the term of the Promissory Note. Therefore, the Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Acquisition) consider that the maturity period of the Promissory Note is fair and reasonable.

As such the Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Acquisition) consider that the terms of the S&P Agreement, including the Purchase Price Adjustment mechanism and the maturity period of the Promissory Notes, are in the interests of the Company and the Shareholders as a whole.

**Conditions**

Completion is conditional upon the following conditions being fulfilled and/or waived by Best Combo as at the date of Completion:

(a) Best Combo obtaining to its satisfaction a legal opinion from Macanese lawyers on, inter alia,

(i) confirming Hercules and Stronghold hold 100% shareholding of Macau Co;

(ii) confirming the shareholding of Hercules and Stronghold;

(iii) confirming Macau Co has good title to the Property; and

(iv) the right of the Property for residential and/or car parking use;

(b) all consents of the Independent Shareholders and the Stock Exchange in connection with the transactions contemplated by the S&P Agreement including, inter alia, the issue of Promissory Note (where applicable) having been obtained;

(c) the warranties given by Ms. Chen in the S&P Agreement remaining true and accurate in all material respects;

(d) Best Combo undertaking and completing a due diligence investigation in respect of the Property and the Target Group and being satisfied with the results of such due diligence investigation; and

(e) Best Combo having received a property valuation from an independent property valuer, Roma Appraisals Limited, valuing the Property at not less than HK$2,000 million.

As at the Latest Practicable Date, none of the conditions above has been satisfied or waived.

If the conditions of the S&P Agreement are not fulfilled or waived in whole or in part by Best Combo in writing, in its absolute discretion by no later than 5:00 p.m. on 27 May 2017 or such other date as may be agreed in writing between Best Combo and Ms. Chen, then the S&P Agreement shall cease and be determined and all liabilities of the parties thereto will cease and no party will have any claim against the others (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the S&P Agreement).

Completion shall take place on the third Business Day after the fulfillment and/or waiver of the last of the conditions precedent in the S&P Agreement or such later date as Ms. Chen and Best Combo may agree in writing.

The S&P Agreement is separate and independent from the Loan Agreement and are not inter-conditional to each other.

**Reconciliation statement of the Property**

A reconciliation of the carrying value of the Property as at 30 September 2016 of approximately HK$480.24 million as disclosed in the "Accountants' Report of the Target Group" in the Appendix II to this circular and the valuation of the Property as at 28 February 2017 as disclosed in the "Valuation Report of the Property" in the Appendix V are as follows:

| | *HK$'000* |
|---|---|
| Carrying value of the Property as at 30 September 2016 | 480,238 |
| Estimated development and construction costs to be incurred (including estimated finance costs) | 756,019 |
| Appreciate in value of the Property up to the completion of construction | 763,743 |
| Valuation of the Property as at 28 February 2017 | 2,000,000 |

**Terms of Promissory Note**

The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

*Parties:*

The Company as issuer and Ms. Chen as payee

*Principal Amount:*

HK$600 million

*Maturity:*

A fixed term of 24 months from the date of issue of the Promissory Note.

*Interest:*

The Promissory Note will carry interest at the rate of 5% per annum, calculated on the basis of 365-day year and payable semi-annually in arrears.

If the Company defaults in repayment on the maturity date of any part of the principal sum, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 5% per annum.

*Early repayment:*

Provided that the Company has given to Ms. Chen not less than ten Business Day's prior notice in writing of its intention to repay any part of the outstanding principal amount of the Promissory Note, the Company may at any time from the date of the issue of the Promissory Note up to the date immediately prior to the maturity date, repay the entire outstanding sum under the Promissory Note or part of it (in amounts of not less than HK$1 million) by payment to Ms. Chen of the outstanding principal amount of the Promissory Note save that if at that time, the outstanding principal amount of the Promissory Note is less than HK$1 million, the whole (but not part only) of the Promissory Note may be repaid.

*Assignment:*

The Promissory Note may, subject to the ten Business Days' prior written notice to the Company and subject to the written consent of the Company, be transferred or assigned by Ms. Chen to any person. The Company will issue an announcement and inform the Stock Exchange if the Promissory Note is transferred or assigned to the connected persons of the Company (as defined in the Listing Rules).

*Extension:*

The Company has the right to extend the maturity date of the Promissory Note by giving not less than 30 days prior written notice to Ms. Chen.

## THE GRANTING OF THE LOAN TO MS. CHEN BY BEST COMBO AND THE ACCEPTANCE OF THE CALL OPTION GRANTED TO BEST COMBO BY MS. CHEN

On 29 November 2016, Best Combo entered into the Loan Agreement with Ms. Chen, pursuant to which (i) Best Combo has agreed to grant the Loan in the principal amount of HK$500 million, subject to the Loan Amount Adjustment, to Ms. Chen for a term of 60 months from the date of drawdown; and (ii) Ms. Chen has agreed to grant the Call Option to Best Combo to require Ms. Chen to sell the Call Option Shares, which shall be exercisable by Best Combo at any time within 60 months after the date of drawdown of the Loan.

### The Loan Agreement

The terms the Loan Agreement have been negotiated on an arm's length basis and are summarized as follows:

| | | |
|---|---|---|
| Date | : | 29 November 2016 (as supplemented by a deed of variation dated 5 December 2016) |
| Lender | : | Best Combo Limited, a wholly-owned subsidiary of the Company |
| Borrower | : | Ms. Chen Ming Yin, Tiffany |
| Principal amount of the Loan | : | HK$500 million, subject to the Loan Amount Adjustment |

| | | |
|---|---|---|
| Adjustment to the principal amount of the Loan | : | In the event that the Approved Figures are less than the Prelim Figures, then the principal amount of the Loan shall be reduced by an adjustment (the "**Loan Amount Adjustment**"). For the avoidance of doubt, there will be no Loan Amount Adjustment if the Approved Figures are greater than the Prelim Figures. The Loan Amount Adjustment is calculated as follows: |

$$\text{Loan Amount Adjustment} = \frac{\text{HK\$500 million}}{\text{Prelim Figures}} \times (\text{Prelim Figures} - \text{Approved Figures})$$

*Note:* For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor areas for residential and parking purpose, i.e. 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor areas for residential and parking purpose.

If the Loan has not been drawdown, the principal amount of the Loan available to Ms. Chen for drawing shall be immediately reduced by an amount equal to the Loan Amount Adjustment.

If the Loan has already been drawdown, Ms. Chen shall repay an amount equal to the Loan Amount Adjustment within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures.

For the avoidance of doubt, the principal amount of the Loan shall in no event be adjusted upwards.

| | | |
|---|---|---|
| Availability period | : | The period of 90 days (or such other number of days as Best Combo and Ms. Chen may agree in writing) commencing on the date on which the Loan Agreement becoming unconditional. |
| Final repayment date | : | The date falling on the expiry of 60 months from the date of drawdown of the Loan. |
| Interest rate | : | 5.00% per annum, calculated on the basis of 365-day year and payable semi-annually in arrears. |
| Security | : | A share charge over the entire issued share capital of Reform Base. |
| Repayment | : | Subject to the provisions of the Loan Agreement, Ms. Chen shall repay the outstanding principal amount of Loan together with outstanding interest in full on the final repayment date. |

| | | |
|---|---|---|
| Voluntary repayment | : | Ms. Chen may prepay the Loan (together with accrued interest) in full after the date of drawdown without penalty provided not less than ten Business Days' prior written notice has been given to Best Combo. |
| Call Option | : | The Call Option allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price, subject to (i) the Macau Government's authorisation (if required) according to the requirements under the laws of Macau and (ii) the prior approval of the Independent Shareholders in general meeting (if required) pursuant to the requirements of the Listing Rules. |
| Call Option Price | : | The principal amount of the Loan minus the Loan Amount Adjustment, if any. |
| Exercisable period of the Call Option | : | The date falling on the expiry of 60 months from the date of drawdown of the Loan. |
| Settlement of the Call Option Price | : | On completion of the purchase of the Call Option Shares, the Call Option Price shall be settled in the following manner:<br><br>(a) If the Loan has not been drawn down, Best Combo shall pay to Ms. Chen in clear funds a sum equal to the Call Option Price.<br><br>(b) If the Loan has been drawn down, Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan. |
| Conditions precedent | : | The Loan Agreement is conditional upon the fulfillment of the conditions:<br><br>(i) all consent of the Independent Shareholders and the Stock Exchange in connection with the transactions contemplated by the Loan Agreement having been obtained;<br><br>(ii) Best Combo having received the share charge over the entire issued share capital of Reform Base duly and properly executed by Ms. Chen;<br><br>(iii) Best Combo having received to its satisfaction a legal opinion from Macanese lawyer on, inter alia,<br><br>(a) confirming Hercules and Stronghold hold 100% shareholding of Macau Co;<br><br>(b) confirming the shareholding of Hercules and Stronghold; |

(c) confirming Macau Co has good title to the Property; and

(d) confirming the right of the Property for residential and/or car parking;

(vi) Best Combo having received evidence that all authorisations have been obtained and all necessary filings, registrations and other formalities have been or will be completed in order to ensure that the Loan Agreement and the security document is valid and enforceable;

(v) all representations and warranties made by Ms. Chen in or in connection with the Loan Agreement remaining true and correct with the same effect as though made on and as of the drawdown date with reference to the facts and circumstances then subsisting; and

(vi) Best Combo having received and found satisfactory such additional information and documents relating to any of the matters contemplated herein as Best Combo may reasonably require.

As at the Latest Practicable Date, none of the conditions precedent under the Loan Agreement has been satisfied or waived.

There is a mutual understanding between Best Combo and Ms. Chen that the Call Option shall not be exercised until the Approved Figures are available.

The Loan Agreement is separate and independent from the S&P Agreement, and are not inter-conditional to each other.

**Basis of the Call Option Price or the principal amount of the Loan**

The Call Option Price or the principal amount of the Loan, being HK$500 million (subject to the Loan Amount Adjustment), was determined between Best Combo and Ms. Chen on a "willing buyer – willing seller" basis having regards to (i) the UCP issued by DSSOPT; (ii) the Prelim Figures of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which are compiled in accordance with the parameters of the UCP; (iii) Reform Base's 25% indirect interest in the Property; and (iv) the preliminary property valuation of HK$2,000 million conducted by Roma Appraisals Limited, an independent valuer appointed by the Company based on the Prelim Figures. The date of the preliminary valuation of the Property is 31 October 2016 based on market approach by making reference to comparable sales transactions as available in the relevant market.

The Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Loan Agreement and the transactions contemplated thereunder) consider that the terms of the Loan Agreement, including the acceptance of the Call Option granted by Ms. Chen to Best Combo, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Ms. Chen had acquired 25% interest in the Property in July 2007 at a consideration of HK$250 million.

**Information on Reform Base**

Reform Base was incorporated in the British Virgin Islands with limited liability on 5 June 2007. Reform Base is an investment holding company. The major asset of Reform Base is its 25% equity interest in Over Profit. Other than holding the 25% equity interest in Over Profit, Reform Base has not carried out any business since its date of incorporation.

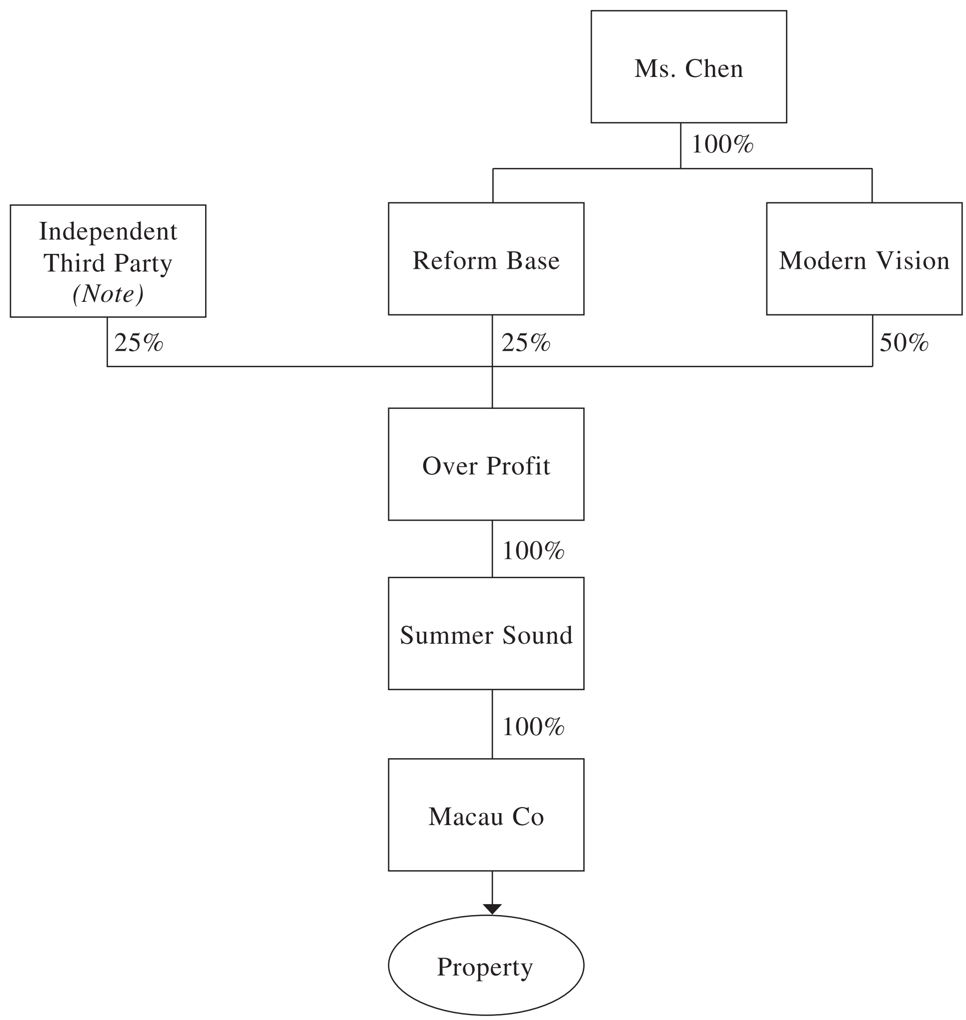
Over Profit is an investment holding company which indirectly holds a 100% equity interest in Macau Co. Macau Co is the registered and beneficial owner of the Property. Please refer to the paragraph headed "The Acquisition" above for the information on Over Profit and Macau Co. Details of the Property are set out in the paragraph headed "Information on the Property and the Prelim Figures" above.

According to the unaudited management accounts of Reform Base for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net liabilities of Reform Base as at 31 December 2014, 31 December 2015 and 30 September 2016 were approximately HK$40,000, HK$45,000 and HK$49,000 respectively. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were all approximately HK$5,000.

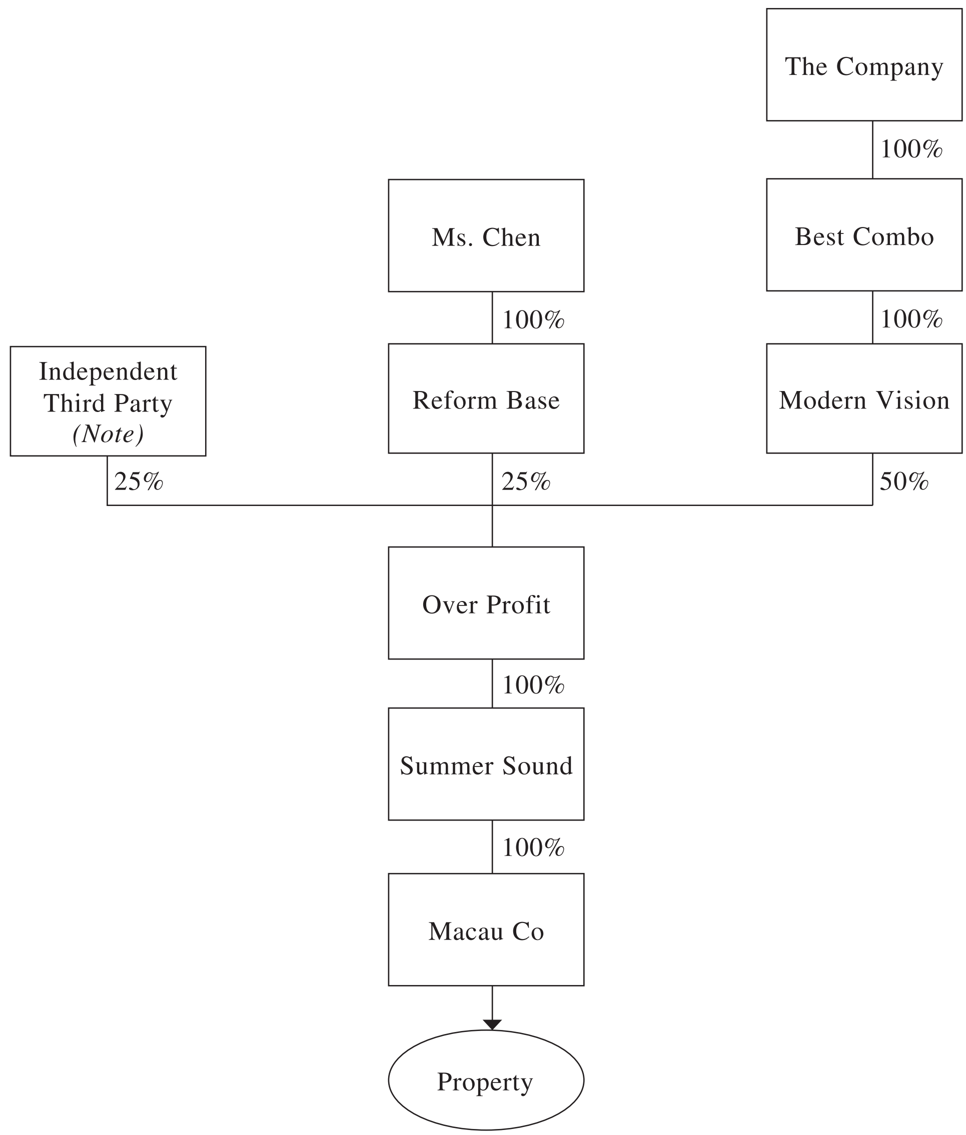
## SHAREHOLDING STRUCTURE OF THE TARGET GROUP AND REFORM BASE

Set out below is the summarised shareholding structure of the Target Group and Reform Base (i) before the Completion and the exercise of the Call Option; (ii) after the Completion and before the exercise of the Call Option; and (iii) after the Completion and the exercise of the Call Option:

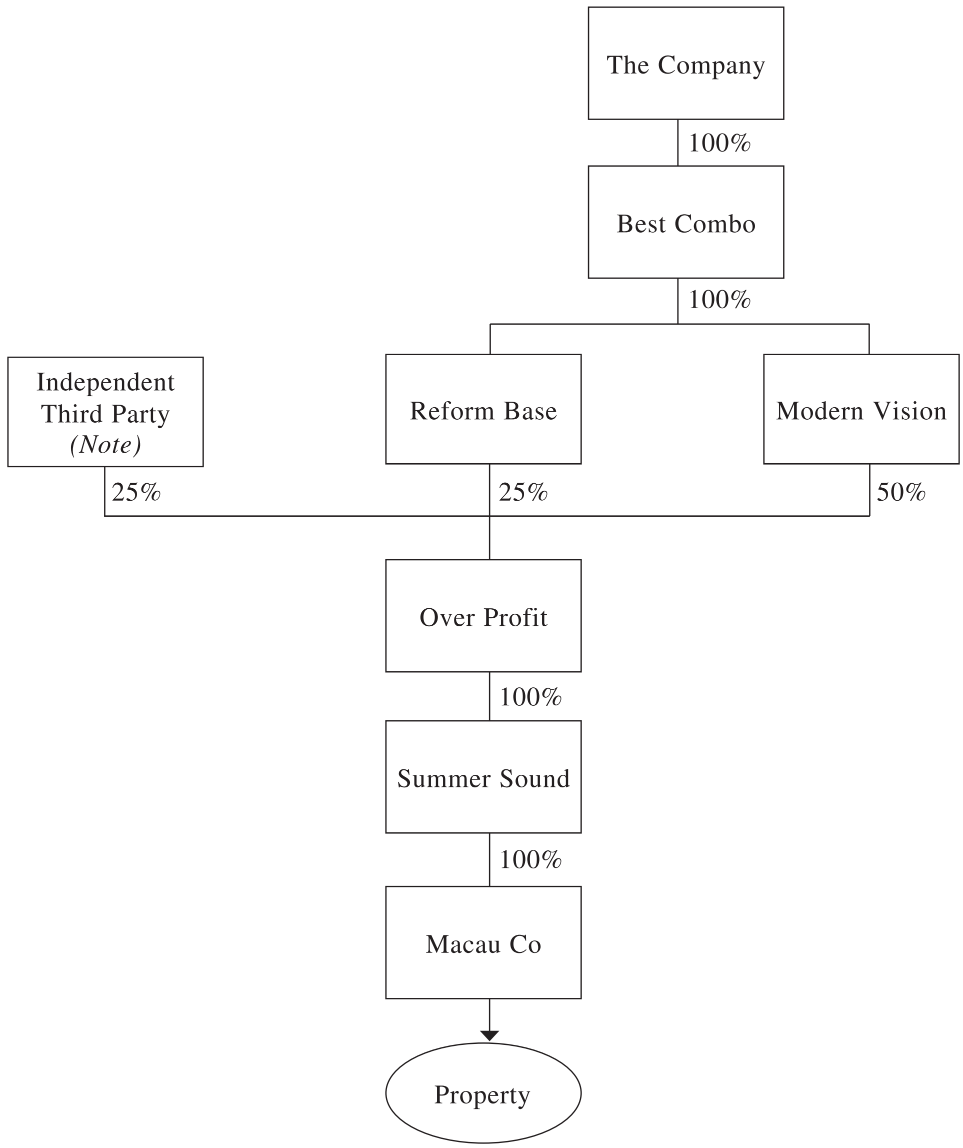
(i) Before the Completion and the exercise of the Call Option:



(ii) After the Completion and before the exercise of the Call Option:



(iii) After the Completion and the exercise of the Call Option:




*Note:* To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the remaining 25% interest in Over Profit is held by AGrade Holdings Limited ("**AGrade**"), a company incorporated in the British Virgin Islands and wholly-owned by Ms. Wong Hoi Ping ("**Ms. Wong**"). Ms. Wong is also a director of Over Profit. Both of AGrade and Ms. Wong are Independent Third Parties who are also independent of Ms. Chen and her associates.

**REASONS FOR AND BENEFITS OF (I) THE ACQUISITION AND (II) THE GRANTING OF THE LOAN AND THE ACCEPTANCE OF THE CALL OPTION**

The Company is an investment holding company and the Group is principally engaged in film production, distribution of film and television drama series, investment in film, provision of artist management services, sales of health products, property and hotel investment, food and beverage operations and property development.

The recent overall performance of the hotel and gaming operations in Hotel Lan Kwai Fong is susceptible to the surrounding region, government regulatory policies, and the level of visitation to Macau, as well as to the competitive situation among hotels in Macau. Property development and investment is considered more stable investment for maintaining stable future revenue. In view of this, the Company believes that the susceptive performance of the hotel and gaming operations in Hotel Lan Kwai Fong would be compensated by the Group's property development business, which commenced in 2011 by the Group's acquisition of a 100% interest in the property leasehold rights over the Site. The Site is being developed into a luxury residential and commercial complex of two towers with a total gross floor area of 45,989 square meters. The development of the Site is expected to commence in the beginning of year 2017 and to complete in year 2019.

According to the latest statistic figures released by the Statistics and Census Service of Macau in November 2016, the monthly number of resident unit transacted and the corresponding total transaction amount in the third quarter of 2016 have represented increases since April 2016 as compared with the corresponding months in 2015. In particular, the number of resident unit transacted totaled 878 in September 2016, representing an increase of approximately 86.8% from that of 470 in September 2015, while the total transaction amount of resident unit recorded approximately MOP4,568 million in September 2016, representing an increase of approximately 70.4% from that of approximately MOP2,681 million in September 2015. In addition, the average price of residential properties sold in the third quarter of 2016 has increased by approximately 5.0%, from approximately MOP84,342 per square meter in the third quarter of 2015 to approximately MOP88,564 per square meter in the third quarter of 2016. These reflected a general growth trend in the residential property market of Macau in the recent period. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Company is positive on the Macau property market and believes that there is a strong demand for housing in Macau.

The Property is located at the Nam Van Lake, which is one of the two man-made lakes in the Macau Peninsula. In addition to the Macau Tower standing at the Nam Van Lake, Macau International Fireworks Display Contest is held in the Nam Van Lake in September and October every year. With its superb location and spectacular view overlooking the Macau Peninsula and the Cotai Island, the Company intends to develop the Property into high-end residential apartments for sale.

The development and construction costs of the Property are estimated to be HK$710.00 million. Taking into account of Modern Vision holding a 50% indirect title to the Property, the Group will bear HK$355.00 million (HK$710.00 million x 50%) of the estimated development and construction costs assuming the Acquisition is completed. The Company intends to finance the estimated development and construction costs of the Property by banks borrowings, internal resources and equity financing, if appropriate. As at the Latest Practicable Date, the Company has no concrete plan on equity fund raising for the development and construction costs of the Property. The Company will make further announcement(s) regarding the fund raising if appropriate.

Based on the existing project plan and the estimation by the architect, it takes approximately three to four years to complete the development of the Property. It is expected that the development will commence in March 2019 and complete in February 2023.

The Directors (including the independent non-executive Directors who have taken into consideration the advice and recommendation of the Independent Financial Adviser on the Acquisition) believe that the Acquisition will diversify the Group's stock of properties and strengthen the Group's property development footprint in Macau which have a positive impact on the Group's long-term profitability. Meanwhile, the Loan Agreement not only provides the Group with stable interest income during its terms, but also grants to the Group the option to acquire an additional 25% interest in the Property, through the exercise of the Call Option as and when appropriate, at its sole discretion.

It is the current intention of the Company that Best Combo will exercise the Call Option after the Approved Figures are obtained and/or approved by DSSOPT. However, the Directors shall consider the following factors prior to the decision on exercising of the Call Option:

(a) the overall market condition of Macau property market as at the time of exercising the Call Option;

(b) any breach of the undertakings given, which are mainly related to protecting the assets and limiting the liabilities of Reform Base, by Ms. Chen in the Loan Agreement;

(c) the business and financial status of Reform Base; and

(d) the ability of the Group to finance the portion of the development and construction costs of the Property borne by Reform Base.

The exclusion of the approvals of (i) the new amendment of the Land Grant in respect of the Development Plan using the Prelim Figures and (ii) the extension of the Development Period or the obtaining of the New Development Period from the conditions precedent under the S&P Agreement (the "**Exclusion Arrangement**") is purely for the purpose of enabling the Group to complete the Acquisition speedily.

The Company considers that an early Completion is essential as it warrants the Group to take part in the early stage of the development of the Property, particularly the designing stage. As a blueprint for building a property, the designing stage is relatively lengthy and important as it affects the overall quality and the total construction costs of a property, which is vital to a success of a property development project. The designing stage not only involves the design of layout of each floor, interior and exterior of the Property, building facilities and club house, but also the decision on which types of building materials to be used. In addition, the designing stage involves marketing research, and costs and benefits analysis. Without an early Completion, the Group cannot participate in the designing stage of the development of the Property. Therefore, the Company considers that an early Completion will enable the Group to fully utilise its existing property development capabilities and speed up the development of the Property.

In deciding on an early Completion, the Company has considered, in light of the opinions made by the Company's Macanese lawyers, the following aspects:

(a) Approval of the new amendment of the Land Grant in respect of the Development Plan using the Prelim Figures

The parameters of the UCP and the Land Grant Figures are the same, save and except for the commercial purpose is deleted from the UCP. In addition, the gross floor areas above the sea level of 26,047 square meters under the Prelim Figures and the Land Grant Figures are the same and the only different between the Prelim Figures and the Land Grant Figures is the gross floor areas of parking, which are 5,200 square meters for Prelim Figures and 3,930 square meters for the Land Grant Figures. If the new amendment of the Land Grant in respect of the Development Plan using the Prelim Figures is not approved by DSSOPT, the development of the Property will adopt the Land Grant Figures and reduce the gross floor areas of parking of the Property by 1,270 square meters to 3,930 square meters. Given that the Development Plan using the Prelim Figures is within the parameters of the UCP, the Company considers that DSSOPT not approving new amendment of the Land Grant in respect of the Development Plan using the Prelim Figures is highly unlikely. Even if the approval of the new amendment of the Land Grant in respect of the Development Plan using the Prelim Figures is not granted, the Company believes that the change in adoption of the Land Grant Figures has no material effect on the progress of the development of the Property and the Purchase Price Adjustment mechanism provided in the S&P Agreement enables to recover the shortfall of gross floor area in the event that the Prelim Figures is less than the Land Grant Figures.

(b) Approval of the extension of the Development Period or obtaining the New Development Period

As the lease term of the Property under the Land Grant has not expired, Macau Co has a right to apply for an extension of the Development Period in accordance with the laws of Macau. In fact, two applications for the extension of the development period of the Site have been successfully made in 2010 and 2015 and DSSOPT has granted the extensions of the development period of the Site from 20 June 1997 to 20 December 2019 on the condition of the payment of penalty. Therefore, the Company considers that DSSOPT not granting an extension of the Development Period or obtaining the New Development Period is highly unlikely.

Taking into account of the above considerations and the Purchase Price Adjustment mechanism provided in the S&P Agreement, which enable the Group to recover the entire or part of the Purchase Price (as the case may be), the Directors (including the independent non-executive Directors who have taken into consideration the advice from the Independent Financial Adviser) consider that the Exclusion Arrangement are in the interests of the Company and the Shareholders as a whole.

In light of the foregoing, the Directors (including the independent non-executive Directors who have taken into consideration the advice from the Independent Financial Adviser) consider that the terms of the Acquisition and the Loan Agreement (including the acceptance of the Call Option) are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Following Completion, each of the companies in the Target Group will be treated as subsidiaries of the Company and their financial results will be consolidated into the Group.

It is the intention of the Company to continue the operation of its existing business as disclosed in its latest interim report for the six months ended 30 June 2016 with no material changes, and, as at the Latest Practicable Date, the Company does not foresee any other acquisition of new business or assets other than the proposed Acquisition.

**FINANCIAL EFFECTS OF THE ACQUISITION AND/OR THE GRANTING OF LOAN AND THE ACCEPTANCE OF CALL OPTION**

**Assets and Liabilities**

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2016, as extracted from the Company's interim report for the six months ended 30 June 2016, were approximately HK$4,656.44 million and HK$1,229.77 million respectively.

**Earnings**

The audited net profit of the Group for the financial year ended 31 December 2015, as extracted from the Company's annual report for the year ended 31 December 2015, was approximately HK$107.86 million.

**Gearing Ratio**

As at 30 June 2016, the total borrowings of the Group, as extracted from the Company's interim report for the six months ended 30 June 2016, was approximately HK$859.14 million and the Group's gearing ratio calculated on the basis of the Group's total borrowings (including bank borrowings, obligations under finance leases, promissory note and amounts due to non-controlling interests) over equity attributable to equity holders of the Company was 25%.

**Scenario I: Assuming both Completion and completion of the granting of the Loan and acceptance of the Call Option had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

**Assets and Liabilities**

Based on scenario I of the unaudited pro forma financial information as set out in Appendix IV to this circular, the pro forma consolidated total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$5,714.47 million and HK$2,290.37 million respectively. The increase in the pro forma consolidated total assets was mainly due to the increase in stock of property of the Target Group of approximately HK$480.24 million and pro forma adjustments of stock of property of approximately HK$980.29 and was partly offset by the payment of the Initial Deposit of HK$400 million. The increase in the pro forma consolidated total liabilities was mainly due to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Earnings**

The pro forma profit for the year of the Enlarged Group would have been approximately HK$103.10 million. The decrease was mainly due to the imputed interest expense on the Promissory Notes of approximately HK$50.11 million, the estimated expenses incurred of approximately HK$2.5 million and the corresponding tax position for the imputed interest income on the Loan of approximately HK$9.46 million and partly offset by the imputed interest income on the Loan of approximately HK$57.32 million.

**Gearing Ratio**

The total borrowings of the Enlarged Group would have been increased to approximately HK$1,916.95 million and the Enlarged Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 56%. The increase in gearing ratio from 25% to 56% is mainly attributable to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the inclusion of the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Scenario II: Assuming only Completion had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

**Assets and Liabilities**

Based on scenario II of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the pro forma consolidated total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$5,714.47 million and HK$2,290.37 million respectively. The increase in the pro forma consolidated total assets was mainly due to the increase in stock of property of the Target Group of approximately HK$480.24 million and pro forma adjustments of stock of property of approximately HK$980.29 million and was partly offset by the payment of the Initial Deposit of HK$400 million. The increase in the pro forma consolidated total liabilities was mainly due to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Earnings**

The pro forma profit for the year of the Enlarged Group would have been approximately HK$55.23 million. The decrease was mainly due to the imputed interest expense on the Promissory Note of approximately HK$50.11 million and the estimated expenses incurred of approximately HK$2.5 million.

**Gearing Ratio**

The total borrowings of the Enlarged Group would have been increased to approximately HK$1,916.95 million and the Enlarged Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 56%. The increase in gearing ratio from 25% to 56% is mainly attributable to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the inclusion of the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Scenario III: Assuming only completion of the granting of the Loan and acceptance of the Call Option had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

**Assets and Liabilities**

Based on scenario III of the unaudited pro forma financial information of the Group as set out in Appendix IV to this circular, the pro forma consolidated total assets of the Group would have been decreased to approximately HK$4,653.94 million and total liabilities of the Group would have been remained as HK$1,229.77 million. The decrease in the pro forma consolidated total assets was mainly due to the estimated expenses incurred of approximately HK$2.5 million.

**Earnings**

The pro forma profit for the year of the Group would have been approximately HK$153.23 million. The increase was mainly due to the imputed interest income on the Loan of approximately HK$57.32 million and partly offset by its corresponding tax provision of approximately HK$9.46 million and the estimated expenses incurred of approximately HK$2.5 million.

**Gearing Ratio**

The total borrowings of the Group would have been remained the same and the Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was also 25%.

**LISTING RULES IMPLICATIONS**

As one of the relevant applicable percentage ratios (as defined under the Listing Rules) in respect of each of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option is more than 100%, each of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option will constitute a very substantial acquisition for the Company under Rule 14.07 of the Listing Rules.

Furthermore, given that Ms. Chen (the vendor under the S&P Agreement and the borrower under the Loan Agreement) is an executive Director and a substantial Shareholder, Ms. Chen is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option also constitute connected transactions for the Company respectively pursuant to Rule 14A.23 and Rule 14A.24(4) of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements.

Ms. Chen and her associates (beneficially interested in an aggregate of 186,448,146 Shares, representing approximately 20.63% of the entire issued share capital of the Company as at the Latest Practicable Date) shall abstain from voting on the proposed resolutions to approve (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option at the SGM.

The Independent Board Committee, comprising all three of the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option. An Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

As the assets ratio (as defined under the Listing Rules) in respect of the granting of the Loan exceeds 8%, the Company will comply with Rule 13.20 of the Listing Rules to disclose in its interim and annual reports, details regarding the Loan as required under Rule 13.15 of the Listing Rules.

In addition, in the event the Company exercises the Call Option, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules by computing the applicable percentage ratios (as defined under the Listing Rules) at the time of exercise and, depending on the classification thereof, may subject to the reporting, announcement and Independent Shareholders' approval requirements.

There have been no previous transactions entered into between the Company and Ms. Chen that requires aggregation pursuant to Rule 14A.25 of the Listing Rules.

**THE SGM**

The Company will convene the SGM for the Independent Shareholders to consider and, if thought fit, approve the S&P Agreement (including the issue of the Promissory Note) and the Loan Agreement (including the acceptance of the Call Option) and the transactions contemplated respectively thereunder. A notice convening the SGM to be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 31 March 2017 at 4:00 p.m. is set out on pages SGM-1 and SGM-2 of this circular.

The votes of the Independent Shareholders on the resolutions for approving the S&P Agreement (including the issue of the Promissory Notes) and the Loan Agreement (including the acceptance of the Call Option) and the transactions contemplated thereunder will be taken by way of poll at the SGM. Given that Ms. Chen (the vendor under the S&P Agreement and the borrower under the Loan Agreement) is an executive Director and a substantial Shareholder, Ms. Chen is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, Ms. Chen and her associates (beneficially interested in an aggregate of 186,448,146 Shares, representing approximately 20.63% of the entire issued share capital of the Company as at the Latest Practicable Date) shall abstain from voting on the proposed resolutions to approve (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option at the SGM.

To the best of Directors' knowledge, information and belief and having made all reasonable enquiries, save for Ms. Chen and her associates, no other Shareholder has material interest in (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option and therefore no other Shareholder will require to abstain from voting on the resolution approving (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option at the SGM.

Whether or not you are able to attend, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the SGM. Completion and return of the proxy form will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) should you so wish.

## VOTING BY POLL

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting (except resolutions relating purely to procedural or administrative matter) must be taken by poll. Therefore, the Chairman of the SGM will demand a poll for the resolutions set out in the notice of the SGM. After the conclusion of the SGM, the results of the poll will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.chinastar.com.hk).

## RECOMMENDATION

You are advised to read carefully the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser set out on page 33 and pages 34 to 59 respectively of this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are fair and reasonable so far as the Independent Shareholders are concerned and (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option to be proposed at the SGM.

Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are fair and reasonable and in the interests of the Company and the Shareholders as a whole, therefore, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions approving (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option at the SGM.

## ADDITIONAL INFORMATION

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

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

*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee setting out its recommendation to the Independent Shareholders regarding (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option.*

中国星

CHINA STAR ENTERTAINMENT GROUP

# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

10 March 2017

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION AND THE SALE LOAN AND VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE GRANTING OF LOAN AND THE ACCEPTANCE OF CALL OPTION**

We refer to the circular dated 10 March 2017 (the "**Circular**") of the Company of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings used herein.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are fair and reasonable insofar as the Independent Shareholders are concerned and whether (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. Royal Excalibur Corporate Finance Company Limited has been appointed as the Independent Financial Advisor to advise you and us in this respect.

Having taken into account the advice and recommendation of the Independent Financial Advisor as set out in its letter of advice to you and us on pages 34 to 59 of the Circular, we consider that the terms of (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option.

Yours faithfully,

**The Independent Board Committee**

| | | |
|---|---|---|
| **Mr. Hung Cho Sing** | **Mr. Ho Wai Chi, Paul** | **Mr. Tang Chak Lam, Gilbert** |
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

*The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding (i) the Acquisition and (ii) the granting of the Loan and the acceptance of the Call Option which has been prepared for the purpose of inclusion in the Circular.*

ROYAL EXCALIBUR
CORPORATE FINANCE COMPANY LIMITED

ROYAL EXCALIBUR
CORPORATE FINANCE COMPANY LIMITED
Unit 1204, 12/F
OfficePlus @Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
皇家駿溢財務顧問有限公司
香港上環永樂街93-103號
協成行上環中心12樓1204室

10 March 2017

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

*Dear Sir or Madam,*

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION AND THE SALE LOAN; VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE GRANTING OF LOAN AND THE ACCEPTANCE OF CALL OPTION**

## INTRODUCTION

We refer to the circular dated 10 March 2017 (the "**Circular**") issued by the Company to the Shareholders of which this letter forms part and to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the granting of the Loan and the acceptance of the Call Option, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") 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 29 November 2016, the S&P Agreement was entered into between Best Combo as purchaser and Ms. Chen as vendor, pursuant to which Best Combo has agreed to acquire and Ms. Chen has agreed to dispose of the entire issued share capital of Modern Vision and the Sale Loan, at an aggregate consideration of HK$1,000 million (subject to the Purchase Price Adjustment). The Purchase Price shall be satisfied by (i) the payment of HK$400 million as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the Promissory Note by the Company to Ms. Chen for the balance on Completion.

Concurrently on 29 November 2016, Best Combo as lender entered into the Loan Agreement with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan in the principal amount of HK$500 million, subject to the Loan Amount Adjustment. The Loan will be secured by way of a share charge over the entire issued share capital of Reform Base. Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price at any time within 60 months after the date of drawdown of the Loan.

On 8 March 2017 (after trading hours of the Stock Exchange), Best Combo and Ms. Chen entered into the Supplemental Agreement to fix the time frame in respect of the Purchase Price Adjustment.

The Acquisition and the granting of the Loan and the acceptance of the Call Option constitute a very substantial acquisition respectively for the Company under Rule 14.07 of the Listing Rules. As Ms. Chen is an executive Director and a substantial Shareholder, who and her associates hold in aggregate 186,448,146 Shares, representing 20.63% of the existing issued share capital of the Company as at the date of the S&P Agreement, the Acquisition and the granting of the Loan and the acceptance of the Call Option also constitute a connected transaction respectively for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition and the granting of the Loan and the acceptance of the Call Option are subject to, among other things, the approval of the Independent Shareholders at the SGM. Ms. Chen and her associates shall abstain from voting at the SGM in respect of the resolutions to approve the Acquisition and the granting of the Loan and the acceptance of the Call Option.

As the assets ratio (as defined under the Listing Rules) in respect of the granting of the Loan exceeds 8%, the Company will comply with Rule 13.20 of the Listing Rules to disclose in its interim and annual reports, details regarding the granting of the Loan as required under Rule 13.15 of the Listing Rules.

In addition, in the event the Company exercises the Call Option, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules by computing the applicable percentage ratios (as defined under the Listing Rules) at the time of exercise and, depending on the classification thereof, may subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the Acquisition and the granting of the Loan and the acceptance of the Call Option are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

As at the Latest Practicable Date, we have no relationship with and is not connected with the Directors, chief executives and substantial shareholders of the Company or any of their respective associates. We have no shareholding interest in and has not acted as an independent financial adviser and has not provided any other services to the Company or any of its respective subsidiaries or their respective associates during the past two years. Accordingly, we consider that we are eligible to give independent advice under this engagement.

**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.

We have not made any independent evaluation or appraisal of the Property and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report of the Property (the "**Valuation Report**") as set out in Appendix V to the Circular. The Valuation Report was prepared by Dr. Alan W K Lee, the director of Roma Appraisal Limited (the "**Valuer**"). Dr. Alan W K Lee is a "Registered Professional Surveyor in General Practice Division" ("**RPS(GP)**") under the "Surveyors Registration Ordinance" (Cap. 417) in Hong Kong, and is a "RICS Registered Valuer" under the "Valuer Registration Scheme" regulated by the RICS. Dr. Alan W K Lee is a member of the Hong Kong Institute of Surveyors and the Australian Property Institute. He possesses over 12 years' valuation experience on properties in various regions including Hong Kong, Macau, the PRC, the Asia Pacific Region and European countries. In the past 2 years, a total of 5 valuations had been made regarding properties in Macau. Dr. Alan W K Lee has been vetted on the "List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers" published by the HKIS, and is suitably qualified for undertaking valuations relating to listing exercises. Dr. Alan W K Lee has also been vetted on the "List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers" published by RICS Hong Kong. Dr. Alan W K Lee has been employed by "Roma Appraisals Limited" as a valuer since 2011 and as a qualified surveyor since 2008. Since we are not experts in the valuation of land and properties, we have relied solely upon the Valuation Report for the market value of the Property as at 28 February 2017.

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, opinion and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors provided to us. 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 Acquisition and the granting of the Loan and the acceptance of the Call Option.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Acquisition and the granting of the Loan and the acceptance of the Call Option, we have considered the following factors and reasons:

### 1. Reasons and benefits of the Acquisition

#### *(i) Business of the Group*

The Company is an investment holding company and the Group is principally engaged in film production, distribution of film and television drama series, investment in film, provision of artist management services, sales of health products, property and hotel investment, food and beverage operations and property development. Set out below is the revenue of the Group by business segments extracted from the interim report of the Group for the six months ended 30 June 2016 (the "**2016 Interim Report**") and the annual report of the Group for the year ended 31 December 2015 (the "**2015 Annual Report**").

| | **Segment Revenue** | | | |
|---|---|---|---|---|
| | **For the 6 months ended 30 June** *(HK\$'000)* | | **For the year ended 31 December** *(HK\$'000)* | |
| | **2016** | 2015 | **2015** | 2014 |
| Hotel and gaming service operations | **362,166** | 467,444 | **877,909** | 1,169,474 |
| Gaming promotion operations | **2,362** | 2,388 | **4,748** | 4,740 |
| Film related business operations | **764** | 782 | **1,217** | 2,267 |
| Property development operations | **90** | 90 | **180** | 173 |
| Nam Pei Hong operations | **76,817** | 83,753 | **160,452** | 106,943 |
| Total | **442,199** | 554,457 | **1,044,506** | 1,283,597 |

*(a) Comparison for the year ended 31 December 2015 versus the year ended 31 December 2014*

As set out in the 2015 Annual Report, the total revenue of the Group decreased from approximately HK$1,283.60 million for the year ended 2014 to approximately HK$1044.51 million for the year ended 2015, which represented a decrease of approximately 18.63%. The majority of the Group's revenue attributed to the business segment of hotel and gaming service operations. The revenue generated from the business segment of hotel and gaming service operations decreased from approximately HK$1169.47 million, which covered approximately 91.11% of the total revenue for the year ended 2014, to approximately HK$877.91 million, which covered 84.05% of the total revenue for the year ended 2015, representing a decrease of approximately 24.93%. The revenue generated from the business segment of gaming promotion operations is stable which increased from approximately HK$4.74 million in 2014 to approximately HK$4.75 million in 2015, representing an increase of approximately 0.21%. According to the 2015 Annual Report, the Group will continue to tap into the trend of diversification of revenue from non-gaming industries in Macau. The revenue generated from the business segment of film related business operations decreased from approximately HK$2.27 million in 2014 to approximately HK$1.22 million in 2015, representing a decrease of approximately 46.32%. According to the 2015 Annual Report, the segment loss increased to approximately HK$4.96 million in 2015 from approximately HK$3.70 million in 2014. The segment loss was mainly attributable to impairment loss recognised in respect of film related business of approximately HK$2.41 million in 2015. During the year of 2015, the Group did not distribute any new film. The revenue generated from the business segment of property development operations was stable which increased from approximately HK$0.17 million in 2014 to approximately HK$0.18 in 2015, representing an increase of approximately 4.05%. The revenue generated from the business segment of Nam Pei Hong operations increased from approximately HK$106.94 million in 2014 to approximately HK$160.45 million in 2015, representing an increase of approximately 50.04%.

*(b) Comparison for the six months ended 30 June 2016 versus the six months ended 30 June 2015*

As set out in the 2016 Interim Report, the total revenue of the Group decreased from approximately HK$554.46 million for the six months ended 2015 to approximately HK$442.20 million for the six months ended 2016, which represented a decrease of approximately 20.25%. The revenue generated from the business segment of hotel and gaming service operations decreased from approximately HK$467.44 million, which covered approximately 84.31% of the total revenue for six months ended 2015, to approximately HK$362.17 million, which covered 81.90% of the total revenue for six months ended 2016, representing a decrease of approximately 22.52%. The revenue generated from the business segment of gaming promotion operations is stable which decreased from approximately HK$2.39 million for the six months ended 30 June 2015 to approximately HK$2.36 million for the corresponding period in 2016, representing a decrease of approximately 1.09%. According to the 2016 Interim Report, the performance of the hotel and gaming service operations in Hotel Lan Kwai Fong Macau (the "**Lan Kwai Fong**") is significantly influenced by the adverse market conditions which are notably anticipated to remain difficult in the short term. The revenue generated from the business segment of film related business operations decreased from approximately HK$7.82 million for the six month ended 30 June 2015 to approximately HK$7.64 million for the corresponding period in 2016, representing a decrease of approximately 2.30%. The revenue generated from the business segment of property development operations was stable and there is no change from approximately HK$0.09 million in for the six months ended 30 June 2015 to the corresponding period for the year 2016. The revenue generated from the business segment of Nam Pei Hong operations decreased from approximately HK$83.75 million for the six months ended 30 June 2015 to approximately HK$76.82

for the corresponding period in 2016, representing a decrease of approximately 8.28%. As set out in the 2016 Interim Report, Nam Pei Hong's revenue and gross profit declined as compared with those for the corresponding period in 2015 as a result of the adverse retail market in Hong Kong. It had struggled to survive by lower its margin in order to maintain higher revenue. Besides, poor performance shops are closed down to avoid extra costs incurred.

In the view that (i) the business segment of hotel and gaming service which is the major source of revenue of the Group was declining; and (ii) the business segment of Nam Pei Hong operations declined for the six months ended 2016 due to the adverse retail market in Hong Kong, we concur with the view of the Directors that the Acquisition will diversify the Group's stock of properties and strengthen the Group's property development footprint in Macau which have a positive impact on the Group's long-term profitability. Also, we believe that the Development Plan will broaden the Group's revenue base which enables the Group to diversify their revenue from different business segments.

***(ii) Information on Modern Vision, Reform Base, Over Profit and Macau Co***

*(a) Information on Modern Vision*

Modern Vision was incorporated in the British Virgin Islands with limited liability on 25 May 2007. Modern Vision is an investment holding company. The major asset of Modern Vision is its 50% equity interest in Over Profit. Other than holding the 50% equity interest in Over Profit, Modern Vision has not carried out any business since its date of incorporation.

According to the unaudited management accounts of Modern Vision for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net liabilities of Modern Vision as at 31 December 2014, 31 December 2015 and 30 September 2016 were approximately HK$39,000, HK$44,000 and HK$49,000 respectively. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were all approximately HK$5,000.

*(b) Information on Over Profit*

Over Profit was incorporated in the British Virgin Islands with limited liability on 20 April 2007. Over Profit is accounted for as a subsidiary of Modern Vision which indirectly holds a 100% equity interest in Macau Co. The principal activity of Over Profit is investment holding. On 19 July 2007, Over Profit acquired a 100% equity interest in Summer Sound. Other than holding the 100% equity interest in Summer Sound, Over Profit has not carried out any business since its date of incorporation.

*(c) Information on Macau Co*

Macau Co was incorporated in Macau with limited liability on 20 June 1989. Macau Co is principally engaged in property investment and development in Macau, with its principal asset being that of the Property. The Property was leased to Macau Co for a term of 25 years commencing on 22 August 2001, and pursuant to the completion of the development, shall be automatically renewable for a period of 10 years until 19 December 2049, in accordance with the legislation in force in Macau.

According to the unaudited management accounts of Macau Co for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net assets value of Macau Co as at 31 December 2014, 31 December 2015 and 30 September 2016 were all approximately HK$1.39 million. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were HK$369, HK$58 and HK$618 respectively.

*(d) Information on Reform Base*

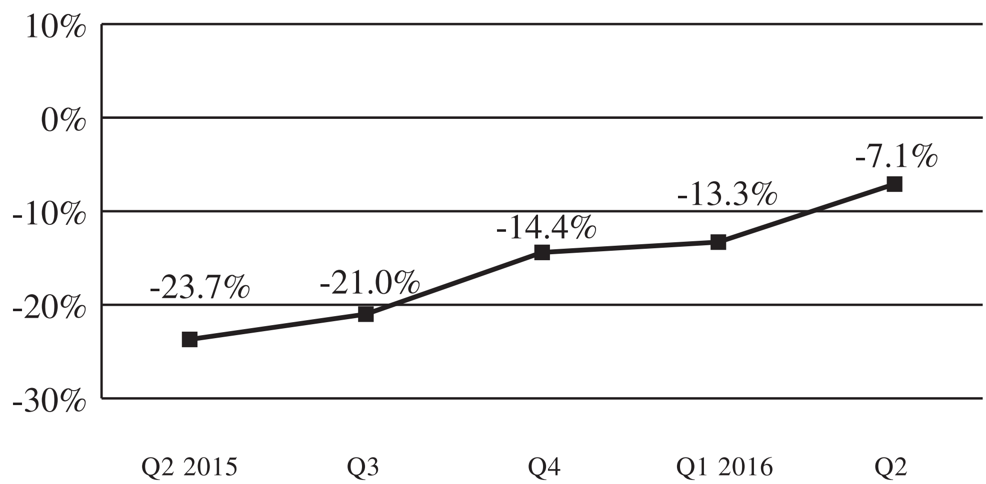
Reform Base was incorporated in the British Virgin Islands with limited liability on 5 June 2007. Reform Base is an investment holding company. The major asset of Reform Base is its 25% equity interest in Over Profit. Other than holding the 25% equity interest in Over Profit, Reform Base has not carried out any business since its date of incorporation.

According to the unaudited management accounts of Reform Base for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016, the net liabilities of Reform Base as at 31 December 2014, 31 December 2015 and 30 September 2016 were approximately HK$40,000, HK$45,000 and HK$49,000 respectively. The loss before and after tax for the years ended 31 December 2014 and 31 December 2015 and for the period from 1 January 2016 to 30 September 2016 were all approximately HK$5,000.

*(iii) Overview of Macau property market*

As the property market is closely related to the overall economy, we have reviewed the recent economic data of Macau. According to the Macao Economic Services (the "**MES**"), private consumption expenditure and government final consumption expenditure increased by 0.7% and 6.2% year on year respectively. Set out below is the year on year growth rate of quarterly real GDP of Macau:

**Year-on-year growth rate of quarterly real GDP**




*Data source: Macao Economic Services*

Although the growth rate of the real GDP remained negative, it has been improving in the past 12 months, from -23.7% in Q2 2015 to -7.1% in Q2 2016. The MES also pointed out that the composite CPI for the first half of 2016 rose by 3.2% year on year. We noted that the economy of Macau was improved in the first half of 2016.

As stated in the press released by the International Monetary Fund (the "**IMF**") on 15 November 2016, the economy of Macau has started an important transition, from gaming to non-gaming tourism, positioning itself to less volatile and more sustainable outlook. There has been an incipient recovery in housing prices and transactions in recent months, since the sharp fall in early 2014.

The following table demonstrates the number of resident unit transacted and the transaction amount for the period from January 2015 to September 2016, extracted from the Statistics and Census Service of Macao.

| | | **Building units transacted** | |
|---|---|---|---|
| | | **Number of residential unit transacted** | **Total transaction amount of residential unit** *(million MOP)* |
| 2015 | Jan. | 382 | 1,923 |
| | Feb. | 325 | 1,805 |
| | Mar. | 407 | 2,361 |
| | Apr. | 647 | 4,524 |
| | May | 617 | 3,519 |
| | Jun. | 600 | 3,698 |
| | Jul. | 577 | 3,277 |
| | Aug. | 490 | 2,665 |
| | Sept. | 470 | 2,681 |
| | Oct. | 425 | 2,118 |
| | Nov. | 491 | 2,264 |
| | Dec. | 545 | 2,613 |
| 2016 | Jan. | 414 | 1,952 |
| | Feb. | 304 | 1,436 |
| | Mar. | 497 | 2,165 |
| | Apr. | 1,045 | 5,326 |
| | May | 1,067 | 5,447 |
| | Jun. | 869 | 4,510 |
| | Jul. | 712 | 5,038 |
| | Aug. | 809 | 4,935 |
| | Sept. | 878 | 4,568 |

As set out in the table above, the monthly number of residential unit transacted and the corresponding total transaction amount since April 2016 have increased significantly compared with the corresponding months in 2015. In particular, the total number of resident unit transacted totaled 878 in September 2016, representing an increase of approximately 86.8% on a year-over-year basis from that of 470 in September 2015, while the total transaction amount of resident unit recorded approximately MOP4,568 million in September 2016, representing an increase of approximately 70.4% from that of approximately MOP2,681 million in September 2015. In addition, the average price of residential properties sold in the third quarter of 2016 has increased by approximately 5.0%, from approximately MOP84,342 per square meter in the third quarter of 2015 to approximately MOP88,564 per square meter in the third quarter of 2016. These reflected a general growth trend in the residential property market of Macau in the recent period. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Acquisition would provide an opportunity to the Group to further expand its property development business. Therefore, we are of the view that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

***(iv) Company's Business Development***

In 2007, the Company acquired Hotel Kingsway. The Company re-developed Hotel Kingsway by renovation and re-launching Hotel Kingsway under the brand name of the Lan Kwai Fong which started to operate in 2009. According to the Annual Report 2015, the Lan Kwai Fong has been awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 Trip Advisor Travelers' Choice – Top 25 Trendiest Hotels in China". In respect of promoting the notion of environmental protection, the Lan Kwai Fong has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macao Green Hotel Award 2010 – Bronze Award".

Besides, as set out in the Letter from the Board, property development and investment is considered more stable investment for maintaining stable future revenue, the Company believes that the susceptive performance of the hotel and gaming operations in the Lan Kwai Fong would be compensated by the Group's property development business, which commenced in 2011 by the Group's acquisition of a 100% interest in the property leasehold rights over four undeveloped parcel of lands named as Lot 6B, Lot 6C, Lot 6D and Lot 6E located at Zona de Aterros do Porto Exterior (ZAPE), Macau (the "**Site**"). The Site is being developed into a luxury residential and commercial complex of two towers with a total gross floor area of 45,989 square meters. The development of the Site is expected to commence in the beginning of year 2017 and to complete in year 2019.

Having considered that (i) the experience of the Company in developing the Lan Kwai Fong; and (ii) the current development of the Site, we are of the view that the Company has sufficient experiences to operate and develop the Property and the Acquisition is in line with the Company's direction of business development.

2. **Consideration and funding for the Acquisition**

*(i) Basis of the Consideration*

As stated previously, the aggregate consideration for the Acquisition is HK$1,000 million (subject to the Purchase Price Adjustment) (the "**Consideration**"). The Purchase Price shall be satisfied by (i) the payment of HK$400 million as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the Promissory Note by the Company to Ms. Chen for the balance on Completion. The Initial Deposit shall immediately be returned to Best Combo without interest in the event of termination or non-completion of the S&P Agreement for whatever reason.

In light of the Company can acquire the Property without the full payment of the Consideration in cash and the fact that the Vendor has agreed to accept the most part of the Consideration in non-cash form, we are of the view and concur with the view of the Directors, although the amount of the deposit prior to Completion is HK$400 million which is approximately 40% of the Consideration and there is no security provided by the Vendor for the aforesaid deposit, as (i) the Company does not need to pay the whole Consideration in cash form and can use other payment methods, i.e. the issue of the Promissory Note; (ii) the Vendor had 100% equity interest in Reform Base and Modern Vision, which are worth approximately HK$1,500 million according to the valuation performed by Roma Appraisals Limited, which demonstrates the repayment ability of the Vendor; and (iii) the benefit for the Acquisition as stated above, the payment arrangement of the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*(ii) Purchase Price Adjustment*

In the event that the gross construction floor area of the Property approved by DSSOPT (the "**Approved Figures**") are less than the Prelim Figures, then the Purchase Price shall be reduced by an adjustment (the "**Purchase Price Adjustment**"). For the avoidance of doubt, there will be no Purchase Price Adjustment if the Approved Figures are greater than the Prelim Figures. The Purchase Price Adjustment is calculated as follows:

$$\text{Purchase Price Adjustment} = \frac{\text{HK\$1000 million}}{\text{Prelim Figures}} \times (\text{Prelim Figures} - \text{Approved Figures})$$

*Note:* For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor area for residential and parking purpose, i.e. 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor area for residential and parking purpose.

The Purchase Price Adjustment shall be made within 30 days after the Approved Figures are obtained and/or approved by DSSOPT.

If the Approved Figures could not be obtained and/or approved by DSSOPT on or before 21 August 2026, the Approved Figures would be treated as zero and the Purchase Price Adjustment will be deemed to be equal to the Purchase Price. The Purchase Price Adjustment shall be initially offset against the Promissory Note on a dollar for dollar basis. In the event that the Promissory Note is insufficient to settle the Purchase Price Adjustment, Ms. Chen shall settle the remaining balance of the Purchase Price Adjustment in cash within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures or 21 August 2026, whichever is earlier. No interest will be charged on the Purchase Price Adjustment as this forms part of the Purchase Price regardless of the Prelim Figures.

For the purpose of allowing Ms. Chen to arrange funding for settling the Purchase Price Adjustment (if any), Best Combo and Ms. Chen have reached an agreement to fix the Purchase Price Adjustment shall be made within 30 days after the Approved Figures are obtained and/or approved by DSSOPT.

Based on the expected timeline relating to the new amendment to the Land Grant in respect of the Development Plan provided by the Company, as advised by the Company's Macanese lawyers and the architect, the Approved Figures is expected to be known in 17 months from the Latest Practicable Date, i.e. August 2018. Therefore, it is expected that the Purchase Price Adjustment would take place before the maturity of the Promissory Note. Despite the fact that the Consideration may be fully settled by the Company before the Approved Figures are known due to unexpected delay in obtaining the approvals, the Company is still safeguarded by Ms. Chen's guarantee of repayment while no further interest costs will be incurred by the Company after the maturity of the Promissory Note.

According to the Group, the use of expiry date of the lease term under the Land Grant as the ending of the period of the Purchase Price Adjustment allows sufficient time to the Group to carry out the early development stage of the Property. As the early development stage involves the compilation of the Development Plan, which is crucial for obtaining related approvals, the Company considers that setting the period of the Purchase Price Adjustment ending on 21 August 2026 would be more favourable than rushing for an artificial nominal ending date.

The Company also takes into account that Independent Shareholders' approval is needed for extending the Purchase Price Adjustment period in accordance with the Listing Rules. By setting a longer period of the Purchase Price Adjustment, the Company can avoid extra administrative work and costs for extending the period of the Purchase Price Adjustment.

According to the Company, one of the conditions of the Completion is that the Purchaser having received a property valuation from an independent property valuer, i.e. Roma Appraisals Limited, valuing the Property on Completion at not less than HK$2,000 million. Therefore, (i) if the value of the Property is equal to or more than HK$2,000 million (i.e. HK$1,500 million for 75%) on Completion, it is favourable to Company as the consideration is capped at HK$1,500 million; and (ii) if the value of the Property on Completion is less than HK$2,000 million, then the S&P Agreement shall cease and be determined.

Based on the above, if any Purchase Price Adjustment occurs, the Company will be benefited. We are of the view that the interest of the Company and the Shareholders are safeguarded by the aforesaid arrangements. We also consider that the time frame of making the Purchase Price Adjustment and the period of the Purchase Price Adjustment ending on 21 August 2026 is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

***(iii) Funding for the Acquisition***

According to the Directors, as at the Latest Practicable Date, HK$400 million of the Consideration has been paid to the Vendor as Initial Deposit and the remaining balance will be paid by the issue of the Promissory Note by the Company to Ms. Chen on Completion.

In order to assess the cost of the funding for the Acquisition, we would assess (a) the funding alternatives and (b) the terms of the Promissory Note. Please refer to the sections headed "Terms of Promissory Note" in the Letter from the Board for the detailed information of the terms of Promissory Note.

*(a) Funding alternatives*

Comparing with other fund raising methods, such as issue of Share, open offer and rights issue or borrowing from commercial banks, the Directors believe that the issue of the Promissory Note is an appropriate alternative as (i) the average daily trading volume of the Shares for a 12-month period from the date of the Announcement, is approximately 1.2 million Shares with the exclusion of suspended days, representing approximately 0.14% of the entire issued Share capital of the Company as at the date of the Announcement. As the trading volume of the Shares is thin and the dollar value of the Promissory Note is large, i.e. up to HK$600 million, there is uncertainty that the Company would be unable to engage suitable securities firms as underwriters to fully underwrite an open offer and a rights issue; (ii) the issue of new Shares with dollar amount equal to that of the Promissory Note would substantially dilute interests of the existing Shareholders; and (iii) borrowing from commercial banks may be subjected to lengthy due diligence and negotiations, therefore we are of the view that the issue of the Promissory Note is an appropriate fund-raising method available to the Company.

*(b) Terms of the Promissory Note*

In assessing the terms of the Promissory Note, we have reviewed a number of comparable transactions which involved the issue of promissory note (the "**Promissory Note Comparable Transactions**"). The Promissory Note Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange; (ii) such transactions involve the issue of promissory note from 30 June 2016 to the date immediately prior to the Latest Practicable Date; and (iii) such transactions involve the issue of promissory note for acquisition purpose. The reasons for the above criteria are to ensure the Promissory Note Comparable Transactions are with the same transaction as the Company, i.e. the issue of promissory notes and the issuers of the Promissory Note Comparable Transactions are with the same fund raising situation as the Company, for the fairness to compare on the same basis. Based on such criteria, we have on a best endeavor basis identified the following Promissory Note Comparable Transactions. No special adjustment is needed in the avoidance of distorting the picture for the recent market practice in the relation to the interest of the promissory notes, none of the Promissory Note Comparable Transactions is excluded for assessing the fairness and reasonableness of the Promissory Note. Therefore, we consider the Promissory Note Comparable Transactions (i) a fair and representative sample and (ii) an exhaustive list of relevant Promissory Note Comparable Transactions based on the said criteria above:

| **Announcement Date** | **Company name and stock code** | **Principal amount** *(approximately HK$'million)* | **Term to maturity** *(years)* | **Interest per annum** *(Note 1)* |
|---|---|---|---|---|
| 3/7/2016 | Addchance Holdings Limited (3344) | 120 | 2 | 1% |
| 25/7/2016 | International Entertainment Corporation (1009) | 350 | 5 | 4% |
| 9/8/2016 | Aurum Pacific (China) Group Limited (8148) | 110 | 2 | 5% |
| 11/8/2016 | China Opto Holdings Limited (1332) | 258 | 1 | 7.5% |
| 15/8/2016 | Enerchina Holdings Limited (622) | 95 | 0.25 | 0% |
| 15/8/2016 | Enerchina Holdings Limited (622) | 400 | 0.5 | 5% |
| 15/8/2016 | Enerchina Holdings Limited (622) | 400 | 1 | 5% |
| 15/8/2016 | Enerchina Holdings Limited (622) | 400 | 1.5 | 5% |
| 11/9/2016 | North Asia Resources Holdings Limited (61) | 130 | 0.5 | 0% |

| Announcement Date | Company name and stock code | Principal amount *(approximately HK$'million)* | Term to maturity *(years)* | Interest per annum *(Note 1)* |
|---|---|---|---|---|
| 30/9/2016 | China Agroforestry Low-Carbon Holdings Limited (1069) | 33 | 3 | 3% |
| 21/10/2016 | Kiu Hung International Holdings Limited (381) | 60 | 0.5 | 8% |
| 27/10/2016 | Eagle Legend Asia Limited (936) | 110 | 2 | 0% |
| 5/12/2016 | Kiu Hung International Holdings Limited (381) | 40 | 0.5 | 0% |
| 7/12/2016 | Evershine Group Holdings Limited (8022) | 44.795 | 2 | 5% |
| 9/12/2016 | Madison Wine Holdings Limited (8057) | 14 | 3 | 0% |
| 12/12/2016 | China Households Holdings Limited (692) | 1200 | 3 | 3% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 336.19 *(Note 2)* | 1 | 2% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 112.06 *(Note 2)* | 1 | 2% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 405.75 *(Note 2)* | 1 | 2% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 135.25 *(Note 2)* | 1 | 2% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 765.12 *(Note 2)* | 3 | 2% |
| 13/12/2016 | Freeman Fintech Corporation Limited (279) | 255.04 *(Note 2)* | 3 | 2% |
| 20/01/2017 | Evershine Group Holdings Limited (8022) | 50 | 2 | 6% |
| 08/02/2017 | Kong Shum Union Property Management (Holdings) Limited (8181) | 14 | 1.5 | 0% |
| | Range | | 0.25–5 | 0%–8% |
| | Average | | 1.72 | 2.9% |
| | Median | | 1.50 | 2% |
| 6/12/2016 | The Company | 600 | 2 | 5% |

*Notes:*

1. The interest rate was extracted from respective announcements of the Promissory Note Comparable Transactions and excluded any form of fee, commissions or reward tangible or contingent to the promissory note other than the interest rate.

2. The principal amount was U.S. dollar denominated and was converted to HK dollar equivalent. The USD/HKD exchange rate used was 7.7285 as at 13/12/2016, sourced from the Hong Kong Association of Banks.

Based on the above, the maturity of the Promissory Note falls within the range of the Promissory Note Comparable Transactions and the average and the median of the Promissory Note is close to that of the Promissory Note Comparable Transactions. The maturity of the Promissory Note is also in line with the expected duration for obtaining the Approved Figures. Furthermore, the interest rate of the Promissory Note falls within the range of the Promissory Note Comparable Transactions. Although the interest rate of the Promissory Note is less favourable than the average and median of the Promissory Note Comparable Transactions, the Company have entered into the Loan Agreement with interest rate at the same level, i.e. 5% per annum, the terms of the Promissory Note have been negotiated on an arm's length basis and normal commercial terms. Therefore, we are of the view that the issue of the Promissory Note is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

***(iv) Funding for the future development and sales of the Property***

With regard to the development of the Property, the Company intends to develop the Property into high-end residential apartments for sale. On 15 September 2016, the UCP has been issued and the Property will go for necessary procedure for approval by the DSSOPT in near future. The construction work of the Property will start and the Group intends to finance the construction costs by shareholders' loan, internal resources or bank borrowing.

**3. Reasons and benefits of the Loan Agreement**

***(i) Basis of the Call Option Price and the principal amount of the Loan***

The Call Option Price or the principal amount of the Loan, being HK$500 million (subject to the Loan Amount Adjustment), was determined between Best Combo and Ms. Chen on a "willing buyer – willing seller" basis having regards to (i) the UCP issued by DSSOPT; (ii) the Prelim Figures of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which are compiled in accordance with the parameters of the UCP; (iii) Reform Base's 25% indirect interest in the Property; and (iv) the preliminary property valuation of HK$2,000 million conducted by Roma Appraisals Limited, an independent valuer appointed by the Company based on the Prelim Figures. Details of the valuation of the Property are set out in the paragraph headed "Valuation of the Property" below.

Based on the above, we are of the view that the Call Option Price and the principal amount of the Loan are fair and reasonable.

***(ii) Loan amount adjustment***

In the event that the Approved Figures are less than the Prelim Figures, then the principal amount of the Loan shall be reduced by an adjustment amount (the "**Loan Amount Adjustment**"). For the avoidance of doubt, there will be no Loan Amount Adjustment if the Approved Figures are greater than the Prelim Figures. The Loan Amount Adjustment is calculated as follows:

$$\text{Loan Amount Adjustment} = \frac{\text{HK\$500 million}}{\text{Prelim Figures}} \times (\text{Prelim Figures} - \text{Approved Figures})$$

*Note:* For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor area for residential and parking purpose, i.e. 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor area for residential and parking purpose.

If the Loan has not been drawn down, the principal amount of the Loan available to Ms. Chen for drawing shall be immediately reduced by an amount equal to the Loan Amount Adjustment.

If the Loan has already been drawn down, Ms. Chen shall repay an amount equal to the Loan Amount Adjustment within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures.

For the avoidance of doubt, the principal amount of the Loan shall in no event be adjusted upwards.

***(iii) Interest rate***

In assessing the interest rate of the Loan, we have reviewed a number of comparable transactions which involved the issue of loan (the "**Loan Comparable Transactions**"). The Loan Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange; (ii) such transactions involve the issue of loan from 30 June 2016 to the date immediately prior to the Latest Practicable Date; and (iii) such transactions involve loan granted to connected person. The reasons for the above criteria are to ensure the Loan Comparable Transactions are with the same transaction as the Company, i.e. the issue of loans and the issuers of the Loan Comparable Transactions are with the same fund raising situation as the company, for the fairness to compare on the same basis. Based on such criteria, we have on a best endeavor basis identified the following Loan Comparable Transactions. No special adjustment is needed in the avoidance of distorting the picture for the recent market practice in the relation to the interest rate of the loans, none of the Loan Comparable Transactions is excluded for assessing the fairness and reasonableness of the Loan. Therefore, we consider the Loan Comparable Transactions (i) a fair and representative sample and (ii) an exhaustive list of relevant Loan Comparable Transactions based on the said criteria above:

| **Announcement Date** | **Company name and stock code** | **Principal amount** *(approximately HK$'million)* | **Term to maturity** *(years)* | **Interest per annum** *(Note 1)* |
|---|---|---|---|---|
| 30/6/2016 | China VAST Industrial Urban Development Company (6166) | 1,169.02 | 5 | 8.2% |
| 4/7/2016 | China Hengshi Foundation Company Limited (1197) | 56.03 *(Note 2)* | 5 | 4.35% |
| 11/7/2016 | Datang International Power Generation Co.,Ltd (991) | 1,259.17 *(Note 3)* | 0.42 (5 months) | 4.35% |
| 12/7/2016 | China Soft Power Technology Holdings Limited (139) | 50 | 1 | 5% |
| 22/7/2016 | King Force Group Holdings Limited (8315) | 5 | 2 | 6% |
| 19/9/2016 | AviChina Industry & Technology Company Limited (2357) | 115.19 *(Note 4)* | 3 | 4.0375% |
| 19/9/2016 | Everbright Securities Company Limited (6178) | 1,500 | 0.5 | Standard Chartered Bank Hong Kong Prime Rate (5.25%) + 2.75% per annum *(Note 5)* |
| 12/10/2016 | Tianneng Power International Limited (819) | 171.17 *(Note 6)* | 0.5 | 4.35% |
| 18/10/2016 | Maoye International Holdings Limited (848) | 227.60 *(Note 7)* | 1 | 14% |
| 28/10/2016 | Beijing Enterprises Medical and Health Industry Group (2389) | 135 | 1 | 4.5% |

| Announcement Date | Company name and stock code | Principal amount *(approximately HK$'million)* | Term to maturity *(years)* | Interest per annum *(Note 1)* |
|---|---|---|---|---|
| 2/11/2016 | Yuexiu Real Estate Investment Trust (405) | 135 | 12 | 88% of the People's Bank of China over 5-year base lending rate from time-to-time (such PBOC rate being 4.9% per annum as at the date of announcement) |
| 8/11/2016 | Doyen International Holdings Limited (668) | 92.36 *(Note 8)* | 1 | 10.5% |
| 8/11/2016 | Doyen International Holdings Limited (668) | 92.36 *(Note 8)* | 1 | 10.5% |
| 11/11/2016 | Doyen International Holdings Limited (668) | 125.40 | 1 | 10.5% |
| 14/11/2016 | Gemdale Properties and Investment Corporation Limited (535) | 56.19 *(Note 9)* | 1 | Floating rate in accordance with the benchmark lending rate in the People's Bank of China, interest rate is 4.35% per annum |
| 22/11/2016 | SOCAM Development Limited (983) | 56 | 3 | 130% of the relevant benchmark lending rate as promulgated by the People's Bank of China (4.75% per annum) |

| **Announcement Date** | **Company name and stock code** | **Principal amount** *(approximately HK$'million)* | **Term to maturity** *(years)* | **Interest per annum** *(Note 1)* |
|---|---|---|---|---|
| 22/11/2016 | SOCAM Development Limited (983) | 270 | 3 | 3 MTH HIBOR (0.65%) +3% *(Note 10)* |
| 2/12/2016 | Yueshou Environment Holdings Limited (1191) | 35 | 2 | 10% |
| 2/12/2016 | China Soft Power Technology Holdings Limited (139) | 31.90 | 0.75 | 5% |
| 7/3/2017 | Doyen International Holdings Limited (668) | 169.5 | 0.83 (10 months) | 10.5% |
| | Range | | | 3.65% – 14% |
| | Average | | | 6.91% |
| | Median | | | 5.5% |
| 6/12/2016 | the Company | 500 | 5 | 5% |

*Notes:*

1. The interest rate was extracted from respective announcements of the Loan Comparable Transactions and excluded any form of fee, commissions or reward tangible or contingent to the loan other than the interest rate.

2. The principal amount was U.S. dollar denominated and was converted to HK dollar equivalent. The USD/HKD exchange rate used was 7.7280 as at 4/7/2016, sourced from the Hong Kong Association of Banks.

3. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1447 as at 11/7/2016, sourced from the Hong Kong Association of Banks.

4. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1519 as at 19/9/2016, sourced from the Hong Kong Association of Banks.

5. The Standard Chartered Hong Kong Dollar Prime Rate was 5.25%.

6. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1411 as at 12/10/2016, sourced from the Hong Kong Association of Banks.

7. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1380 as at 18/10/2016, sourced from the Hong Kong Association of Banks.

8. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1295 as at 8/11/2016, sourced from the Hong Kong Association of Banks.

9. The principal amount was RMB denominated and was converted to HK dollar equivalent. The CNH/HKD exchange rate used was 1.1237 as at 14/11/2016, sourced from the Hong Kong Association of Banks.

10. The 3-month HIBOR was 0.65%, as in November 2016.

Based on the table set above, we note that the interest rate of the Loan granted by the Company falls within the range of the Loan Comparable Transactions. Despite the fact that the interest rate of the Loan is less favourable than the mean of the Loan Comparable Transactions, it is close to the median of the Loan Comparable Transactions. We are of the view that the interest rate of the Loan is fair and reasonable.

***(iv) Call Option***

As mentioned in the paragraph headed "Overview of Macau property market" above, there is a general growth trend in the residential property market of Macau, there will be a risk of price fluctuation of the Property if the Company plans to further acquire interest in the Property. The granting of the Call Option to the Company in the Loan Agreement helps mitigate such risk by granting the Group the right to acquire an additional 25% interest in the Property, through the exercise of the Call Option as and when appropriate at any time within 60 months after the date of drawdown of the Loan, at its sole discretion. This enables the Company to effectively fix the purchase price of the 25% interest in the Property. On the other hand, in the event the Group decides not to further acquire any interest in the Property and lets the Call Option expires, the Loan Agreement still provides the Group with stable interest income during its terms of 60 months.

Based on the reasons above, we are of the view that the granting of the Loan and the acceptance of the Call Option are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**4. Valuation of the Property**

As set out in the Letter From The Board, the Consideration is determined based on the "willing buyer-willing seller" basis between the Purchaser and the Vendor, and with reference to (i) the UCP issued by DSSOPT; (ii) the Prelim Gross Floor Area of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which are compiled in accordance with the parameters of the UCP; (iii) Modern Vision's 50% indirect interest in the Property; and (iv) the preliminary property valuation of HK$2,000 million conducted by Roma Appraisals Limited, an independent valuer appointed by the Company based on the Prelim Figures.

Although the determination of the Consideration is based on the "willing buyer-willing seller" basis between the Vendor and the Purchaser, we consider that it is more appropriate to assess the fairness of the Consideration based on the Valuation Report that prepared by the Valuer. We have reviewed the Valuation Report as contained in Appendix V to the Circular and interviewed with the Valuer regarding the methodology adopted and the basis and assumptions used in arriving at the property valuation. According to the Valuer, they are following the "HKIS Valuation Standards (2012 Edition)" published by "The Hong Kong Institute of Surveyors" ("**HKIS**") for the valuation on the Property as market practice. In assessing the fairness and reasonableness of the valuation, we have also reviewed the methodology, basis and assumptions underlying the Valuation Report.

***(i) Methodology***

It is stated in the Valuation Report that the Valuer used the direct comparison approach to value the Properties. The Valuer adopted the direct comparison approach by making reference to comparable sales transactions of residential flats and carparks as available in the relevant market.

***(ii) Basis and assumption***

We have discussed with the Valuer regarding the basis of the valuation and the underlying assumptions of the valuation as stated in the Valuation Report.

According to the Valuer, direct comparison approach is used as it could reflect the prevailing market conditions and there are adequate relevant market data available in Macau. Gross development value (**GDV**) was determined based on the transaction recorded and construction cost incurred. The Valuer has compared the transaction records for residential flats and carparks developed in the past 9-month period in Macau. Adjustments were made to the GDVs depending on various factors, including the location, environment, transportation, size and development time of the site concerned. The Valuer conducted on-site inspections for both the Property and all the comparables.

According to the legal opinion prepared by the Group's Macanese legal adviser, Leong Hon Man Advogado, they do not foresee any issue would affect the rights of Macau Co. to hold the Property and to proceed with its development.

After reviewing the Valuation Report and discussion with the Valuer, we do not aware of any major factors which would cause us to doubt the fairness and reasonableness of the principal basis and assumptions for the valuation adopted by the Valuer in the Valuation Report of the Property. Since the valuation of the Property is in line with the Consideration, therefore we consider the consideration of the Acquisition is fair and reasonable.

**5. Financial effects of the Acquisition**

This section set out various analysis on the potential financial effects of the Acquisition on the Group, which were prepared based on the audited financial information of the Group and accountant's report of Target Company for the six months ended 30 June 2016. It should be noted that the figures and financial impact shown in this section are for illustrative purpose only.

***Assets and Liabilities***

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2016, as extracted from the Company's interim report for the six months ended 30 June 2016, were approximately HK$4,656.44 million and HK$1,229.77 million respectively.

***Earnings***

The audited net profit of the Group for the financial year ended 31 December 2015, as extracted from the Company's annual report for the year ended 31 December 2015, was approximately HK$107.86 million.

***Gearing Ratio***

As at 30 June 2016, the total borrowings of the Group, as extracted from the 2016 Interim Report, was approximately HK$859.14 million and the Group's gearing ratio calculated on the basis of the Group's total borrowings (including bank borrowings, obligations under finance leases, promissory note and amounts due to non-controlling interests) over equity attributable to equity holders of the Company was 25%.

**Scenario I: Assuming both Completion and completion of the granting of the Loan and acceptance of the Call Option had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

***Assets and Liabilities***

Based on scenario I of the unaudited pro forma financial information as set out in Appendix IV to this circular, the pro forma consolidated total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$5,714.47 million and HK$2,290.37 million respectively. The increase in the pro forma consolidated total assets was mainly due to the increase in stock of property of the Target Group of approximately HK$480.24 million and pro forma adjustments of stock of property of approximately HK$980.29 and was partly offset by the payment of the Initial Deposit of HK$400 million. The increase in the pro forma consolidated total liabilities was due to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

***Earnings***

The pro forma profit for the year of the Enlarged Group would have been approximately HK$103.10 million. The decrease was mainly due to the imputed interest expense on the Promissory Notes of approximately HK$50.11 million, the estimated expenses incurred of approximately HK$2.5 million and the corresponding tax position for the imputed interest income on the loan of approximately HK$9.46 million and partly offset by the imputed interest income on the Loan of approximately HK$57.32 million.

*Gearing Ratio*

The total borrowings of the Enlarged Group would have been increased to approximately HK$1,916.95 million and the Enlarged Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 56%. The increase in gearing ratio from 25% to 56% is mainly attributable to the inclusion of the liability component of the Promissory Note approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Scenario II: Assuming only Completion had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

*Assets and Liabilities*

Based on scenario II of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the pro forma consolidated total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$5,714.47 million and HK$2,290.37 million respectively. The increase in the pro forma consolidated total assets was mainly due to the increase in stock of property of the Target Group of approximately HK$480.24 million and pro forma adjustments of stock of property of approximately HK$980.29 million and was partly offset by payment of the Initial Deposit of HK$400 million. The increase in the pro forma consolidated total liabilities was due to the inclusion of the liability component of the Promissory Note of approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

*Earnings*

The pro forma profit for the year of the Enlarged Group would have been approximately HK$55.23 million. The decrease was mainly due to the imputed interest expense on the Promissory Note of approximately HK$50.11 million and the estimated expenses incurred of approximately HK$2.5 million.

*Gearing Ratio*

The total borrowings of the Enlarged Group would have been increased to approximately HK$1,916.95 million and the Enlarged Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 56%. The increase in gearing ratio from 25% to 56% is mainly attributable to the inclusion of the liability component of the Promissory Note approximately HK$557.95 million and the amounts due to non-controlling interests of the Target Group of approximately HK$499.86 million.

**Scenario III: Assuming only completion of the granting of the Loan and acceptance of the Call Option had taken place on 30 June 2016 or 1 January 2015 (if applicable)**

***Assets and Liabilities***

Based on scenario III of the unaudited pro forma financial information of the Group as set out in Appendix IV to this circular, the pro forma consolidated total assets of the Group would have been increased to approximately HK$4,653.94 million and total liabilities of the Group would have been remained as HK$1,229.77 million. The decrease in the pro forma consolidated total assets was mainly due to the estimated expenses incurred of approximately HK$2.5 million.

***Earnings***

The pro forma profit for the year of the Group would have been approximately HK$153.23 million. The increase was mainly due to the imputed interest income on the Loan of approximately HK$57.32 million and partly offset by its corresponding tax provision of approximately HK$9.46 million and the estimated expenses incurred of approximately HK$2.5 million.

***Gearing Ratio***

The total borrowings of the Group would have been remained the same and the Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was also 25%.

## RECOMMENDATION ON THE ACQUISITION

Having considered the above principal factors, in particular, (i) reasons and benefits of the Acquisition; (ii) consideration and funding for the Acquisition; (iii) reasons and benefits of the Loan agreement; (iv) valuation of the Property; and (v) financial effects of the Acquisition on the Group, we are of the opinion that the terms of the Acquisition and the granting of the Loan and the acceptance of the Call Option are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable and in the interests of the Company and Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Acquisition, the granting of the Loan and the acceptance of the Call Option and the transaction contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
**Royal Excalibur Corporate Finance Company Limited**
**Kevin Chan**
*Director*

*Mr. Kevin Chan is a person licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Royal Excalibur Corporate Finance Company Limited and has over 18 years of experience in corporate finance industry.*

## 1. FINANCIAL INFORMATION

Financial information (including the notes thereto) and management discussion and analysis of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are respectively disclosed in (i) pages 54 to 242 and pages 7 to 22 of the annual report of the Company for the year ended 31 December 2013 respectively; (ii) pages 59 to 270 and pages 7 to 25 of the annual report of the Company for the year ended 31 December 2014 respectively; (iii) pages 60 to 246 and pages 8 to 22 of the annual report of the Company for the year ended 31 December 2015 respectively; and (iv) pages 1 to 23 and pages 26 to 30 of the interim report of the Company for the six months ended 30 June 2016 respectively, which were published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.chinastar.com.hk). Please refer to the relevant hyperlinks as stated below:

**Annual report for the year ended 31 December 2013:**

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0429/LTN20140429304.pdf

**Annual report for the year ended 31 December 2014:**

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429624.pdf

**Annual report for the year ended 31 December 2015:**

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0429/LTN20160429553.pdf

**Interim report for the six months ended 30 June 2016:**

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0929/LTN20160929361.pdf

## 2. INDEBTEDNESS STATEMENT

### Indebtedness

As at the close of business on 31 January 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$790,584,000 which comprised (i) bank borrowings of HK$790,000,000 which was secured by the Group's buildings and interests in leasehold land and quota capital of subsidiaries in Macau; and (ii) obligations under finance leases of approximately HK$584,000.

**Contingent liabilities**

As at 31 January 2017, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to the Group to the extent of HK$1,051 million, the Group had no other material contingent liabilities.

**Disclaimer**

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 31 January 2017. To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Enlarged Group since 31 January 2017 and up to the Latest Practicable Date.

## 3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

## 4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Enlarged Group including internally generated funds and the available banking facilities, the Enlarged Group will have sufficient working capital for its present operating requirements and for at least twelve months from the date of this circular in the absence of unforeseen circumstances.

## 5. BUSINESSES ACQUIRED OR TO BE ACQUIRED BY THE GROUP AFTER 31 DECEMBER 2015

Save for the proposed Acquisition, no material business or interest in the share capital of a company has been acquired, agreed to be acquired or proposed to be acquired by the Group after 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group was made up.

## 6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Enlarged Group is principally engaged in film production, distribution of film and television drama series, investment in film, provision of artist management services, sales of health products, property and hotel investment, food and beverage operations and property development.

The performance of the hotel and gaming service operations in Lan Kwai Fong is significantly influenced by the adverse market conditions which are notably anticipated to remain difficult in the short term. Being a boutique size hotel, the Enlarged Group will continue to implement stringent cost control measure on operation expense and marketing expense and strengthen our marketing plan on development of close relationship with customers in order to secure the return rate of them.

The development of the Site and the Property will be the Enlarged Group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction of the Site is expected to start in the beginning of year 2017 and to complete in year 2019. The Site will be developed into a luxury residential and commercial complex of two towers with a total gross floor area of 45,989 square meters.

The Property is located at the Nam Van Lake, which is one of the two man-made lakes in the Macau Peninsula. In addition to the Macau Tower standing at the Nam Van Lake, Macau International Fireworks Display Contest is held in the Nam Van Lake in September and October every year. With its superb location and spectacular view overlooking the Macau Peninsula and the Cotai Island, the Enlarged Group intends to develop the Property into high-end residential apartments for sale. The Enlarged Group will obtain approvals of (i) the new amendment of the Land Grant in respect of the Development Plan and (ii) the extension of the Development Period or obtaining the New Development Period.

Other than the development of the Site and the Property, the Enlarged Group does not foresee any material changes in it principal businesses.

*The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

10 March 2017

The Directors
China Star Entertainment Limited

Unit 3409, Shun Tak Centre,
West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We report on the financial information (the "**Financial Information**") of Modern Vision (Asia) Limited (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**"), which comprises the consolidated statements of financial position as at 31 December 2013, 2014 and 2015 and 30 September 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the directors of China Star Entertainment Limited (the "**Company**") and is set out in Sections A to C below for inclusion in Appendix II to the circular of the Company dated 10 March 2017 (the "**Circular**") in connection with the proposed acquisition of the entire equity interests in the Target Company and the sale loan.

The Target Company was incorporated in the British Virgin Islands ("**BVI**") on 25 May 2007 as an exempted company with limited liability and its principal activity is investing holding.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in Note 19 of Section II below.

No statutory audited financial statements have been prepared by the Target Company as there is no statutory requirement in its place of incorporation. The statutory audited financial statements of the other companies now comprising the Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation.

The director of the Target Company is responsible for the preparation of the consolidated financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "**HKSAs**") issued by the HKICPA pursuant to separate terms of engagement.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

## DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of the Target Company is responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the director of the Target Company determine is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

## REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion on the Financial Information and to report our opinion solely to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

## OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 September 2016 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods.

Without qualifying our opinion, we draw attention to Note 3(b) to the Financial Information which indicates that the Target Group incurred a net loss of approximately HK$32,000, HK$20,000, HK$20,000 and HK$21,000 for the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016 respectively, as of that date, the Target Group's total liabilities exceeds its total asset by approximately HK$522,265,000, HK$522,285,000, HK$522,305,000 and HK$522,326,000. These conditions, along with other matters as set forth in Note 3(b) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

## COMPARATIVE FINANCIAL INFORMATION

### Respective responsibilities of directors and reporting accountants

The comparative consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Target Group for the period from 1 January 2015 to 30 September 2015 together with the notes thereon (the "**Comparative Financial Information**") which was prepared by the director of the Target Company for the purpose of this report. We conducted our review on the Comparative Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Preformed by the Independent Auditor of the Entity* issued by the HKICPA. Our review of the Comparative Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Comparative Financial Information is not prepared, in all material respects, in accordance with accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION OF THE TARGET GROUP

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Years ended 31 December | | | Nine months ended 30 September | |
|---|---|---|---|---|---|---|
| | | **2013** | **2014** | **2015** | **2015** | **2016** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | | (Unaudited) | |
| Revenue | 7 | – | – | – | – | – |
| Administrative expenses | | (32) | (20) | (20) | (20) | (21) |
| Loss before tax | 8 | (32) | (20) | (20) | (20) | (21) |
| Income tax expenses | 9 | – | – | – | – | – |
| Loss for the year | | (32) | (20) | (20) | (20) | (21) |
| Other comprehensive income for the year | | – | – | – | – | – |
| Total comprehensive loss for the year | | (32) | (20) | (20) | (20) | (21) |
| **Loss and total comprehensive loss attributable to:** | | | | | | |
| Owner of the Target Company | | (18) | (12) | (12) | (12) | (13) |
| Non-controlling interests | | (14) | (8) | (8) | (8) | (8) |
| | | (32) | (20) | (20) | (20) | (21) |

The accompanying notes form an integral part of the Financial Information of the Target Group.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | At 31 December | | | At 30 September |
|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current asset** | | | | | |
| Stock of property | 13 | 479,864 | 480,000 | 480,136 | 480,238 |
| **Capital and reserves** | | | | | |
| Share capital | 14 | – | – | – | – |
| Reserve | | (522,220) | (522,232) | (522,244) | (522,257) |
| Equity attributable to owner of the Target Company | | (522,220) | (522,232) | (522,244) | (522,257) |
| Non-controlling interests | | (45) | (53) | (61) | (69) |
| **Total equity** | | (522,265) | (522,285) | (522,305) | (522,326) |
| **Current liabilities** | | | | | |
| Loan from a shareholder | 15 | 499,894 | 499,899 | 499,904 | 499,909 |
| Amount due to a shareholder | 16 | 2,375 | 2,526 | 2,677 | 2,795 |
| Amounts due to non-controlling interests | 16 | 499,860 | 499,860 | 499,860 | 499,860 |
| **Total liabilities** | | 1,002,129 | 1,002,285 | 1,002,441 | 1,002,564 |
| **Total equity and liabilities** | | 479,864 | 480,000 | 480,136 | 480,238 |
| **Net current liabilities** | | (522,265) | (522,285) | (522,305) | (522,326) |
| **Total asset less current liabilities** | | (522,265) | (522,285) | (522,305) | (522,326) |

The accompanying notes form an integral part of the Financial Information of the Target Group.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owner of the Target Company | | | | |
|---|---|---|---|---|---|
| | Share capital<br>*HK$'000* | Accumulated losses<br>*HK$'000*<br>*(Note)* | Sub- total<br>*HK$'000* | Non-controlling interests<br>*HK$'000* | Total<br>*HK$'000* |
| At 1 January 2013 | – | (522,202) | (522,202) | (31) | (522,233) |
| Loss and total comprehensive loss for the year | – | (18) | (18) | (14) | (32) |
| At 31 December 2013 and at 1 January 2014 | – | (522,220) | (522,220) | (45) | (522,265) |
| Loss and total comprehensive loss for the year | – | (12) | (12) | (8) | (20) |
| At 31 December 2014 and at 1 January 2015 | – | (522,232) | (522,232) | (53) | (522,285) |
| Loss and total comprehensive loss for the year | – | (12) | (12) | (8) | (20) |
| At 31 December 2015 and at 1 January 2016 | – | (522,244) | (522,244) | (61) | (522,305) |
| Loss and total comprehensive loss for the period | – | (13) | (13) | (8) | (21) |
| At 30 September 2016 | – | (522,257) | (522,257) | (69) | (522,326) |
| At 1 January 2015 | – | (522,232) | (522,232) | (53) | (522,285) |
| Loss and total comprehensive loss for the period | – | (12) | (12) | (8) | (20) |
| At 30 September 2015 (Unaudited) | – | (522,244) | (522,244) | (61) | (522,305) |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended 31 December | | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (Unaudited) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Loss before tax and operating cash flows before movements in working capital | (32) | (20) | (20) | (20) | (21) |
| Increase in stock of property | (136) | (136) | (136) | (136) | (102) |
| Increase in amount due to a shareholder | 159 | 151 | 151 | 151 | 118 |
| **Net cash used in operating activities** | (9) | (5) | (5) | (5) | (5) |
| **CASH FLOW FROM FINANCING ACTIVITY** | | | | | |
| Loan from a shareholder | 9 | 5 | 5 | 5 | 5 |
| **Net cash generated from financing activity** | 9 | 5 | 5 | 5 | 5 |
| **Net effect in cash and cash equivalents** | – | – | – | – | – |
| **Cash and cash equivalents at the beginning of the Relevant Periods** | – | – | – | – | – |
| **Cash and cash equivalents at the end of the Relevant Periods** | – | – | – | – | – |

The accompanying notes form an integral part of the Financial Information of the Target Group.

## B. NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

The Target Company was incorporated in BVI on 25 May 2007 as an exempted company with limited liability. The address of its registered office is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, BVI.

The Target Company is investment holding company and principal activities of the Target Group is property investment and development.

The Financial Information is presented in Hong Kong dollars ("**HK$**"), which is the same functional currency of the Target Company. All Financial Information presented in HK$ has been rounded to the nearest thousand (HK$'000) except otherwise stated.

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

HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("**HKASs**"), HKFRSs, amendments and related interpretations (hereinafter collectively referred to as the "**new and revised HKFRSs**") which are effective for the Target Group's financial period beginning on 1 January 2016. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Target Group has consistently adopted all these new and revised HKFRSs through the Relevant Periods.

The following new and revised HKFRSs that are potentially relevant to the Target Group's Financial Information, have been issued but are not yet effective for the Relevant Periods and have not been early adopted.

| | |
|---|---|
| HKAS 7 (Amendments) | Disclosure Initiative[1] |
| HKAS 12 (Amendments) | Recognition of Deferred Tax Assets for Unrealised Losses[1] |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions[2] |
| HKFRS 4 (Amendments) | Insurance Contracts[2] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| HKFRS 15 (Amendments) | Clarifications to HKFRS 15 Revenue from Contracts with Customers[2] |
| HKFRS 16 | Leases[3] |

[1] Effective for annual periods beginning on or after 1 January 2017. Earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018. Earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019. Earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined.

**HKFRS 15 *Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract(s)
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract(s)
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The sole director anticipates that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Target Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detailed review.

**HKFRS 16 *Leases***

HKFRS 16 supersedes HKAS 17 *Leases*, HK(IFRIC) – Int 4 *Determining whether an Arrangement contain a Lease*, HK(SIC) – Int 15 *Operating Lease – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 *Leases*. Under HKFRS 16, leases are recorded on the consolidated statements of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the consolidated statements of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer).

HKFRS 16 substantially carries forward the lessor's accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows: (a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

The sole director is in the process of making an assessment of the potential impact of application of HKFRS16, the sole director considers that it is not practicable to provide a reasonable estimate of the effect of the adoption of HKFRS 16 until the Target Group performs a detailed review.

Except disclosed above, the sole director does not anticipated that the application of other new and revised HKFRSs will have a material impact on the consolidated financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### (a) Statement of compliance

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

### (b) Basis of preparation

The Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

During the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016, the Target Group incurred a net loss of approximately HK$32,000, HK$20,000, HK$20,000 and HK$21,000 respectively and, as of that date, the Target Group's total liabilities exceeded its total asset by approximately HK$522,265,000, HK$522,285,000, HK$522,305,000 and HK$522,326,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Target Group's ability to continue as a going concern and, therefore, the Target Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In addition, the shareholder of the Target Company has agreed to provide continuing financial support to the Target Group. The sole director is of the opinion that the Target Group will be able to finance its future working capital and financial requirements. Accordingly, the Financial Information has been prepared on a going concern basis.

**(c) Basis of consolidation**

The Financial Information incorporate the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owner of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

**(d) Impairment of tangible asset**

At the end of each reporting period, the Target Group reviews the carrying amount of its tangible asset with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate asset is also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statements of comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statements of comprehensive income.

**(e) Taxation**

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

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of asset and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of asset and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Target 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its asset and liabilities.

***Current and deferred tax for the year***

Current and deferred tax are recognised in the consolidated statements of comprehensive income, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**(f) Stock of property**

Stock of property, which is held for trading, are stated at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

***Property under development held for sale***

The costs of property under development held for sale comprises specifically identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is determined by reference to the sale proceeds of property sold in ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Property under development are classified as current assets when the construction of the relevant property commences unless the construction period of the relevant property development project is expected to be completed beyond normal operating cycle.

**(g) Financial instruments**

Financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition.

***Financial liabilities and equity instruments***

*Classification as financial liabilities or equity*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Other financial liabilities*

Other financial liabilities (including loan from a shareholder, amount due to a shareholder and amounts due to non-controlling interests) are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statements of comprehensive income.

**(h) Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated statements of comprehensive income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to asset under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to accumulated losses on repayment of the monetary items.

For the purposes of presenting Financial Information, the asset and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

**(i) Leasing**

All leases are classified as operating leases.

***The Target Group as lessee***

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the consolidated statements of comprehensive income, unless they are directly attributable to qualifying asset, in which case they are capitalised in accordance with the Target Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

**(j) Provisions**

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**(k) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Taget Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**(l) Contingent liabilities and assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. When inflow is virtually certain, an asset is recognised.

**(m) Related party transactions**

A party is considered to be related to the Target Group if:

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

A related party transaction is a transfer of resources, services or obligations between the Target Group and a related party, regardless of whether a price is charged.

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3 to the Financial Information, the sole director is required to make judgements, estimates and assumptions about the carrying amounts of asset and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Estimated net realisable value on property under development classified as stock of property***

In determining whether allowances should be made for the Target Group's property under development, the Target Group considers the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs of selling expenses) less estimated costs to completion of the property. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value on property under development is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment loss may result.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial liabilities** | | | | |
| Amortised cost | 1,002,129 | 1,002,285 | 1,002,441 | 1,002,564 |

### (b) Financial risk management objectives and policies

The Target Group's major financial instruments include loan from a shareholder, amount due to a shareholder and amounts due to non-controlling interests. Details of the financial instruments for the Target Group are disclosed in respective notes to the Financial Information.

The risks associated with these financial instruments include market risk (foreign exchange risk, equity price risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The sole director manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Target Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

***Market risk***

*(i) Foreign exchange risk*

The Target Group mainly operates in Hong Kong and Macau and majority of transactions are denominated in HK$, and Macau Pataca ("**MOP**"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Target Group.

The Target Group is not exposed to foreign exchange risk in respect of HK$ against the MOP as long as these currencies are pegged.

The Target Group currently do not have a foreign currency hedging policy in respect of assets and liabilities denominated in foreign currency. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

*(ii) Equity price risk*

The Target Group is not exposed to equity price risk because the Target Group's operations are not relied on working capital that is subject to significant price change.

*(iii) Interest rate risk*

The Target Group has no interest-bearing liabilities. Therefore, the Target Group is not exposed to interest rate risk.

***Credit risk***

At the Relevant Periods, the Target Group has no significant exposure to credit risk.

***Liquidity risk***

The Target Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by the management. The sole director will raise bank borrowings whenever necessary

The following table shows the details of the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay.

The maturity dates for other non-derivative financial liabilities are prepared based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

| | | At 31 December 2013 | | | | |
|---|---|---|---|---|---|---|
| | Effective interest rate | On demand or within 1 year | Within 2-5 years | Over 5 years | Total undiscounted cash flows | Total carrying amount |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from a shareholder | – | 499,894 | – | – | – | 499,894 |
| Amount due to a shareholder | – | 2,375 | – | – | – | 2,375 |
| Amounts due to non-controlling interests | – | 499,860 | – | – | – | 499,860 |
| Total | | 1,002,129 | – | – | – | 1,002,129 |

| | | At 31 December 2014 | | | | |
|---|---|---|---|---|---|---|
| | Effective interest rate | On demand or within 1 year | Within 2-5 years | Over 5 years | Total undiscounted cash flows | Total carrying amount |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from a shareholder | – | 499,899 | – | – | – | 499,899 |
| Amount due to a shareholder | – | 2,526 | – | – | – | 2,526 |
| Amounts due to non-controlling interests | – | 499,860 | – | – | – | 499,860 |
| Total | | 1,002,285 | – | – | – | 1,002,285 |

| | | At 31 December 2015 | | | | |
|---|---|---|---|---|---|---|
| | Effective interest rate | On demand or within 1 year *HK$'000* | Within 2-5 years *HK$'000* | Over 5 years *HK$'000* | Total undiscounted cash flows *HK$'000* | Total carrying amount *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from a shareholder | – | 499,904 | – | – | – | 499,904 |
| Amount due to a shareholder | – | 2,677 | – | – | – | 2,677 |
| Amounts due to non-controlling interests | – | 499,860 | – | – | – | 499,860 |
| Total | | 1,002,441 | – | – | – | 1,002,441 |

| | | At 30 September 2016 | | | | |
|---|---|---|---|---|---|---|
| | Effective interest rate | On demand or within 1 year *HK$'000* | Within 2-5 years *HK$'000* | Over 5 years *HK$'000* | Total undiscounted cash flows *HK$'000* | Total carrying amount *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | |
| Loan from a shareholder | – | 499,909 | – | – | – | 499,909 |
| Amount due to a shareholder | – | 2,795 | – | – | – | 2,795 |
| Amounts due to non-controlling interests | – | 499,860 | – | – | – | 499,860 |
| Total | | 1,002,564 | – | – | – | 1,002,564 |

**(c) Fair value of financial instruments**

The fair values of financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The sole director considers that the carrying amounts of financial liabilities recognised in the financial statements approximate to their fair values.

**(d) Capital management**

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior year.

The capital structure of the Target Group consists of net debts (which includes loan from a shareholder, amount due to a shareholder and amounts due to non-controlling interests) and equity attributable to owner of the Target Company (comprising share capital and accumulated losses).

***Gearing ratio***

The sole director review the capital structure on annual basis. As part of this review, the sole director considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the sole director, the Target Group will balance its overall capital structure through issue of new shares and repurchase of shares as well as issue of new debts or the redemption of existing debts.

The Target Group aimed at maintaining a gearing ratio at reasonable level. The gearing ratio at the end of the Relevant Periods was as follows:

| | | | | |
|---|---|---|---|---|
| | | | | **At 30** |
| | | **At 31 December** | | **September** |
| | **2013** | **2014** | **2015** | **2016** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total debt *(note i)* | 1,002,129 | 1,002,285 | 1,002,441 | 1,002,564 |
| Equity attributable to owner of the Target Company | (522,220) | (522,232) | (522,244) | (522,257) |
| Total debt to equity ratio | 192% | 192% | 192% | 192% |

*Note:*

(i) Debt comprises loan from a shareholder, amount due to a shareholder and amounts due to non-controlling interests as detailed in notes 15 and 16.

**6. SEGMENT INFORMATION**

As per HKFRS 8 *Operating Segments*, no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as the Target Group only engages in property investment and development operation.

**7. REVENUE**

During the Relevant Periods, the Target Group did not generate any revenue.

**8. LOSS BEFORE TAX**

Loss before tax has been arrived at after charging:

| | | | | | |
|---|---|---|---|---|---|
| | | | | **Nine months ended** | |
| | | **Year ended 31 December** | | **30 September** | |
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (Unaudited) | |
| Auditors' remuneration | – | – | – | – | – |
| Staff costs (including director's remuneration) | | | | | |
| – Salaries and other benefits | – | – | – | – | – |
| – Staff welfare | – | – | – | – | – |
| – Retirement benefits scheme contributions | – | – | – | – | – |
| | – | – | – | – | – |

## 9. INCOME TAX EXPENSES

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit during the Relevant Periods.

No provision for Hong Kong Profits Tax and Macau Complementary Tax has been made for the Relevant Periods as the Target Group has no assessable profit arising in Hong Kong and Macau.

The income tax expenses for the Relevant Periods can be reconciled to the loss per the consolidated statements of comprehensive income as follows:

| | Year ended 31 December | | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (Unaudited) | |
| Loss before tax | (32) | (20) | (20) | (20) | (21) |
| Tax at statutory income tax rate | (3) | (2) | (2) | (2) | (2) |
| Tax effect of: | | | | | |
| Estimated tax losses not recognised | 3 | 2 | 2 | 2 | 2 |
| Income tax expenses for the Relevant Periods | – | – | – | – | – |

## 10. DIVIDENDS

The sole director does not recommend the payment of any dividend for the Relevant Periods.

## 11. LOSS PER SHARE

Loss per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. DIRECTOR'S EMOLUMENTS

The emoluments of the sole director, on a named basis for the Relevant Periods are set out below:

For the year ended 31 December 2013:

| | **Fees** | **Salaries and other allowance** | **Retirement benefit scheme contribution** | **Share-based payment** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chen Ming Yin, Tiffany *(note i)* | – | – | – | – | – |

For the year ended 31 December 2014:

| | **Fees** | **Salaries and other allowance** | **Retirement benefit scheme contribution** | **Share-based payment** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chen Ming Yin, Tiffany *(note i)* | – | – | – | – | – |

For the year ended 31 December 2015:

| | **Fees** | **Salaries and other allowance** | **Retirement benefit scheme contribution** | **Share-based payment** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chen Ming Yin, Tiffany *(note i)* | – | – | – | – | – |

For the period ended 30 September 2016:

| | **Fees** | **Salaries and other allowance** | **Retirement benefit scheme contribution** | **Share-based payment** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chen Ming Yin, Tiffany *(note i)* | – | – | – | – | – |

For the period ended 30 September 2015 (Unaudited):

| | **Fees** | **Salaries and other allowance** | **Retirement benefit scheme contribution** | **Share-based payment** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chen Ming Yin, Tiffany *(note i)* | – | – | – | – | – |

*Note:*

(i) Chen Ming Yin, Tiffany was appointed on 15 June 2007.

During the Relevant Periods, no emolument was paid by the Target Group to the sole director as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of the sole director has waived or agreed to waive any emoluments during the Relevant Periods.

### 13. STOCK OF PROPERTY

| | At 31 December | | | At 30 September |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Property under development held for sale | 479,864 | 480,000 | 480,136 | 480,238 |

The stock of property is located in Macau and held under medium-term lease.

Property under development held for sale with the carrying amounts of approximately HK$479,864,000, HK$480,000,000, HK$480,136,000 and HK$480,238,000 at 31 December 2013, 2014 and 2015 and 30 September 2016 are expected to be completed after more than one year.

### 14. SHARE CAPITAL

| | At 31 December | | | At 30 September |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Authorised:** | | | | |
| 50,000 ordinary shares of US dollar ("US$") 1 each | 390 | 390 | 390 | 390 |
| **Issued and fully paid:** | | | | |
| 1 ordinary share of US$1 | – | – | – | – |

### 15. LOAN FROM A SHAREHOLDER

The loan from a shareholder is unsecured, interest-free and repayable on demand.

### 16. AMOUNTS DUE TO A SHAREHOLDER/NON-CONTROLLING INTERESTS

The amounts due to a shareholder/non-controlling interests are unsecured, interest-free and repayable on demand.

### 17. CAPITAL COMMITMENTS

| | At 31 December | | | At 30 September |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Authorised and contracted, but not provided for:** | | | | |
| Development expenditure for stock of property located in Macau | 7,820 | 7,820 | 7,820 | 7,820 |

## 18. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Target Group entered into the following material transactions with related parties:

(a) Detail of the balances with loan from a shareholder, amount due to a shareholder and amounts due to non-controlling interests at the Relevant Periods is set out in notes 15 and 16 to the Financial Information.

(b) Compensation to key management personnel of the Target Group represented director's remuneration as disclosed in note 8 to the Financial Information.

## 19. STATEMENTS OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE TARGET COMPANY

### (a) Statements of financial position of the Target Company

| | | At 31 December | | At 30 September |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current asset** | | | | |
| Investment in a subsidiary | – | – | – | – |
| **Current asset** | | | | |
| Amount due from a subsidiary | 499,860 | 499,860 | 499,860 | 499,860 |
| **Total assets** | 499,860 | 499,860 | 499,860 | 499,860 |
| **Capital and reserves** | | | | |
| Share capital | – | – | – | – |
| Reserves | (34) | (39) | (44) | (49) |
| **Total equity** | (34) | (39) | (44) | (49) |
| **Current liability** | | | | |
| Loan from a shareholder | 499,894 | 499,899 | 499,904 | 499,909 |
| **Total equity and liability** | 499,860 | 499,860 | 499,860 | 499,860 |
| **Net current liability** | (34) | (39) | (44) | (49) |
| **Total assets less current liability** | (34) | (39) | (44) | (49) |

**(b) Movement of reserves of the Target Company**

| | Accumulated losses |
|---|---|
| | *HK$'000* |
| At 1 January 2013 | (29) |
| Loss and total comprehensive loss for the year | (5) |
| At 31 December 2013 and at 1 January 2014 | (34) |
| Loss and total comprehensive loss for the year | (5) |
| At 31 December 2014 and at 1 January 2015 | (39) |
| Loss and total comprehensive loss for the year | (5) |
| At 31 December 2015 and at 1 January 2016 | (44) |
| Loss and total comprehensive loss for the period | (5) |
| At 30 September 2016 | (49) |
| At 1 January 2015 | (39) |
| Loss and total comprehensive loss for the period | (5) |
| At 30 September 2015 (Unaudited) | (44) |

## 20. PARTICULARS OF SUBSIDIARIES

Details of the Target Company's subsidiaries are as follows:

| Name of subsidiary | Country/place of incorporation/ formation | Class of shares held | Proportion of ownership interest and voting power held by the Target Company | | | | Issued and fully paid share capital/ quota capital | Principal activities | Auditor |
|---|---|---|---|---|---|---|---|---|---|
| | | | at 31 December | | | at 30 September | | | |
| | | | 2013 | 2014 | 2015 | 2016 | | | |
| Over Profit International Limited ("Over Profit") | BVI | Ordinary | 50% | 50% | 50% | 50% | US$100 | Investment holding | N/A |
| Summer Sound Investments Limited | BVI | Ordinary | 100% | 100% | 100% | 100% | US$100 | Investment holding | N/A |
| Crown Gem Investments Limited | BVI | Ordinary | 100% | 100% | 100% | 100% | HK$1 | Investment holding | N/A |
| Hercules – Holding Company Limited | Macau | Ordinary | 100% | 100% | 100% | 100% | MOP25,000 | Investment holding | N/A |
| Stronghold – Holding Company Limited | Macau | Ordinary | 100% | 100% | 100% | 100% | MOP25,000 | Investment holding | N/A |
| Splendid Construction and Investment Company Limited | Macau | Ordinary | 100% | 100% | 100% | 100% | MOP100,000 | Property investment and development | N/A |

Except for Over Profit is directly held by the Target Company, all other subsidiaries are indirectly held by the Target Company.

The following table lists out the information relating to Over Profit, a subsidiary of the Target Company with material non-controlling interest. The summarised financial information presented below represents the amounts before any inter-company elimination.

| | At 31 December | | | At 30 September |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Current assets | 479,865 | 480,001 | 480,137 | 480,239 |
| Current liabilities | 1,002,095 | 1,002,246 | 1,002,397 | 1,002,515 |
| Equity attributable to owner of the Target Company | (522,185) | (522,192) | (522,199) | (522,207) |
| Non-controlling interests | (45) | (53) | (61) | (69) |

| | At 31 December | | | At 30 September |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | – | – | – | – |
| Expenses | 27 | 15 | 15 | 16 |
| Loss attributable to owner of the Target Company | 13 | 7 | 7 | 8 |
| Loss attributable to non-controlling interests | 14 | 8 | 8 | 8 |
| Loss for the year | 27 | 15 | 15 | 16 |
| Total comprehensive loss attributable to owner of the Target Company | 13 | 7 | 7 | 8 |
| Total comprehensive loss attributable to non-controlling interests | 14 | 8 | 8 | 8 |
| Total comprehensive income | 27 | 15 | 15 | 16 |
| Net cash generated from operating activities | – | – | – | – |
| Net cash outflow | – | – | – | – |

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any subsidiaries of the Target Company have been prepared in respect of any period subsequent to 30 September 2016 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by the Target Company in respect of any period subsequent to 30 September 2016.

Yours faithfully
**HLB Hodgson Impey Cheng Limited**
Certified Public Accountants
**Hon Koon Fai, Alex**
Practising Certificate Number: P05029
Hong Kong

*Set out below is the management discussion and analysis on the Target Group for the three financial years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016:*

## BUSINESS AND FINANCIAL REVIEW

Modern Vision is an investment holding company. The major asset of Modern Vision is its 50% equity interest in Over Profit. Other than holding the 50% equity interest in Over Profit, Modern Vision has not carried out any other business since its date of incorporation. Over Profit is an investment holding company which indirectly holds a 100% equity interest in Macau Co, which in turn is the registered and beneficial owner of the Property. The Target Group is principally engaged in property development and investment.

The Target Group recorded nil revenue for the three financial years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016. The net loss of the Target Group before and after tax for the three financial years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016 were approximately HK$32,000, HK$20,000, HK$20,000 and HK$21,000 respectively, which were mainly attributable to administrative expenses for the year/period.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group's current assets amounted to approximately HK$479.86 million, HK$480.00 million, HK$480.14 million and HK$480.24 million respectively. As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group's current liabilities amounted to approximately HK$1,002.13 million, HK$1,002.29 million, HK$1,002.44 million and HK$1,002.56 million respectively (mainly comprising loan from a shareholder and amounts due to non-controlling interests), representing a current ratio of 0.48 for the year/period.

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group had net liabilities of approximately HK$522.27 million, HK$522.29 million, HK$522.31 million and HK$522.33 million respectively.

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the cash and cash equivalents of the Target Group amounted to approximately nil.

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group did not have bank borrowings and banking facilities.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the total number of issued ordinary shares of Modern Vision was HK$8. The Target Group funded its operations through loan from a shareholder and amounts due to non-controlling interests.

## GEARING RATIO

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the gearing ratio of the Target Group, calculated in the basis of the Target Group's total borrowings (including loan from a shareholder and amounts due to non-controlling interests) over equity attributable to owner of the Target Company, were approximately 191%.

## CHARGES ON ASSETS

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group did not have any charges on assets.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the three years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016, the Target Group did not have any material acquisition and disposal of subsidiaries and associated companies. As at 31 December 2013, 2014 and 2015 and 30 September 2016, save for the Property, the Target Group did not hold any significant investments or plan for material investments or capital assets in future period.

## EXCHANGE RISK AND HEDGING

During the three years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016, the majority of the Target Group's transactions, assets and liabilities are denominated in Macau Pataca and Hong Kong dollars. The exposure of the Target Group fluctuation in exchanges rates was considered to be minimal and no hedge activity were considered necessary.

## CAPITAL COMMITMENTS

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group's outstanding capital commitments all amounted to HK$7.82 million, which were professional fees for the preparation of the development plan of the Property.

## CONTINGENT LIABILITIES

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group did not have any contingent liabilities.

## EMPLOYEE AND REMUNERATION POLICIES

During the three years ended 31 December 2013, 2014 and 2015 and the nine months period ended 30 September 2016, the Target Group do not employed any staffs and recorded any employee benefit expenses.

## EVENT AFTER THE REPORTING DATE

There were no significant event took place subsequent to each of the end of the reporting period.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group intends to develop the Property into high-end residential apartments for sale. In the past few years, the Target Group was waiting for the Macau Government to finalise the master plan in Nam Van District. On 15 September 2016, the UCP has been issued and the Property will go for necessary procedure for approval by the DSSOPT in near future. Then, the construction work of the Property will start and the Target Group intends to finance the construction costs by shareholders' loan or bank borrowing.

Save for the above, as at 31 December 2013, 2014 and 2015 and 30 September 2016, the Target Group has no future plans for material investments or capital assets.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is an illustrative and unaudited pro forma financial information of China Star Entertainment Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") and Modern Vision (Asia) Limited (the "**Target Company**") and its subsidiaries (together referred to as the "**Target Group**") (hereinafter collectively referred to as the "**Enlarged Group**") comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows ("**Unaudited Pro Forma Financial Information**"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of (i) the proposed acquisition of entire issued share capital of Target Company and the sale loan (the "**Acquisition**"); and (ii) granting of loan and the acceptance of call option (the "**Transaction**") as if the Acquisition and/or the Transaction had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and as if the Acquisition and/or the Transaction had taken place on 1 January 2015 for the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Acquisition and/or the Transaction had been completed as at 30 June 2016 or 1 January 2015, where applicable, or any future dates.

The Unaudited Pro Forma Financial Information had been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Group for the year ended 31 December 2015.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2015, the published interim report of the Group for the six months ended 30 June 2016, the Accountants' Report of the Target Group and other financial information included elsewhere in this circular.

The Unaudited Pro Forma Financial Information is presented in three scenarios as follows:

Scenario I: Assuming the Acquisition and the Transaction had been completed on 30 June 2016 for the purposes of the unaudited pro forma consolidated statement of financial position and on 1 January 2015 for the purposes of the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group respectively;

Scenario II: Assuming the Acquisition had been completed on 30 June 2016 for the purposes of the unaudited pro forma consolidated statement of financial position and on 1 January 2015 for the purposes of the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group respectively and the Transaction lapsed; and

Scenario III: Assuming the Transaction had been completed on 30 June 2016 for the purposes of the unaudited pro forma consolidated statement of financial position and on 1 January 2015 for the purposes of the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Group respectively and the Acquisition lapsed.

**Scenario I**

***Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group***

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 | Audited consolidated statement of financial position of the Target Group as at 30 September 2016 | Sub-total | Pro forma adjustments | | Unaudited pro forma consolidated statement of financial position of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 398,623 | – | 398,623 | | | 398,623 |
| Interests in leasehold land | 406,876 | – | 406,876 | | | 406,876 |
| Investment properties | 90,690 | – | 90,690 | | | 90,690 |
| Intangible assets | 17,462 | – | 17,462 | | | 17,462 |
| Loan to a director | – | – | – | 230,000 | 5 | 230,000 |
| | 913,651 | – | 913,651 | | | 1,143,651 |
| **Current assets** | | | | | | |
| Inventories | 54,029 | – | 54,029 | | | 54,029 |
| Stock of properties | 570,978 | 480,238 | 1,051,216 | 980,294 | 4 | 2,031,510 |
| Film rights | 12,545 | – | 12,545 | | | 12,545 |
| Films in progress | 539,001 | – | 539,001 | | | 539,001 |
| Investment in film | 11,325 | – | 11,325 | | | 11,325 |
| Trade receivables | 146,562 | – | 146,562 | | | 146,562 |
| Deposits, prepayment and other receivables | 128,126 | – | 128,126 | | | 128,126 |
| Financial assets at fair value through profit or loss | 293,124 | – | 293,124 | 270,000 | 5 | 563,124 |
| Loan receivables | 1,165,000 | – | 1,165,000 | | | 1,165,000 |
| Amounts due from non-controlling interests | 568 | – | 568 | | | 568 |
| Amount due from a joint venture | 734 | – | 734 | | | 734 |
| Cash and cash equivalents | 820,793 | – | 820,793 | (400,000) | 3 | |
| | | | | (500,000) | 5 | |
| | | | | (2,500) | 6 | (81,707) |
| | 3,742,785 | 480,238 | 4,223,023 | | | 4,570,817 |
| **Total assets** | **4,656,436** | **480,238** | **5,136,674** | | | **5,714,468** |

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 | Audited consolidated statement of financial position of the Target Group as at 30 September 2016 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of financial position of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Capital and reserves** | | | | | | |
| Share capital | 7,531 | – | 7,531 | | | 7,531 |
| Reserves | 3,419,571 | (522,257) | 2,897,314 | 522,257 | 4 | |
| | | | | (2,500) | 6 | 3,417,071 |
| **Equity attributable to owners of the Company** | **3,427,102** | **(522,257)** | **2,904,845** | | | **3,424,602** |
| Non-controlling interests | (433) | (69) | (502) | | | (502) |
| **Total equity** | **3,426,669** | **(522,326)** | **2,904,343** | | | **3,424,100** |
| **Non-current liabilities** | | | | | | |
| Bank borrowings | 730,000 | – | 730,000 | | | 730,000 |
| Obligations under finance leases | 468 | – | 468 | | | 468 |
| Promissory note | – | – | – | 557,946 | 3 | 557,946 |
| Deferred tax liabilities | 82,948 | – | 82,948 | | | 82,948 |
| | 813,416 | – | 813,416 | | | 1,371,362 |
| **Current liabilities** | | | | | | |
| Bank borrowings | 128,443 | – | 128,443 | | | 128,443 |
| Obligations under finance leases | 231 | – | 231 | | | 231 |
| Trade payables | 26,718 | – | 26,718 | | | 26,718 |
| Deposits received, accruals and other payables | 260,934 | – | 260,934 | | | 260,934 |
| Amounts due to joint ventures | 25 | – | 25 | | | 25 |
| Amount due to a shareholder | – | 2,795 | 2,795 | | | 2,795 |
| Amounts due to non-controlling interests | – | 499,860 | 499,860 | | | 499,860 |
| Loan from a shareholder | – | 499,909 | 499,909 | (499,909) | 4 | – |
| | 416,351 | 1,002,564 | 1,418,915 | | | 919,006 |
| **Total liabilities** | **1,229,767** | **1,002,564** | **2,232,331** | | | **2,290,368** |
| **Total equity and liabilities** | **4,656,436** | **480,238** | **5,136,674** | | | **5,714,468** |
| **Net current assets/(liabilities)** | **3,326,434** | **(522,326)** | **2,804,108** | | | **3,651,811** |
| **Total assets less current liabilities** | **4,240,085** | **(522,326)** | **3,717,759** | | | **4,795,462** |

***Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group***

| | Audited consolidated income statement of the Group for the year ended 31 December 2015 | Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated income statement of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Revenue** | 1,044,506 | – | 1,044,506 | | | 1,044,506 |
| Cost of sales | (581,784) | – | (581,784) | | | (581,784) |
| Gross profit | 462,722 | – | 462,722 | | | 462,722 |
| Other revenue | 108,382 | – | 108,382 | 57,322 | 8 | 165,704 |
| Other income | 915 | – | 915 | | | 915 |
| Administrative expenses | (383,065) | (20) | (383,085) | (2,500) | 6 | (385,585) |
| Marketing, selling and distribution expenses | (85,515) | – | (85,515) | | | (85,515) |
| Loss arising on change in fair value of financial assets at fair value through profit or loss | 99,638 | – | 99,638 | | | 99,638 |
| Other operating expenses | (66,186) | – | (66,186) | | | (66,186) |
| **Profit/(loss) from operations** | 136,891 | (20) | 136,871 | | | 191,693 |
| Finance costs | (29,314) | – | (29,314) | (50,112) | 7 | (79,426) |
| Share of results of joint ventures | 138 | – | 138 | | | 138 |
| **Profit/(loss) before tax** | 107,715 | (20) | 107,695 | | | 112,405 |
| Income tax credit/(expense) | 149 | – | 149 | (9,458) | 8 | (9,309) |
| **Profit/(loss) for the year** | 107,864 | (20) | 107,844 | | | 103,096 |
| **Profit/(loss) for the year attributable to:** | | | | | | |
| Owners of the Company | 107,871 | (12) | 107,859 | | | 103,111 |
| Non-controlling interests | (7) | (8) | (15) | | | (15) |
| | 107,864 | (20) | 107,844 | | | 103,096 |

***Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group***

| | Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2015 | Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | | Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Profit/(loss) for the year** | 107,864 | (20) | 107,844 | (2,500) | 6 | |
| | | | | (50,112) | 7 | |
| | | | | 47,864 | 8 | 103,096 |
| **Other comprehensive income** | | | | | | |
| **Items that will not reclassified to profit or loss:** | | | | | | |
| Gain on revaluation of property | 48,171 | – | 48,171 | | | 48,171 |
| **Items that may be reclassified subsequently to consolidated income statement:** | | | | | | |
| *Exchange differences arising on translation of foreign operations:* | | | | | | |
| Exchange differences arising during the year | (103) | – | (103) | | | (103) |
| **Other comprehensive income for the year** | 48,068 | – | 48,068 | | | 48,068 |
| **Total comprehensive income/(loss) for the year** | 155,932 | (20) | 155,912 | | | 151,164 |
| **Total comprehensive income/(loss) for the year attributable to:** | | | | | | |
| Owners of the Company | 155,939 | (12) | 155,927 | | | 151,179 |
| Non-controlling interests | (7) | (8) | (15) | | | (15) |
| | 155,932 | (20) | 155,912 | | | 151,164 |

***Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group***

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Cash flows from operating activities** | | | | | | |
| Profit/(loss) before tax | 107,715 | (20) | 107,695 | (2,500) | 6 | |
| | | | | (50,112) | 7 | |
| | | | | 57,322 | 8 | 112,405 |
| Adjustments for: | | | | | | |
| Finance costs | 29,314 | – | 29,314 | 50,112 | 7 | 79,426 |
| Interest income | (95,910) | – | (95,910) | (57,322) | 8 | (153,232) |
| Dividend income | (134) | – | (134) | | | (134) |
| Amortisation of film rights | 241 | – | 241 | | | 241 |
| Amortisation of intangible assets | 577 | – | 577 | | | 577 |
| Amortisation of interests in leasehold land | 23,158 | – | 23,158 | | | 23,158 |
| Depreciation of property, plant and equipment | 70,256 | – | 70,256 | | | 70,256 |
| Gain on disposal of financial assets at fair value through profit or loss | (21,991) | – | (21,991) | | | (21,991) |
| Impairment loss recognised in respect of film rights | 2,405 | – | 2,405 | | | 2,405 |
| Impairment loss recognised in respect of intangible assets | 6,865 | – | 6,865 | | | 6,865 |
| Gain arising on change in fair value of financial assets at fair value through profit or loss | (77,647) | – | (77,647) | | | (77,647) |
| Loss on fair value change of investment properties | 4,930 | – | 4,930 | | | 4,930 |
| Gain on disposal of property, plant and equipment | (392) | – | (392) | | | (392) |
| Share-based payment expenses | 51,986 | – | 51,986 | | | 51,986 |
| Share of result of joint ventures | (138) | – | (138) | | | (138) |
| Write-down of obsolete inventories | 10 | – | 10 | | | 10 |
| Operating cash flows before movements in working capital | 101,245 | (20) | 101,225 | | | 98,725 |
| Decrease in inventories | 2,854 | – | 2,854 | | | 2,854 |
| Increase in stock of properties | (1,610) | (136) | (1,746) | | | (1,746) |
| Increase in films in progress | (301,216) | – | (301,216) | | | (301,216) |
| Increase in film rights | (600) | – | (600) | | | (600) |
| Increase in trade receivables | (3,791) | – | (3,791) | | | (3,791) |

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| Increase in deposits, prepayment and other receivables | (2,827) | – | (2,827) | | | (2,827) |
| Increase in investment in film | (11,325) | – | (11,325) | | | (11,325) |
| Increase in amounts due from non-controlling interests | (329) | – | (329) | | | (329) |
| Increase in amount due from a joint venture | (12) | – | (12) | | | (12) |
| Increase in trade payables | 512 | – | 512 | | | 512 |
| Increase in deposits received, accruals and other payables | 179,279 | – | 179,279 | | | 179,279 |
| Decrease in amounts due to non-controlling interests | (294) | – | (294) | | | (294) |
| Increase in amount due to a shareholder | – | 151 | 151 | | | 151 |
| Cash used in operations | (38,114) | (5) | (38,119) | | | (40,619) |
| Tax paid | (86) | – | (86) | | | (86) |
| **Net cash used in operating activities** | (38,200) | (5) | (38,205) | | | (40,705) |
| **Cash flows from investing activities** | | | | | | |
| Dividend received | 134 | – | 134 | | | 134 |
| Interest received | 93,702 | – | 93,702 | 25,000 | 8 | 118,702 |
| Loan advanced to third parties | (900,000) | – | (900,000) | | | (900,000) |
| Loan advanced to a director | – | – | – | (500,000) | 5 | (500,000) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 176,659 | – | 176,659 | | | 176,659 |
| Proceeds from disposal of property, plant and equipment | 473 | – | 473 | | | 473 |
| Purchases of financial assets at fair value through profit or loss | (346,501) | – | (346,501) | | | (346,501) |
| Purchases of property, plant and equipment | (49,670) | – | (49,670) | | | (49,670) |
| Refund of deposit paid for investment | 600,000 | – | 600,000 | | | 600,000 |
| Repayment of loan advanced to third parties | 275,000 | – | 275,000 | | | 275,000 |
| Proceeds for the Acquisition | – | – | – | (400,000) | 3 | (400,000) |
| **Net cash used in investing activities** | (150,203) | – | (150,203) | | | (1,025,203) |

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Cash flows from financing activities** | | | | | | |
| Interest paid | (28,785) | – | (28,785) | (30,000) | 7 | (58,785) |
| Loan from a shareholder | – | 5 | 5 | | | 5 |
| New bank borrowings raised | 1,065,750 | – | 1,065,750 | | | 1,065,750 |
| Proceeds from issue of new shares | 346,548 | – | 346,548 | | | 346,548 |
| Repayment of obligations under finance leases | (247) | – | (247) | | | (247) |
| Repayment of bank borrowings | (456,641) | – | (456,641) | | | (456,641) |
| Share issuing expenses | (10,366) | – | (10,366) | | | (10,366) |
| **Net cash generated from financing activities** | 916,259 | 5 | 916,264 | | | 886,264 |
| **Increase/(decrease) in cash and cash equivalents** | 727,856 | – | 727,856 | | | (179,644) |
| **Cash and cash equivalents at the beginning of the reporting period** | 323,939 | – | 323,939 | | | 323,939 |
| **Effect of foreign exchange rate changes** | (103) | – | (103) | | | (103) |
| **Cash and cash equivalents at the end of the reporting period** | | | | | | |
| Cash and bank balances | 1,051,692 | – | 1,051,692 | | | 144,192 |

***Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group***

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016; and the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows for the year ended 31 December 2015 as set out in the Company's published interim report for the six months ended 30 June 2016 and annual report for the year ended 31 December 2015 respectively.

2. The amounts are extracted from the Accountants' Report on the Target Group as set out in Appendix II in this circular.

3. On 29 November 2016, Best Combo Limited ("**Best Combo**"), a wholly-owned subsidiary of the Company, and Ms. Chen Ming Yin, Tiffany ("**Ms. Chen**"), an executive director of the Company, entered into a conditional sale and purchase agreement ("**S&P Agreement**") pursuant to which Ms. Chen has conditionally agreed to dispose and Best Combo has conditionally agreed to acquire the entire issued share capital of the Target Company and a sale loan with the amount of approximately HK$499,909,000 (the "**Sale Loan**") due to Ms. Chen at an aggregate consideration of HK$1,000,000,000 (subject to purchase price adjustment) (the "**Consideration**"). The Consideration shall be satisfied by (i) the payment of HK$400,000,000 as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the promissory note with a principal amount of HK$600,000,000 (the "**Promissory Note**") by the Company to Ms. Chen for the balance upon date of completion (the "**Completion Date**") of the Acquisition. The Promissory Note is interest bearing at 5% per annum and will be matured after 24 months from the date of issue of the Promissory Note.

   An analysis of the pro forma fair value of the initial consideration assuming the Acquisition had been taken place on 30 June 2016 is set out as follows:

| | **Face value** | **Pro forma total fair value of Consideration** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Promissory Note | 600,000 | 557,946 |
| Cash consideration | 400,000 | 400,000 |
| | 1,000,000 | 957,946 |

These fair values have been arrived on the basis of valuation carried out by Roma Appraisals Limited, an independent qualified professional valuer as if the Promissory Notes had been issued on 30 June 2016.

For the purpose of the Unaudited Pro Forma Financial Information, the assumed fair value of the Promissory Note is estimated to be approximately HK$557,946,000 which has been arrived by using the discounting the estimated contractual cash flows at effective interest rate of 8.9% per annum. On the Completion Date, the fair value of the Promissory Note will be reassessed and is therefore subject to change.

4. Under HKFRSs, the Acquisition was accounted for as an acquisition of asset and liabilities as the Target Group proposed to be acquired by the Group does not constitute a business. The stock of property acquired are initially recognised at cost and subsequently at the lower of cost and net realisable value. Assuming that the Acquisition is completed on 30 June 2016, an analysis of the additional cost being allocated to the asset and liabilities of the Target Group as at 30 June 2016 after the pro forma adjustment as disclosed in this circular are as follows:

The pro forma adjustment of approximately HK$980,294,000 arising from acquisition of the Target Group is derived as follows:

| | *HK$'000* |
|---|---|
| Total fair value of the Consideration *(Note 3)* | 957,946 |
| Add: Equity attributable to owners of the Target Company | 522,257 |
| Less: Loan from a shareholder assigned to the Group | (499,909) |
| An additional amount being allocated to the Target Group's stock of property | 980,294 |

In the absence of a formal valuation for other asset and liabilities of the Target Group, the directors of the Company have assumed the fair value of other identifiable asset and liabilities of the Target Group to be the same as their carrying amounts.

5. On 29 November 2016, Best Combo, as a lender, and Ms. Chen, as the borrower, entered into a loan agreement (the "**Loan Agreement**") pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan (the "**Loan**") in the principal amount of HK$500,000,000 (subject to the loan amount adjustment). The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the draw down date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base Holdings Limited ("**Reform Base**"), a company incorporated in the British Virgin Islands and wholly owned by Ms. Chen.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the call option (the "**Call Option**") to Best Combo which allows Best Combo require Ms. Chen to sell the entire issued share capital of Reform Base at HK$500,000,000 (subject to the loan amount adjustment).

The pro forma adjustment represents the initial measurement of the estimated fair value with the amount of approximately HK$230,000,000 and HK$270,000,000 of loan receivables and the Call Option respectively as if the Loan had been granted on 30 June 2016.

These fair values have been arrived on the basis of valuation carried out by Roma Appraisals Limited, an independent qualified professional valuer as if the Loan had been granted and the Call Option had been accepted on 30 June 2016.

For the purpose of the Unaudited Pro Forma Financial Information, the assumed fair value of the Loan and the Call Option is estimated to be approximately HK$230,000,000 and HK$270,000,000 which has been arrived by using the discounting the contractual cash flows at effective interest rate of 24.19% per annum and by using the binomial option pricing model at discount rate of 25.75% respectively. On the Completion Date of the Transaction, the fair value of the Loan and the Call Option will be reassessed and is therefore subject to change.

6. The adjustment represents estimated expenses incurred in connection with the Acquisition and the Transaction of approximately HK$2,500,000 which would be recognised in the Enlarged Group's consolidated income statement and consolidated statement of comprehensive income upon completion of the Acquisition and granted the Loan. This adjustment does not have continuing effect on the Enlarged Group.

7. The pro forma adjustment represents the imputed interest expense on Promissory Note with the amount of approximately HK$50,112,000 will be recognised as finance cost during the year ended 31 December 2015 in the Enlarged Group and amount of approximately HK$30,000,000 was paid by the Enlarged Group during the year ended 31 December 2015. This adjustment has a continuing effect on the Enlarged Group.

8. The pro forma adjustment represents the imputed interest income on the Loan with the amount of approximately HK$57,322,000 will be recognised as other revenue and the corresponding tax provision for the imputed interest income of approximately HK$9,458,000 during the year ended 31 December 2015 in the Enlarged Group and amount of approximately HK$25,000,000 was received by the Enlarged Group during the year ended 31 December 2015. This adjustment has a continuing effect on the Enlarged Group.

9. On 28 October 2016, the Company completed placement of 150,600,000 new shares under general mandate at the placing price of HK$0.53 per placing share (the "**Placing**") with the net proceeds of approximately HK$77,640,000. Subsequent to 30 June 2016, loan receivables with the amount of approximately HK$340,000,000 ("**Loan Received**") had repaid to the Group. The effects of the Placing and Loan Received are not included in the Unaudited Pro Forma Financial Information of the Enlarged Group as they are not directly related to the Acquisition and the Transaction but these transactions had substantially improve the cash position of the Group.

10. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016 or 31 December 2015.

**Scenario II**

***Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group***

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 | Audited consolidated statement of financial position of the Target Group as at 30 September 2016 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of financial position of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 398,623 | – | 398,623 | | | 398,623 |
| Interests in leasehold land | 406,876 | – | 406,876 | | | 406,876 |
| Investment properties | 90,690 | – | 90,690 | | | 90,690 |
| Intangible assets | 17,462 | – | 17,462 | | | 17,462 |
| | 913,651 | – | 913,651 | | | 913,651 |
| **Current assets** | | | | | | |
| Inventories | 54,029 | – | 54,029 | | | 54,029 |
| Stock of properties | 570,978 | 480,238 | 1,051,216 | 980,294 | 4 | 2,031,510 |
| Film rights | 12,545 | – | 12,545 | | | 12,545 |
| Films in progress | 539,001 | – | 539,001 | | | 539,001 |
| Investment in film | 11,325 | – | 11,325 | | | 11,325 |
| Trade receivables | 146,562 | – | 146,562 | | | 146,562 |
| Deposits, prepayment and other receivables | 128,126 | – | 128,126 | | | 128,126 |
| Held for trading investments | 293,124 | – | 293,124 | | | 293,124 |
| Loan receivables | 1,165,000 | – | 1,165,000 | | | 1,165,000 |
| Amounts due from non-controlling interests | 568 | – | 568 | | | 568 |
| Amount due from a joint venture | 734 | – | 734 | | | 734 |
| Cash and cash equivalents | 820,793 | – | 820,793 | (400,000) | 3 | |
| | | | | (2,500) | 5 | 418,293 |
| | 3,742,785 | 480,238 | 4,223,023 | | | 4,800,817 |
| **Total assets** | **4,656,436** | **480,238** | **5,136,674** | | | **5,714,468** |
| **Capital and reserves** | | | | | | |
| Share capital | 7,531 | – | 7,531 | | | 7,531 |
| Reserves | 3,419,571 | (522,257) | 2,897,314 | 522,257 | 4 | |
| | | | | (2,500) | 5 | 3,417,071 |

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 | Audited consolidated statement of financial position of the Target Group as at 30 September 2016 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of financial position of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Equity attributable to owners of the Company** | **3,427,102** | **(522,257)** | **2,904,845** | | | **3,424,602** |
| Non-controlling interests | (433) | (69) | (502) | | | (502) |
| **Total equity** | **3,426,669** | **(522,326)** | **2,904,343** | | | **3,424,100** |
| **Non-current liabilities** | | | | | | |
| Bank borrowings | 730,000 | – | 730,000 | | | 730,000 |
| Obligations under finance leases | 468 | – | 468 | | | 468 |
| Promissory note | – | – | – | 557,946 | 3 | 557,946 |
| Deferred tax liabilities | 82,948 | – | 82,948 | | | 82,948 |
| | 813,416 | – | 813,416 | | | 1,371,362 |
| **Current liabilities** | | | | | | |
| Bank borrowings | 128,443 | – | 128,443 | | | 128,443 |
| Obligations under finance leases | 231 | – | 231 | | | 231 |
| Trade payables | 26,718 | – | 26,718 | | | 26,718 |
| Deposits received, accruals and other payables | 260,934 | – | 260,934 | | | 260,934 |
| Amounts due to joint ventures | 25 | – | 25 | | | 25 |
| Amount due to a shareholder | – | 2,795 | 2,795 | | | 2,795 |
| Amounts due to non-controlling interests | – | 499,860 | 499,860 | | | 499,860 |
| Loan from a shareholder | – | 499,909 | 499,909 | (499,909) | 4 | – |
| | 416,351 | 1,002,564 | 1,418,915 | | | 919,006 |
| **Total liabilities** | **1,229,767** | **1,002,564** | **2,232,331** | | | **2,290,368** |
| **Total equity and liabilities** | **4,656,436** | **480,238** | **5,136,674** | | | **5,714,468** |
| **Net current assets/(liabilities)** | **3,326,434** | **(522,326)** | **2,804,108** | | | **3,881,811** |
| **Total assets less current liabilities** | **4,240,085** | **(522,326)** | **3,717,759** | | | **4,795,462** |

***Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group***

| | Audited consolidated income statement of the Group for the year ended 31 December 2015 | Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | | Unaudited pro forma consolidated income statement of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Revenue** | 1,044,506 | – | 1,044,506 | | | 1,044,506 |
| Cost of sales | (581,784) | – | (581,784) | | | (581,784) |
| Gross profit | 462,722 | – | 462,722 | | | 462,722 |
| Other revenue | 108,382 | – | 108,382 | | | 108,382 |
| Other income | 915 | – | 915 | | | 915 |
| Administrative expenses | (383,065) | (20) | (383,085) | (2,500) | 5 | (385,585) |
| Marketing, selling and distribution expenses | (85,515) | – | (85,515) | | | (85,515) |
| Loss arising on change in fair value of financial assets classified as held for trading investments | 99,638 | – | 99,638 | | | 99,638 |
| Other operating expenses | (66,186) | – | (66,186) | | | (66,186) |
| **Profit/(loss) from operations** | 136,891 | (20) | 136,871 | | | 134,371 |
| Finance costs | (29,314) | – | (29,314) | (50,112) | 6 | (79,426) |
| Share of results of joint ventures | 138 | – | 138 | | | 138 |
| **Profit/(loss) before tax** | 107,715 | (20) | 107,695 | | | 55,083 |
| Income tax credit | 149 | – | 149 | | | 149 |
| **Profit/(loss) for the year** | 107,864 | (20) | 107,844 | | | 55,232 |
| **Profit/(loss) for the year attributable to:** | | | | | | |
| Owners of the Company | 107,871 | (12) | 107,859 | | | 55,247 |
| Non-controlling interests | (7) | (8) | (15) | | | (15) |
| | 107,864 | (20) | 107,844 | | | 55,232 |

***Unaudited Pro Forma Consolidated Statement of Comprehensive Income on the Enlarged Group***

| | Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2015 | Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Profit/(loss) for the year** | 107,864 | (20) | 107,844 | (2,500) | 5 | |
| | | | | (50,112) | 6 | 55,232 |
| **Other comprehensive income** | | | | | | |
| **Items that will not reclassified to profit or loss:** | | | | | | |
| Gain on revaluation of property | 48,171 | – | 48,171 | | | 48,171 |
| **Items that may be reclassified subsequently to consolidated income statement:** | | | | | | |
| *Exchange differences arising on translation of foreign operations:* | | | | | | |
| Exchange differences arising during the year | (103) | – | (103) | | | (103) |
| **Other comprehensive income for the year** | 48,068 | – | 48,068 | | | 48,068 |
| **Total comprehensive income/(loss) for the year** | 155,932 | (20) | 155,912 | | | 103,300 |
| **Total comprehensive income/(loss) for the year attributable to:** | | | | | | |
| Owners of the Company | 155,939 | (12) | 155,927 | | | 103,315 |
| Non-controlling interests | (7) | (8) | (15) | | | (15) |
| | 155,932 | (20) | 155,912 | | | 103,300 |

***Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group***

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Cash flows from operating activities** | | | | | | |
| Profit/(loss) before tax | 107,715 | (20) | 107,695 | (2,500) | 5 | |
| | | | | (50,112) | 6 | 55,083 |
| Adjustments for: | | | | | | |
| Finance costs | 29,314 | – | 29,314 | 50,112 | 6 | 79,426 |
| Interest income | (95,910) | – | (95,910) | | | (95,910) |
| Dividend income | (134) | – | (134) | | | (134) |
| Amortisation of film rights | 241 | – | 241 | | | 241 |
| Amortisation of intangible assets | 577 | – | 577 | | | 577 |
| Amortisation of interests in leasehold land | 23,158 | – | 23,158 | | | 23,158 |
| Depreciation of property, plant and equipment | 70,256 | – | 70,256 | | | 70,256 |
| Gain on disposal of financial assets classified as held for trading investments | (21,991) | – | (21,991) | | | (21,991) |
| Impairment loss recognised in respect of film rights | 2,405 | – | 2,405 | | | 2,405 |
| Impairment loss recognised in respect of intangible assets | 6,865 | – | 6,865 | | | 6,865 |
| Gain arising on change in fair value of financial assets classified as held for trading investments | (77,647) | – | (77,647) | | | (77,647) |
| Loss on fair value change of investment properties | 4,930 | – | 4,930 | | | 4,930 |
| Gain on disposal of property, plant and equipment | (392) | – | (392) | | | (392) |
| Share-based payment expenses | 51,986 | – | 51,986 | | | 51,986 |
| Share of result of joint ventures | (138) | – | (138) | | | (138) |
| Write-down of obsolete inventories | 10 | – | 10 | | | 10 |
| Operating cash flows before movements in working capital | 101,245 | (20) | 101,225 | | | 98,725 |
| Decrease in inventories | 2,854 | – | 2,854 | | | 2,854 |
| Increase in stock of properties | (1,610) | (136) | (1,746) | | | (1,746) |
| Increase in films in progress | (301,216) | – | (301,216) | | | (301,216) |
| Increase in film rights | (600) | – | (600) | | | (600) |
| Increase in trade receivables | (3,791) | – | (3,791) | | | (3,791) |
| Increase in deposits, prepayment and other receivables | (2,827) | – | (2,827) | | | (2,827) |

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| Increase in investment in film | (11,325) | – | (11,325) | | | (11,325) |
| Increase in amounts due from non-controlling interests | (329) | – | (329) | | | (329) |
| Increase in amount due from a joint venture | (12) | – | (12) | | | (12) |
| Increase in trade payables | 512 | – | 512 | | | 512 |
| Increase in deposits received, accruals and other payables | 179,279 | – | 179,279 | | | 179,279 |
| Decrease in amounts due to non-controlling interests | (294) | – | (294) | | | (294) |
| Increase in amount due to a shareholder | – | 151 | 151 | | | 151 |
| Cash used in operations | (38,114) | (5) | (38,119) | | | (40,619) |
| Tax paid | (86) | – | (86) | | | (86) |
| **Net cash used in operating activities** | (38,200) | (5) | (38,205) | | | (40,705) |
| **Cash flows from investing activities** | | | | | | |
| Dividend received | 134 | – | 134 | | | 134 |
| Interest received | 93,702 | – | 93,702 | | | 93,702 |
| Loan advanced to third parties | (900,000) | – | (900,000) | | | (900,000) |
| Proceeds from disposal of financial assets classified as held for trading investments | 176,659 | – | 176,659 | | | 176,659 |
| Proceeds from disposal of property, plant and equipment | 473 | – | 473 | | | 473 |
| Purchases of financial assets classified as held for trading investments | (346,501) | – | (346,501) | | | (346,501) |
| Purchases of property, plant and equipment | (49,670) | – | (49,670) | | | (49,670) |
| Refund of deposit paid for investment | 600,000 | – | 600,000 | | | 600,000 |
| Repayment of loan advanced to third parties | 275,000 | – | 275,000 | | | 275,000 |
| Proceeds for the Acquisition | – | – | – | (400,000) | 3 | (400,000) |
| **Net cash used in investing activities** | (150,203) | – | (150,203) | | | (550,203) |

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2015 | Sub-total | Pro forma adjustments | Notes | Unaudited pro forma consolidated statement of cash flows of the Enlarged Group |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | | | |
| **Cash flows from financing activities** | | | | | | |
| Interest paid | (28,785) | – | (28,785) | (30,000) | 6 | (58,785) |
| Loan from a shareholder | – | 5 | 5 | | | 5 |
| New bank borrowings raised | 1,065,750 | – | 1,065,750 | | | 1,065,750 |
| Proceeds from issue of new shares | 346,548 | – | 346,548 | | | 346,548 |
| Repayment of obligations under finance leases | (247) | – | (247) | | | (247) |
| Repayment of bank borrowings | (456,641) | – | (456,641) | | | (456,641) |
| Share issuing expenses | (10,366) | – | (10,366) | | | (10,366) |
| **Net cash generated from financing activities** | 916,259 | 5 | 916,264 | | | 866,264 |
| **Increase in cash and cash equivalents** | 727,856 | – | 727,856 | | | 295,356 |
| **Cash and cash equivalents at the beginning of the reporting period** | 323,939 | – | 323,939 | | | 323,939 |
| **Effect of foreign exchange rate changes** | (103) | – | (103) | | | (103) |
| **Cash and cash equivalents at the end of the reporting period** | | | | | | |
| Cash and bank balances | 1,051,692 | – | 1,051,692 | | | 619,192 |

### *Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group*

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016; and the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows for the year ended 31 December 2015 as set out in the Company's published interim report for the six months ended 30 June 2016 and annual report for the year ended 31 December 2015 respectively.

2. The amounts are extracted from the Accountants' Report on the Target Group as set out in Appendix II in this circular.

3. On 29 November 2016, Best Combo, a wholly-owned subsidiary of the Company, and Ms. Chen, an executive director of the Company, entered into a conditional S&P Agreement pursuant to which Ms. Chen has conditionally agreed to dispose and Best Combo has conditionally agreed to acquire the entire issued share capital of the Target Company and the Sale Loan due to Ms. Chen at an aggregate consideration of HK$1,000,000,000 (subject to purchase price adjustment) (the "**Consideration**"). The Consideration shall be satisfied by (i) the payment of HK$400,000,000 as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the promissory note with a principal amount of HK$600,000,000 (the "**Promissory Note**") by the Company to Ms. Chen for the balance upon the Acquisition Completion Date. The Promissory Note is interest bearing at 5% per annum and will be matured after 24 months from the date of issue of the Promissory Note.

   An analysis of the pro forma fair value of the initial consideration assuming the Acquisition had been taken place on 30 June 2016 is set out as follows:

| | **Face value** | **Pro forma total fair value of Consideration** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Promissory Note | 600,000 | 557,946 |
| Cash consideration | 400,000 | 400,000 |
| | 1,000,000 | 957,946 |

These fair values have been arrived on the basis of valuation carried out by Roma Appraisals Limited, an independent qualified professional valuer as if the Promissory Notes had been issued on 30 June 2016.

For the purpose of the Unaudited Pro Forma Financial Information, the assumed fair value of the Promissory Note is estimated to be approximately HK$557,946,000 which has been arrived by using the discounting the estimated contractual cash flows at effective interest rate of 8.9% per annum. On the Acquisition Completion Date, the fair value of the Promissory Note will be reassessed and is therefore subject to change.

4. Under HKFRSs, the Acquisition was accounted for as an acquisition of asset and liabilities as the Target Group proposed to be acquired by the Group does not constitute a business. The stock of property acquired are initially recognised at cost and subsequently at the lower of cost and net realisable value. Assuming that the Acquisition is completed on 30 June 2016, an analysis of the additional cost being allocated to the asset and liabilities of the Target Group as at 30 June 2016 after the pro forma adjustment as disclosed in this circular are as follows:

   The pro forma adjustment of approximately HK$980,294,000 arising from acquisition of the Target Group is derived as follows:

| | *HK$'000* |
|---|---|
| Total fair value of the Consideration (Note 3) | 957,946 |
| Add: Equity attributable to owners of the Target Company | 522,257 |
| Less: Loan from a shareholder assigned to the Group | (499,909) |
| An additional amount being allocated to the Target Group's stock of property | 980,294 |

   In the absence of a formal valuation for other asset and liabilities of the Target Group, the directors of the Company have assumed the fair value of other identifiable asset and liabilities of the Target Group to be the same as their carrying amounts.

5. The adjustment represents estimated expenses incurred in connection with the Acquisition of approximately HK$2,500,000 which would be recognised in the Enlarged Group's consolidated income statement and consolidated statement of comprehensive income upon completion of the Acquisition. This adjustment does not have continuing effect on the Enlarged Group.

6. The pro forma adjustment represents the imputed interest expense on Promissory Note with the amount of approximately HK$50,112,000 will be recognised as finance cost during the year ended 31 December 2015 in the Enlarged Group and amount of approximately HK$30,000,000 was paid by the Enlarged Group during the year ended 31 December 2015. This adjustment has a continuing effect on the Enlarged Group.

7. The effects of the Placing and the Loan Received are not included in the Unaudited Pro Forma Financial Information of the Enlarged Group as they are not directly related to the Acquisition but these transactions had substantially improve the cash position of the Group.

8. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016 or 31 December 2015.

**Scenario III**

***Unaudited Pro Forma Consolidated Statement of Financial Position of the Group***

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 | Pro forma adjustments | | Unaudited pro forma consolidated statement of financial position of the Group |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 398,623 | | | 398,623 |
| Interests in leasehold land | 406,876 | | | 406,876 |
| Investment properties | 90,690 | | | 90,690 |
| Intangible assets | 17,462 | | | 17,462 |
| Loan to a director | – | 230,000 | 2 | 230,000 |
| | 913,651 | | | 1,143,651 |
| **Current assets** | | | | |
| Inventories | 54,029 | | | 54,029 |
| Stock of properties | 570,978 | | | 570,978 |
| Film rights | 12,545 | | | 12,545 |
| Films in progress | 539,001 | | | 539,001 |
| Investment in film | 11,325 | | | 11,325 |
| Trade receivables | 146,562 | | | 146,562 |
| Deposits, prepayment and other receivables | 128,126 | | | 128,126 |
| Financial assets at fair value through profit or loss | 293,124 | 270,000 | 2 | 563,124 |
| Loan receivables | 1,165,000 | | | 1,165,000 |
| Amounts due from non-controlling interests | 568 | | | 568 |
| Amount due from a joint venture | 734 | | | 734 |
| Cash and cash equivalents | 820,793 | (500,000) | 2 | |
| | | (2,500) | 3 | 318,293 |
| | 3,742,785 | | | 3,510,285 |
| **Total assets** | **4,656,436** | | | **4,653,936** |
| **Capital and reserves** | | | | |
| Share capital | 7,531 | | | 7,531 |
| Reserves | 3,419,571 | (2,500) | 3 | 3,417,071 |

| | Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016<br>*HK$'000*<br>*(Note 1)* | Pro forma adjustments<br>*HK$'000* | *Notes* | Unaudited pro forma consolidated statement of financial position of the Group<br>*HK$'000* |
|---|---|---|---|---|
| **Equity attributable to owners of the Company** | **3,427,102** | | | **3,424,602** |
| Non-controlling interests | (433) | | | (433) |
| **Total equity** | **3,426,669** | | | **3,424,169** |
| **Non-current liabilities** | | | | |
| Bank borrowings | 730,000 | | | 730,000 |
| Obligations under finance leases | 468 | | | 468 |
| Deferred tax liabilities | 82,948 | | | 82,948 |
| | 813,416 | | | 813,416 |
| **Current liabilities** | | | | |
| Bank borrowings | 128,443 | | | 128,443 |
| Obligations under finance leases | 231 | | | 231 |
| Trade payables | 26,718 | | | 26,718 |
| Deposits received, accruals and other payables | 260,934 | | | 260,934 |
| Amounts due to joint ventures | 25 | | | 25 |
| | 416,351 | | | 416,351 |
| **Total liabilities** | **1,229,767** | | | **1,229,767** |
| **Total equity and liabilities** | **4,656,436** | | | **4,653,936** |
| **Net current assets** | **3,326,434** | | | **3,093,934** |
| **Total assets less current liabilities** | **4,240,085** | | | **4,237,585** |

*Unaudited Pro Forma Consolidated Income Statement of the Group*

| | Audited consolidated income statement of the Group for the year ended 31 December 2015 | Pro forma adjustments | | Unaudited pro forma consolidated income statement of the Group |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | | | |
| **Revenue** | 1,044,506 | | | 1,044,506 |
| Cost of sales | (581,784) | | | (581,784) |
| Gross profit | 462,722 | | | 462,722 |
| Other revenue | 108,382 | 57,322 | 4 | 165,704 |
| Other income | 915 | | | 915 |
| Administrative expenses | (383,065) | (2,500) | 3 | (385,565) |
| Marketing, selling and distribution expenses | (85,515) | | | (85,515) |
| Loss arising on change in fair value of financial assets at fair value through profit or loss | 99,638 | | | 99,638 |
| Other operating expenses | (66,186) | | | (66,186) |
| **Profit from operations** | 136,891 | | | 191,713 |
| Finance costs | (29,314) | | | (29,314) |
| Share of results of joint ventures | 138 | | | 138 |
| **Profit before tax** | 107,715 | | | 162,537 |
| Income tax credit/(expense) | 149 | (9,458) | 4 | (9,309) |
| **Profit for the year** | 107,864 | | | 153,228 |
| **Profit for the year attributable to:** | | | | |
| Owners of the Company | 107,871 | | | 153,235 |
| Non-controlling interests | (7) | | | (7) |
| | 107,864 | | | 153,228 |

***Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Group***

| | **Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2015** | **Pro forma adjustments** | | **Unaudited pro forma consolidated statement of comprehensive income of the Group** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | | | |
| **Profit for the year** | 107,864 | (2,500) | 3 | |
| | | 47,864 | 4 | 153,228 |
| **Other comprehensive income** | | | | |
| **Items that will not reclassified to profit or loss:** | | | | |
| Gain on revaluation of property | 48,171 | | | 48,171 |
| **Items that may be reclassified subsequently to consolidated income statement:** | | | | |
| *Exchange differences arising on translation of foreign operations:* | | | | |
| Exchange differences arising during the year | (103) | | | (103) |
| **Other comprehensive income for the year** | 48,068 | | | 48,068 |
| **Total comprehensive income for the year** | 155,932 | | | 201,296 |
| **Total comprehensive income for the year attributable to:** | | | | |
| Owners of the Company | 155,939 | | | 201,303 |
| Non-controlling interests | (7) | | | (7) |
| | 155,932 | | | 201,296 |

***Unaudited Pro Forma Consolidated Statement of Cash Flows of the Group***

| | **Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015** | **Pro forma adjustments** | | **Unaudited pro forma consolidated statement of cash flows of the Group** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | | | |
| **Cash flows from operating activities** | | | | |
| Profit before tax | 107,715 | (2,500) | 3 | |
| | | 57,322 | 4 | 162,537 |
| Adjustments for: | | | | |
| Finance costs | 29,314 | | | 29,314 |
| Interest income | (95,910) | (57,322) | 4 | (153,232) |
| Dividend income | (134) | | | (134) |
| Amortisation of film rights | 241 | | | 241 |
| Amortisation of intangible assets | 577 | | | 577 |
| Amortisation of interests in leasehold land | 23,158 | | | 23,158 |
| Depreciation of property, plant and equipment | 70,256 | | | 70,256 |
| Gain on disposal of financial assets at fair value through profit or loss | (21,991) | | | (21,991) |
| Impairment loss recognised in respect of film rights | 2,405 | | | 2,405 |
| Impairment loss recognised in respect of intangible assets | 6,865 | | | 6,865 |
| Gain arising on change in fair value of financial assets at fair value through profit or loss | (77,647) | | | (77,647) |
| Loss on fair value change of investment properties | 4,930 | | | 4,930 |
| Gain on disposal of property, plant and equipment | (392) | | | (392) |
| Share-based payment expenses | 51,986 | | | 51,986 |
| Share of result of joint ventures | (138) | | | (138) |
| Write-down of obsolete inventories | 10 | | | 10 |
| Operating cash flows before movements in working capital | 101,245 | | | 98,745 |
| Decrease in inventories | 2,854 | | | 2,854 |
| Increase in stock of properties | (1,610) | | | (1,610) |
| Increase in films in progress | (301,216) | | | (301,216) |
| Increase in film rights | (600) | | | (600) |
| Increase in trade receivables | (3,791) | | | (3,791) |

| | **Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015** *HK$'000* *(Note 1)* | **Pro forma adjustments** *HK$'000* | *Notes* | **Unaudited pro forma consolidated statement of cash flows of the Group** *HK$'000* |
|---|---|---|---|---|
| Increase in deposits, prepayments and other receivables | (2,827) | | | (2,827) |
| Increase in investment in film | (11,325) | | | (11,325) |
| Increase in amounts due from non-controlling interests | (329) | | | (329) |
| Increase in amount due from a joint venture | (12) | | | (12) |
| Increase in trade payables | 512 | | | 512 |
| Increase in deposits received, accruals and other payables | 179,279 | | | 179,279 |
| Decrease in amounts due to non-controlling interests | (294) | | | (294) |
| Cash used in operations | (38,114) | | | (40,614) |
| Tax paid | (86) | | | (86) |
| **Net cash used in operating activities** | (38,200) | | | (40,700) |
| **Cash flows from investing activities** | | | | |
| Dividend received | 134 | | | 134 |
| Interest received | 93,702 | 25,000 | 4 | 118,702 |
| Loan advanced to third parties | (900,000) | | | (900,000) |
| Loan advanced to a director | – | (500,000) | 2 | (500,000) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 176,659 | | | 176,659 |
| Proceeds from disposal of property, plant and equipment | 473 | | | 473 |
| Purchases of financial assets at fair value through profit or loss | (346,501) | | | (346,501) |
| Purchases of property, plant and equipment | (49,670) | | | (49,670) |
| Refund of deposit paid for investment | 600,000 | | | 600,000 |
| Repayment of loan advanced to third parties | 275,000 | | | 275,000 |
| **Net cash used in investing activities** | (150,203) | | | (625,203) |

| | Audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 | Pro forma adjustments | | Unaudited pro forma consolidated statement of cash flows of the Group |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| | *(Note 1)* | | | |
| **Cash flows from financing activities** | | | | |
| Interest paid | (28,785) | | | (28,785) |
| New bank borrowings raised | 1,065,750 | | | 1,065,750 |
| Proceeds from issue of new shares | 346,548 | | | 346,548 |
| Repayment of obligations under finance leases | (247) | | | (247) |
| Repayment of bank borrowings | (456,641) | | | (456,641) |
| Share issuing expenses | (10,366) | | | (10,366) |
| **Net cash generated from financing activities** | 916,259 | | | 916,259 |
| **Increase in cash and cash equivalents** | 727,856 | | | 250,356 |
| **Cash and cash equivalents at the beginning of the reporting period** | 323,939 | | | 323,939 |
| **Effect of foreign exchange rate changes** | (103) | | | (103) |
| **Cash and cash equivalents at the end of the reporting period** | | | | |
| Cash and bank balances | 1,051,692 | | | 574,192 |

*Notes to the Unaudited Pro Forma Financial Information of the Group*

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016; and the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows for the year ended 31 December 2015 as set out in the Company's published interim report for the six months ended 30 June 2016 and annual report for the year ended 31 December 2015 respectively.

2. On 29 November 2016, Best Combo, as a lender, and Ms. Chen, as the borrower, entered into a Loan Agreement pursuant to which Best Combo has agreed to grant to Ms. Chen a Loan in the principal amount of HK$500,000,000 (subject to the loan amount adjustment). The Loan is interesting bearing at 5% per annum, repayable on the date falling 60 months from the draw down date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base, a company incorporated in the British Virgin Islands and wholly owned by Ms. Chen.

   Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo require Ms. Chen to sell the entire issued share capital of Reform Base at HK$500,000,000 (subject to the loan amount adjustment).

   The pro forma adjustment represents the initial measurement of the estimated fair value with the amount of approximately HK$230,000,000 and HK$270,000,000 of loan receivables and the Call Option respectively as if the Loan had been granted on 30 June 2016.

   These fair values have been arrived on the basis of valuation carried out by Roma Appraisals Limited, an independent qualified professional valuer as if the Loan had been granted and the Call Option had been accepted on 30 June 2016.

   For the purpose of the Unaudited Pro Forma Financial Information, the assumed fair value of the Loan and the Call Option is estimated to be approximately HK$230,000,000 and HK$270,000,000 which has been arrived by using the discounting the contractual cash flows at effective interest rate of 24.19% per annum and by using the binomial option pricing model at discount rate of 25.75% respectively. On the Completion Date of the Transaction, the fair value of the Loan and the Call Option will be reassessed and is therefore subject to change.

3. The adjustment represents estimated expenses in connection with the Transaction of approximately HK$2,500,000 which would be recognised in the Group's consolidated income statement and consolidated statement of comprehensive income upon completion of granted the Loan. This adjustment does not have continuing effect on the Group.

4. The pro forma adjustment represents the imputed interest income on the Loan with the amount of approximately HK$57,322,000 will be recognised as other revenue and the corresponding tax provision for the imputed interest income of approximately HK$9,458,000 during the year ended 31 December 2015 in the Group and amount of approximately HK$25,000,000 was received by the Group during the year ended 31 December 2015. This adjustment has a continuing effect on the Group.

5. The effects of the Placing and the Loan Received are not included in the Unaudited Pro Forma Financial Information of the Group as they are not directly related to the Transaction but these transactions had substantially improve the cash position of the Group.

6. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016 or 31 December 2015.

*The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this Circular.*

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

The Board of Directors
China Star Entertainment Limited
Unit 3409, Shun Tak Centre,
West Tower,
168-200 Connaught Road Central
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Star Entertainment Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015 (the "**Unaudited Pro Forma Financial Information**"), and related notes as set out in Appendix IV of the circular issued by the Company (the "**Circular**"). The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been complied by the directors of the Company to illustrate the impact of the very substantial acquisition and connected transaction in relation to the proposed acquisition of 100% equity interest in Modern Vision (Asia) Limited and the sale loan and the granting of loan and the acceptance of call option on the Group's financial position as at 30 June 2016 and the Group's financial performance and cash flows for the year ended 31 December 2015 as if they had taken place at 30 June 2016 and on 1 January 2015 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors of the Company from the Group's financial statements for the six months ended 30 June 2016 and for the year ended 31 December 2015, on which interim report and annual report have been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 30 June 2016 or on 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– the related pro forma adjustments give appropriate effect to those criteria; and

– the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
**HLB Hodgson Impey Cheng Limited**
Certified Public Accountants
**Hon Koon Fai, Alex**
Practising Certificate Number: P05029
Hong Kong

The following is the text of a report prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with their opinion of the value of the Property as at 28 February 2017.

ROMA

Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel: (852) 2529 6878 Fax: (852) 2529 6806
E-mail: info@romagroup.com
http://www.romagroup.com

10 March 2017

**China Star Entertainment Limited**
Unit 3409,
Shun Tak Centre, West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sir/Madam,

**Re: Property Valuation of a parcel of land situated at Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande, Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau**

In accordance with your instruction for us to value the property intended to be acquired by China Star Entertainment Limited (the "Company") and/or its subsidiaries' (together with the Company referred to as the "Group") in Macau, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property as at 28 February 2017 (the "Date of Valuation") for the purpose of incorporation in the circular of the Company dated 10 March 2017.

## 1. BASIS OF VALUATION

Our valuation of the property is our opinion of the market value of the concerned property which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

## 2. VALUATION METHODOLOGY

We have valued the property on the basis that the property will be developed and completed in accordance with the latest development proposals provided to us. We have assumed that all consents, approvals and licenses from relevant government authorities for the development proposals have been obtained without onerous conditions or delays. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales transactions as available in the relevant markets and have also taken into account of the handover date of the property. Appropriate adjustments and analysis are considered to the differences in location, size and other characteristics between the comparable properties and the subject property.

**3. TITLE INVESTIGATION**

For the property in Macau, we have carried out land search at the Conservatória do Registo Predial in Macau. However, we have not scrutinized all the original documents to verify ownership or to ascertain the existence of any lease amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied upon the advice and information given by the Group regarding the title of the property. All documents have been used for reference only.

We have also relied on the advice given by the Group's Macanese legal advisor – Leong Hon Man, Advogado and the Group that the current owner has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land use premium/purchase condition payable have been fully settled except that land use premium for changing use will be paid by the Vendor.

**4. VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of such property. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

**5. SOURCE OF INFORMATION**

In the course of our valuation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, floor areas, age of building and all other relevant matters which can affect the value of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

## 6. VALUATION CONSIDERATION

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

We have not carried out on-site measurement to verify the site areas of the property under consideration but we have assumed that the site areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificate is based on information contained in the documents provided to us by the Group and are therefore approximations.

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

Our valuation are prepared in compliance with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

## 7. REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation are in Hong Kong Dollars (HK$).

Our Valuation Certificate is attached.

Yours faithfully,
For and on behalf of
**Roma Appraisals Limited**
**Dr. Alan W K Lee**
*BCom (Property) MFin PhD (BA)*
*MHKIS RPS (GP) AAPI CPV CPV (Business)*
**Director**

*Note:* Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 13 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region and European countries.

## VALUATION CERTIFICATE

**Property intended to be acquired by the Group for future development in Macau**

| **Property** | **Description and Tenure** | **Particulars of Occupancy** | **Market Value in Existing State as at 28 February 2017** |
|---|---|---|---|
| A parcel of land situated at Lote 7 da Zone C do Plano de Urbanização da Zone da Baía da Praia Grande, Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau.<br><br>澳門南灣湖計劃C區7地段之一塊土地 | The property comprises a site with a site area of approximately, 4,669.00 sq.m. (or about 50,257.12 sq.ft.)<br><br>As advised by the Group, the site is planned to be developed into a multi-storey residential development with car parking provisions with the total Gross Floor Area ("GFA") of approximately 31,247.00 sq.m., scheduled to be completed in February 2023. Details of which are as follows:<br><br>**GFA** (*sq.m*)<br>Residential 26,047.00<br>Car Park 5,200.00<br>Total: **31,247.00**<br><br>According to the Urbanistic Conditions Plan ("UCP") of the property issued by the DSSOPT on 15 September 2016, the property shall be developed for residential and parking purposes, with the maximum allowed building height of 34.5 meters above sea level and maximum utilization rate of 5.58 (car parking excluded).<br><br>The property is held under a Macau land lease concession for a term of 25 years commencing on 22 August 2001. Subject to the completion of the development, it shall be automatically renewable for periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau. The Government rent of the property during the development period is MOP140,040.00 per annum. After completion of the construction, the Government rent are as follows:<br><br>Residential and car park MOP10.00 per sq.m. of GFA<br>Commercial MOP15.00 per sq.m. of GFA | The property is a bare site. | HK$2,000,000,000 |

*Notes:*

1. Pursuant to a Certidão do Registo Predial (物業登記證明) issued by the Conservatória do Registo Predial (物業登記局), the registered owner of the property is Splendid- Construção E Investimento Imobiliário, Limitada ("Splendid") (澳豪建築置業投資有限公司).

2. The property was granted by the land lease concession ("the Land Grant") under Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau which is published in the Macau SAR Government Gazette No. 34 dated 22 August 2001, with the site area of 4,669 sq.m., registered with the Macau Land and Real Estate Registry under No. 23070.

3. Development Schedule stipulated in the Land Grant are extracted as follows:

| | | | | | |
|---|---|---|---|---|---|
| (i) | Site Area | : | 4,669.00 sq.m. | | |
| (ii) | Uses | : | Construction of a building under strata title commercial/residential with car parking provisions | | |
| (iii) | Lease Term | : | 25 years commencing on 22 August 2001. Subject to the completion of the development, it shall be automatically renewable for periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau | | |
| (iv) | GFA | : | Residential | : | 25,832 sq.m. |
| | | | Commercial | : | 215 sq.m. |
| | | | Car Parking | : | 3,930 sq.m. |
| | | | Total | : | 29,977 sq.m. |
| (v) | Development period | : | 60 months from 22 August 2001 | | |

4. As the proposed development plan given by the Group is different from the Land Grant in terms of gross floor areas and purposes and the development period of 60 months has been expired, a new amendment to the Land Grant in respect of the development plan and an application for extending the development period or obtaining a new development period of the period is required to be submitted to Land, Public Works and Transport Bureau of Macau ("DSSOPT") for approval.

5. We have been provided with a legal opinion on the title to the property issued by the Group's Macanese legal advisor, which contains, inter-alia, the following information:

   a. Splendid has the legal rights to develop the site in accordance with the provisions of the Land Grant, and to dispose of the individual units upon completion of the development;

   b. The non-development of the site in the contracted period may be regarded as a default of Splendid under the provisions of the Land Grant and a revocation of the Land Grant can be declared by the Macau SAR Government. In the event that Splendid timely submits an application to the DSSOPT and is willing to pay the penalty, there should be no legal impediment for Splendid to obtain the approval for the extension or a new development period;

   c. Subject to the extension or a new development period is granted by the Macau SAR Government, there should be no legal impediment for Splendid to proceed the amendment and revision to the Land Grant based on the new development plan is accepted by DSSOPT; and

   d. Save and except for the expiry of the development period of the site, there is nothing in the documents analyzed by the Group's Macanese legal advisor that may constitute concern in regard to the rights of Splendid to hold the site under the Land Grant and to proceed with its development.

6. The property was booked at cost in the Accountant's Report of the Target Group of about HK$480,238,000 as at 30 September 2016. The land cost is about HK$472,650,700 and the remaining costs of about HK$7,587,300 comprise professional fees of initial site investigation, design and planning, taxes, licences and property registration fees.

7. Our inspection was performed by Dr. Alan W K Lee in December 2016.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

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

**Long positions in the Shares**

| Name of Director | Capacity | Number of shares held as at the Latest Practicable Date | Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date |
|---|---|---|---|
| Mr. Heung Wah Keung | Interest of controlled corporation | 186,448,146 *(Note)* | 20.63% |
| Ms. Chen Ming Yin, Tiffany | Interest of controlled corporation | 186,448,146 *(Note)* | 20.63% |

*Note:* These Shares are held as to 186,446,502 Shares by Heung Wah Keung Family Endowment Limited ("**HWKFE**") (a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and as to 1,644 shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

## 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person, other than the Directors or the chief executive of the Company and (in the case of the other members of the Group) other than the Company, who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

| Name | Capacity | Number of Shares held as at the Latest Practicable Date | Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date |
|---|---|---|---|
| HWKFE *(Note)* | Beneficial owner | 186,446,502 | 20.63% |

*Note:* HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

## 4. DISCLOSURE OF OTHER INTERESTS

### (i) Interests in competing business

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or their respective close associates had an interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, as if the Directors were controlling Shareholders.

### (ii) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up).

### (iii) Interests in contract or arrangement

As at the Latest Practicable Date, other than the S&P Agreement and the Loan Agreement (including the Call Option), there was no contract or arrangement in which any Director was materially interested and which was significant in relation to the business of the Group.

## 5. DIRECTORS' SERVICE CONTRACTS

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

## 6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the supplemental agreement dated 27 February 2015 and entered into between Classic Champion Holdings Limited ("**Classic Champion**"), a wholly-owned subsidiary of the Company, as purchaser and Mr. Kam Lap Sing Kelvin (金立成) ("**Mr. Kam**") as vendor, in relation the extension of long stop date of a sale and purchase agreement (the "**Acquisition Agreement**") dated 25 February 2014 entered into between the same parties;

(b) the deed of termination dated 25 March 2015 and entered into among (i) China Star Entertainment (BVI) Limited, a direct wholly-owned subsidiary of the Company, as vendor, (ii) Bestmix Holdings Limited as purchaser, (iii) the Company as guarantor of vendor and (iv) CSI Properties Limited, a 49% beneficial owner of the purchaser as guarantors of purchaser, in relation to the termination of a sale and purchase agreement dated 12 December 2014 and entered into by the same parties;

(c) three loan agreements dated 11 May 2015 and entered into between Classic Champion as lender and each of three companies engaged in gaming promotion business in Macau as borrower, in relation to the granting of loan amounting to HK$75.0 million for a term of twenty-four (24) months from the date of drawdown to each of the borrowers;

(d) the deed of termination dated 22 May 2015 and entered into between Classic Champion and Mr. Kam, in relation to the termination of the Acquisition Agreement;

(e) the placing and subscription agreement dated 1 June 2015 and entered into between the Company as issuer, HWKFE as vendor and Kingston Securities Limited as placing agent, in relation to the placing of 2,887,900,000 Shares held by HWKFE to not fewer than six placees at a price of HK$0.12 per Share and the issue of 2,887,900,000 Shares by the Company to HWKFE;

(f) the loan agreement dated 10 June 2015 and entered into between Classic Champion as lender and an individual as borrower, in relation to the granting of loan amounting to HK$275.00 million for a term of twenty-four (24) months from the date of drawdown;

(g) the placing agreement dated 18 October 2016 and entered into between the Company as issuer and VMS Securities Limited as placing agent, in relation to the placing of 150,600,000 Shares to not fewer than six placees at a price of HK$0.53 per Share;

(h) the S&P Agreement (as supplemented by the Supplemental Agreement); and

(i) the Loan Agreement (as supplemented by a deed of variation dated 5 December 2016).

## 7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

| Name | Qualification |
|---|---|
| Royal Excalibur Corporate Finance Company Limited | A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |
| HLB Hodgson Impey Cheng Limited | Certified Public Accountants, Hong Kong |
| Roma Appraisals Limited | Independent professional valuer |
| Leong Hon Man Law Office | Macau legal adviser |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or the reference to its name or opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts above were beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up).

## 9. MISCELLANEOUS

(a) The secretary of the Company is Ms. Wong Shuk Han, Dorothy, who is a member of the Hong Kong Institute of Certified Public Accountants.

(b) In case of any inconsistency between the English and Chinese versions of this circular, the English version shall prevail.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

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

(b) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 34 to 59 of this circular;

(d) the annual reports of the Company for the three financial years ended 31 December 2013, 2014 and 2015 and the interim report of the Company for the six months ended 30 June 2016;

(e) the accountants' report of the Target Group from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II to this circular;

(f) the report from HLB Hodgson Impey Cheng Limited in respect of the unaudited pro forma financial information, the text of which is set out in Appendix IV to this circular;

(g) the letter and valuation certificate relating to the Property from Roma Appraisals Limited, the text of which are set out in Appendix V to this circular;

(h) the Macau legal opinion of Leong Hon Man Law Office dated 10 March 2017 in respect of the Target Group and the Property;

(i) the written consents referred to in the paragraph headed "8. Experts and consents" in this appendix;

(j) the material contracts referred to in the paragraph headed "6. Material contracts" in this appendix; and

(k) this circular.

中国星

# 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 Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 31 March 2017 at 4:00 p.m. for the purpose of considering and, if appropriate, passing with or without modifications the following resolutions as ordinary resolutions of the Company:

## ORDINARY RESOLUTIONS

1. The sale and purchase agreement dated 29 November 2016 and as supplemented by a supplemental agreement dated 8 March 2017 (the "**S&P Agreement**") (copies of which have been produced at the Meeting and marked "A" and "B" respectively and initialled by the Chairman of the Meeting for the purpose of identification) entered into between Ms. Chen Ming Yin, Tiffany (the "**Vendor**") and Best Combo Limited, a wholly-owned subsidiary of the Company as purchaser, in relation to the acquisition of the entire issued share capital of Modern Vision (Asia) Limited together with the loan owed by Modern Vision (Asia) Limited to the Vendor on Completion (which on 29 November 2016 was approximately HK$499.91 million) (the "**Acquisition**") at a purchase price of HK$1,000 million (subject to adjustment), be and are hereby approved, confirmed and ratified in all respects and that the all transactions contemplated under the S&P Agreement (including the issue of a principal amount of up to HK$600 million promissory note to the Vendor as part consideration under the S&P Agreement upon completion of the Acquisition) be and are hereby approved and that any one director of the Company be and is hereby authorized to do or execute all such acts or such other documents which the director of the Company may deem to be necessary, desirable or expedient to carry into effect or to give effect to the S&A Agreement and the Acquisition;

2. The loan agreement dated 29 November 2016 and as supplemented by a deed of variation dated 5 December 2016 (the "**Loan Agreement**") (copies of which have been produced at the Meeting and marked "C" and "D" respectively and initialed by the Chairman of the Meeting for the purpose of identification) entered into between Ms. Chen Ming Yin, Tiffany as borrower and Best Combo Limited, a wholly-owned subsidiary of the Company as lender in relation to (i) the granting of a loan in the principal sum of HK$500 million (subject to adjustment) (the "**Loan**") and (ii) the acceptance of a call option granted by Ms. Chen Ming Yin, Tiffany to Best Combo Limited to acquire the entire issued share capital of Reform

Base Holdings Limited be and are hereby approved, confirmed and ratified in all respects and that any one director of the Company be and is hereby authorized 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 Loan Agreement (including the acceptance of the Call Option).

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

Hong Kong, 10 March 2017

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

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

*Notes:*

1. A form of proxy for use at the SGM 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 or attorney duly authorised.

3. All registered shareholders of the Company recorded at 4:30 p.m. on Monday, 27 March 2017 shall be entitled to attend and vote in person at the SGM. Any shareholder of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy 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 (the "**Registrar**"), Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the SGM 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 SGM 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, whether in person or by proxy, the most senior shall alone be entitled to vote. 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.

*As at the date of this notice, the executive directors of the Company are Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung; and the independent non-executive directors of the Company are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert.*