THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)

VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF A 49% INTEREST
IN THE ISSUED SHARE CAPITAL OF
BEST MIND INTERNATIONAL INC.
AND
NOTICE OF SPECIAL GENERAL MEETING

A letter from the board of directors of China Star Entertainment Limited is set out on pages 6 to 37 of this circular.

A notice convening the special general meeting of China Star Entertainment Limited to be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Thursday, 27 December 2007 at 12:15 p.m. is set out on pages 221 and 222 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

7 December 2007

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

"Acquisition"	the proposed acquisition of the Sale Shares by the Company from the Vendor subject to and upon the terms and conditions of the Sale and Purchase Agreement;
"Acquisition Agreement"	the agreement dated 16 August 2007 entered into among the Company, Mr. Ng and Lucky State in respect of the acquisition of 51 ordinary shares of US$1.00 each in the issued share capital of Best Mind;
"associates"	has the meaning ascribed thereto in the Listing Rules;
"Announcement"	the announcement dated 10 October 2007 issued by the Company in relation to the Acquisition;
"Best Mind"	Best Mind International Inc., a company incorporated in the British Virgin Islands and wholly owned by Lucky State;
"Board"	board of Directors;
"Business Day"	any day (other than Saturday) on which banks in Hong Kong are open for business;
"Call Option"	the option granted by the Vendor to the Company pursuant to the Acquisition Agreement whereby the Company can require the Vendor to sell all of the remaining 49% of the issued share capital of Best Mind to the Company or its nominee at an aggregate exercise price of HK$516,900,000 and was subsequently cancelled on 5 October 2007 by the Deed of Variation;
"Certificates"	the certificates issued in connection with CN;
"Company" or "Purchaser"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange;
"Completion"	completion of the Acquisition;
"connected persons"	has the meaning ascribed thereto in the Listing Rules;
"Consideration Shares"	96,333,333 Shares to be allotted and issued by the Company to the Vendor upon Completion;
"Consideration Shares I"	140,000,000 Shares to be allotted and issued by the Company to the Vendor upon completion of the Acquisition Agreement;

"Convertible Note" or "CN"	the 5% per annum interest bearing unsecured convertible note in the principal amount of HK$188,000,000 due 2017;
"Convertible Note I"	the convertible note in the principal amount of HK$196,000,000 due 2017 to be issued pursuant to the Acquisition Agreement;
"Conversion Period"	the period commencing from the date when Mr. Ng makes payment in full of: (1) the Ocho Profit guaranteed under the First Profit Guarantee and, if there is any shortfall between the Ocho Profit guaranteed under the First Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the First Relevant Period, the said shortfall, (2) the Ocho Profit guaranteed under the Second Profit Guarantee and, if there is any shortfall between the Ocho Profit guaranteed under the Second Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the Second Relevant Period, the said shortfall, up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Convertible Note;
"Conversion Price"	the initial conversion price of HK$0.30 per Conversion Share, subject to adjustments pursuant to the terms of the Convertible Note;
"Conversion Shares"	the Shares to be issued upon the exercise of the conversion rights in respect of the Convertible Note;
"DICJ"	Gaming Inspection and Coordination Bureau of the Macau Government;
"Deed of Variation"	the deed of variation dated 5 October 2007 relating to the Acquisition Agreement;
"Director(s)"	director(s) of the Company;
"Dorest"	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany through Porterstone and as to 40% by Mr. Heung Wah Keung;
"Enlarged Group"	The Group immediately after Completion;

"First Profit Guarantee"	the guarantee provided by Mr. Ng under the Profit Agreement that the Ocho Profit for the First Relevant Period will not be less than HK$264,000,000;
"First Relevant Period"	the period from 17 August 2007 to 31 December 2008;
"Full Profit Guarantee"	means the aggregate HK$384,000,000 guarantee of the Ocho Profit of Best Mind by Mr. Ng to Best Mind for the period from 17 August 2007 to 16 August 2009, pursuant to the Profit Agreement;
"Grand Lisboa Casino"	a luxury hotel and entertainment complex located at Avenida de Lisboa, Macau and owned by Sociedade de Jogos de Macau, Grand Lisboa features 650 guest rooms and suites; five floors of gaming with over 240 gaming tables and 480 slot machines; six gourmet restaurants and a rich array of entertainment facilities;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party (Parties)"	to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, third parties who are independent of and not connected with the Company or connected persons of the Company;
"Initial Acquisition"	the proposed acquisition of 51% interest in Best Mind by the Company from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement;
"Junket Representative Agreement"	the junket representative agreement dated 15 August 2007 entered into between Sociedade de Jogos de Macau S.A., an Independent Third Party, and Ocho;
"Junket Representative Settlement Forms"	an official invoice issued by Grand Lisboa Casino to Ocho and containing the following information: (1) total Rolling Turnover of each month; (2) commission income calculation of each month; (3) withholding tax calculation regarding the commission income of each month; and (4) net commission payable to Ocho for each month;
"Latest Practicable Date"	3 December 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Lucky State" or "Vendor"	Lucky State Group Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Ng;
"Macau"	Macau Special Administrative Region of the PRC;
"Mr. Ng"	Mr. Ng Cheuk Fai, an Independent Third Party;
"Non-negotiable Chips"	also known as rolling chips or dead chips. These chips cannot be converted into cash or negotiable chips nor can they be redeemed for other goods and services. These chips can only be bet in destined area of the casino. If the customer loses, these chips go to the casino. If the customer wins, he or she is paid the winnings and the amount bet in negotiable chips. The design of these chips are different from the negotiable chips and hence, the dealers and the cashiers of the casino can readily recognize them from negotiable chips;
"Noteholder"	holder of the Convertible Note;
"Ocho"	Ocho Sociedade Unipessoal Limitada, a company incorporated in Macau and which is engaged in the gaming promotion business, an Independent Third Party and wholly owned by Mr. Ng;
"Ocho Profit"	0.4% of the Rolling Turnover generated by Ocho and/or its customers at the Ocho VIP Club pursuant to the Junket Representative Agreement and such other VIP gaming rooms whereby Ocho is a duly appointed junket representative or such other VIP gaming rooms whereby Ocho can procure the sale/ assignment of a percentage of Rolling Turnover generated by the duly appointed junket representatives;
"Ocho VIP Club"	one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau and currently has 10 baccarat gaming tables;
"Placing"	the placing of up to a maximum of 5,000,000,000 new Shares at placing price of HK$0.21 per Share on a best effort basis as announced by the Company on 7 September 2007;
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen Ming Yin, Tiffany. Accordingly, Mr. Heung Wah Keung, the husband of Ms. Chen Ming Yin, Tiffany, is deemed to be interested in the Shares held by Porterstone;
"PRC"	The People's Republic of China which for the purpose of this circular excluding Hong Kong, Macau and Taiwan;

"Profit Agreement"	the agreement dated 16 August 2007 entered into between Best Mind as purchaser, Mr. Ng as a vendor and Ocho in relation to acquisition of 100% interest of the Ocho Profit;
"Rights Issue"	the issue of not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares at the subscription price of HK$0.20 per Rights Share on the basis of one Rights Share for every two existing Shares held on 18 September 2007
"Rights Share(s)"	new Shares to be alloted and issued in respect of the Rights Issue;
"Rolling Turnover"	the value of Non-negotiable Chips acquired by Ocho on behalf of its customers less the value of Non-negotiable Chips redeemed by Ocho on behalf of its customers;
"Sale and Purchase Agreement"	the agreement dated 5 October 2007 entered into among the Company, Mr. Ng and Lucky State in respect of the Acquisition;
"Sale Shares"	49 ordinary shares of US$1.00 each in the issued share capital of Best Mind;
"Second Profit Guarantee"	the guarantee provided by Mr. Ng under the Profit Agreement that the Ocho Profit for the Second Relevant Period will not be less than HK$120,000,000;
"Second Relevant Period"	the period from 1 January 2009 to 16 August 2009 in respect of the Second Profit Guarantee under the Profit Agreement;
"SGM"	a special general meeting of the Company to be convened and held at 12:15 p.m. on Thursday, 27 December 2007 at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong to consider and, if thought fit, approve the Acquisition, and the transactions contemplated thereunder;
"Shares"	ordinary share(s) of HK$0.05 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"MOP"	Macau Pataca, the lawful currency of Macau;
"%"	per cent.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)

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

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

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

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

7 December 2007

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

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF A 49% INTEREST IN THE ISSUED SHARE CAPITAL OF BEST MIND INTERNATIONAL INC. AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 10 October 2007, the Board announced that on 5 October 2007, the Sale and Purchase Agreement was entered between the Company, the Vendor and Mr. Ng pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 49% of the entire issued share capital of Best Mind, free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of Completion or subsequently becoming attached to them, at a total consideration of HK$516,900,000 to be satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of the Convertible Note and the balance of HK$28,900,000 by the allotment and issue of the Consideration Shares credited as fully paid.

Best Mind has entered into the Profit Agreement with Ocho and Mr. Ng to acquire the Ocho Profit.

The parties to the Acquisition Agreement which are the same as the Sale and Purchase Agreement have agreed to vary the Acquisition Agreement by cancelling the Call Option by entering into a Deed of Variation.

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the SGM pursuant to Rule 14.49 of the Listing Rules. As no Shareholder has an interest in the Acquisition different from other Shareholders, no Shareholder will be required to abstain from voting at the SGM.

The purpose of this circular is to provide further details of the Acquisition together with the notice of SGM at which resolutions will be proposed to consider and if thought fit, approve, inter alia, the Acquisition.

THE SALE AND PURCHASE AGREEMENT

Date	:	5 October 2007 (after trading hours)
Parties	:	
Purchaser	:	the Company
Vendor	:	Lucky State
Guarantor of the Vendor	:	Mr. Ng

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are Independent Third Parties. There are no relationships between the Vendor and any of the Directors. Mr. Ng had been an employee of a subsidiary of Riche Multi-Media Holdings Limited, an associated company of the Company, between 1 July 2000 and 1 May 2003.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement (the terms of which are essentially the same as those in the Initial Acquisition including the pricing), the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 49% of the entire issued share capital of Best Mind, free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all right attached to them at the date of Completion or subsequently becoming attached to them.

Best Mind has entered into the Profit Agreement with Ocho and Mr. Ng to acquire the Ocho Profit.

Consideration

The total consideration for the Acquisition is HK$516,900,000. The total consideration for the sale and purchase of the Sale Shares shall be satisfied by the Company as to:

(i) a refundable amount of HK$200,000,000 to be paid within 45 days from the date of signing of the Sale and Purchase Agreement;

(ii) a refundable amount of HK$50,000,000 to be paid upon the despatch of the circular to Shareholders relating to the Sale and Purchase Agreement and the transactions contemplated therein;

(iii) HK$50,000,000 in cash upon Completion;

(iv) HK$188,000,000 by the issue of the Convertible Note by the Company on Completion; and

(v) the balance of HK$28,900,000 by the allotment and issue of the Consideration Shares to the Vendor credited as fully paid on Completion.

To the extent that the Company does not have sufficient cash for the cash portion of the Acquisition, it will seek third party financing although none have yet been identified as at the Latest Practicable Date. It is not yet determined whether financing will be equity or debt or a combination of both. As at the Latest Practicable Date, the refundable amount of HK$200,000,000 has been paid to the Vendor.

The refundable amounts in aggregate of HK$250,000,000 referred to above shall immediately be returned to the Company (without interest) in the event of non-completion of the Sale and Purchase Agreement for whatever reason. No collateral is taken from the Vendor with respect to the placing of the deposit by the Company. There has been no events which have been triggered to cause a return of the deposit.

The consideration was arrived at by reference to the number of gaming tables at Ocho VIP Club, the First Profit Guarantee, the Second Profit Guarantee, the Initial Acquisition and the price to earnings ratio of similar transactions announced by other companies listed on the Stock Exchange (i.e. approximate price to earnings ratio of 7.3 times for Long Success International (Holdings) Limited and approximate price to earnings ratio of 7.5 times for Dore Holdings Limited.). The price to earnings ratio for the Acquisition is approximately 5.5 times.

Consideration Shares

96,333,333 Consideration Shares will be allotted and issued at an issue price of HK$0.30 per Consideration Share ("Issue Price"), credited as fully paid upon Completion. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares represent: (i) approximately 3.43% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 3.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; (iii) approximately 2.73% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the issue of Shares upon exercise in full of the conversion rights attaching to the Convertible Note.

The Issue Price represents (i) a premium of approximately 38.25% over the closing price of HK$0.217 per Share as quoted on the Stock Exchange on 5 October 2007, being the date immediately prior to the date of the Sale and Purchase Agreement; (ii) a premium of approximately 42.18% over the average of the closing prices of approximately HK$0.211 per Share as quoted on the Stock Exchange for the last five trading days up to and including 5 October 2007, being the date immediately prior to the date of the date of the Sale and Purchase Agreement; (iii) a premium of approximately 37.61% over the average of the closing prices of HK$0.218 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 5 October 2007, being the date immediately prior to the date of the Sale and Purchase Agreement; and (iv) a premium of approximately 106.90% over the closing price of HK$0.145 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Conditions precedent

Completion is conditional upon the satisfaction and/or waiver of the following:–

(A) the Company undertaking a due diligence investigation in respect of Best Mind including but not limited to the affairs, business, assets, results, legal and financing structure of Best Mind, in particular, the Profit Agreement and the Company being in its reasonable discretion satisfied with the results of such due diligence investigation;

(B) the Company having received to its reasonable satisfaction a Macanese legal opinion on the legality and validity of the Profit Agreement and the transactions contemplated thereunder;

(C) no event having occurred since the date of the Sale and Purchase Agreement to Completion, the consequence of which is to materially and adversely affect the financial position, business or property, results of operations or business prospects of Best Mind and/or Ocho and such material adverse effect shall not have been caused;

(D) the warranties in the Sale and Purchase Agreement remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion;

(E) the passing by the Shareholders at the SGM approving the Sale and Purchase Agreement, the issue of the Convertible Note, the allotment and issue of Shares upon conversion of the CN and the allotment and issue of the Consideration Shares;

(F) Ocho providing evidence satisfactory to the Company that it has been licensed as a gaming promoter by the Macau Gaming Inspection and Coordination Bureau and appointed as a junket representative by Sociedade de Jogos de Macau, S. A.;

(G) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares and the Consideration Shares; and

(H) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Conversion Shares and the Consideration Shares.

As at the Latest Practicable Date, conditions (B) and (F) have been satisfied.

Profit Guarantee

First Profit Guarantee

Mr. Ng has irrevocably and unconditionally guaranteed to Best Mind that the Ocho Profit for the First Relevant Period shall not be less than HK$264,000,000. In the event the Ocho Profit received and/or receivable by Best Mind for the First Relevant Period shall be less than HK$264,000,000, Mr. Ng has undertaken to pay to Best Mind the sum calculated in accordance with the following formula (the "First Adjustment") within 60 days after the First Relevant Period (provided that the First Adjustment shall not be more than HK$264,000,000):

First Adjustment = (A – B)

where:

A = HK$264,000,000
B = the Ocho Profit received and/or receivable by Best Mind during the First Relevant Period

and if the resulting First Adjustment shall be a negative figure, Mr. Ng shall not be required to pay any adjustment for the First Relevant Period. If the First Profit guarantee is exceeded, Best Mind and/or the Company shall not be required to make any further payments to Mr. Ng and no any further adjustment payment will be triggered.

Second Profit Guarantee

Mr. Ng has irrevocably and unconditionally guaranteed to Best Mind that the Ocho Profit for the Second Relevant Period shall not be less than HK$120,000,000. In the event the Ocho Profit received and/or receivable by Best Mind for the Second Relevant Period shall be less than HK$120,000,000, Mr. Ng has undertaken to pay to Best Mind the sum calculated in accordance with the following formula (the "Second Adjustment") within 60 days after the Second Relevant Period (provided that the Second Adjustment shall not be more than HK$120,000,000):

Second Adjustment = (A – B)

where:

A = HK$120,000,000
B = the Ocho Profit received and/or receivable by Best Mind during the Second Relevant Period

and if the resulting Second Adjustment shall be a negative figure, Mr. Ng shall not be required to pay any adjustment for the Second Relevant Period. If the First Profit guarantee is exceeded, Best Mind and/or the Company shall not be required to make any further payments to Mr. Ng and no any further adjustment payment will be triggered.

There are no profit guarantees after the Second Relevant Period.

Certificates in escrow

The Vendor has undertaken to and covenanted with the Company that forthwith upon Completion, it shall deposit with the Company's legal advisers (or such other escrow agent as may be agreed between the parties) Certificates on and subject to such terms and conditions of an escrow letter as may be agreed between the parties to the Sale and Purchase Agreement and such escrow agent, and in particular a term to the effect that the Certificates (or part thereof) will only be released to the Vendor if for each period set out below the following Ocho Profit figures are met/attained by Ocho:

First Relevant Period

	Ocho Profit *(in HK$)*	**Amount of Convertible Note to be released** *(in HK$)*
– period from 17.08.2007 to 31.12.2007	72,000,000	35,250,000
– quarter ending 31.03.2008	48,000,000	23,500,000
– quarter ending 30.06.2008	48,000,000	23,500,000
– quarter ending 30.09.2008	48,000,000	23,500,000
– quarter ending 31.12.2008	48,000,000	23,500,000
Total	264,000,000	129,250,000

Second Relevant Period

	Ocho Profit *(in HK$)*	**Amount of Convertible Note to be released** *(in HK$)*
– quarter ending 31.03.2009	48,000,000	23,500,000
– quarter ending 30.06.2009	48,000,000	23,500,000
– period from 01.07.2009 to 16.08.2009	24,000,000	11,750,000
Total	120,000,000	58,750,000

To the extent that the Ocho Profit for the relevant period is not met/attained by Ocho, the relevant Certificates shall continue to be held in escrow until the end of the First Relevant Period or Second Relevant Period (as the case may be) and until the First Profit Guarantee or the Second Profit Guarantee is fully received by Best Mind (as the case may be).

The Vendor has undertaken and covenanted to the Company that if Ocho's junket licence is cancelled, revoked, terminated or is not renewed or amended in a material and adverse manner to Ocho by the relevant authorities in Macau at any time before the maturity date of the Convertible Note, the Vendor shall return the outstanding Convertible Note to the Company and the Company shall not be obliged to pay any outstanding sums under the Convertible Note.

It is a term of the Convertible Note that upon release of the relevant Certificates, conversion of the Convertible Note shall be permitted provided that the percentage shareholding of the Company's issued share capital held by the relevant noteholders at such time does not exceed the following thresholds in the period specified below:

(i) 5% of the then issued share capital of the Company within first year after the Second Relevant Period;

(ii) 10% of the then issued share capital of the Company within second year after the Second Relevant Period;

(iii) 15% of the then issued share capital of the Company within third year after the Second Relevant Period; and

(iv) 20% of the then issued share capital of the Company within fourth year after the Second Relevant Period.

In the event that Mr. Ng fails to pay in cash, in whole or in part,

(i) the shortfall between the First Profit Guarantee and the Ocho Profit received and/or receivable by Best Mind during the First Relevant Period within 60 days after the First Relevant Period; and/or

(ii) the shortfall between the Second Profit Guarantee and the Ocho Profit received and/or receivable by Best Mind during the Second Relevant Period within 60 days after the Second Relevant Period,

the Company can deduct from the outstanding sum payable under the Convertible Note the shortfall which will be equal to the difference between shortfall between the First Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the First Relevant Period and/or shortfall between the Second Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the Second Relevant Period.

Completion

Completion shall take place on the second Business Day or on such date as may be agreed between the parties after the last of the conditions of the Sale and Purchase Agreement having been fulfilled or waived and at the same time as the Initial Acquisition.

TERMS OF THE CONVERTIBLE NOTE

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

Issuer

The Company

Principal amount

HK$188,000,000

Interest

Convertible Note will carry interest at the rate of 5% per annum, payable annually in arrears.

Maturity

A fixed term of ten years from the date of issue of Convertible Note. Unless previously redeemed (if applicable), converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of Convertible Note on the maturity date.

Conversion

The Noteholder may at any time during Conversion Period convert the whole or part (in multiples of HK$1,000,000) of the principal amount of Convertible Note into new Shares at the Conversion Price.

Subject to the conditions provided in the instrument, the Company may at any time during Conversion Period by at least 7 days' prior notice in writing request the Noteholder to convert certain amount of Convertible Note as specified therein and the Noteholder shall convert such amount of Convertible Note registered in its names into Conversion Shares as so requested by the Company.

Under the respective terms of Convertible Note, the Noteholder cannot convert Convertible Note or part thereof if upon the exercise of the conversion rights under Convertible Note, the Noteholder and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and

Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion.

Conversion Price

Conversion Price is HK$0.30 per Conversion Share, subject to adjustments.

The adjustments for Conversion Price include the followings:

(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;

(vi) an issue of Shares wholly for cash at a price per Share which is less than 80% of the market price on the date of announcement of the terms of such issue; and

(vii) an issue of Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price on the date of the announcement of the terms of such issue.

Conversion Price represents (i) a premium of approximately 106.90% over the closing price of HK$0.145 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; (i) a premium of approximately 38.25% over the closing price of HK$ 0.217 per Share as quoted on the Stock Exchange on 5 October 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (ii) a premium of approximately 42.18% over the average of the closing prices of approximately HK$0.211 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 5 October 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (iii) a premium of approximately 37.61% over the average of the closing prices of HK$0.218 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 5 October 2007, being the date immediately prior to the date of the suspension of trading in the Shares.

The Conversion Price is arrived at after arm's length negotiation between the parties and is based on the conversion price of the Convertible Note I and by taking into account the average closing price at HK$0.319 for the last 10 trading days prior to the suspension of the Initial Acquisition and the net asset value per Share as at 31 December 2006 and the expected profitability of Best Mind.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Note in the aggregate principal amount of HK$188,000,000 at the Conversion Price by the Noteholder, the Company will allot and issue an aggregate of 626,666,666 new Shares, representing approximately (i) 31.93% of the issued share capital of the Company as at the date of the Announcement, (ii) 22.33% of the issued share capital of the Company as at the Latest Practicable Date, and (ii) 18.26% of the issued share capital of the Company as enlarged by the exercise in full of the conversion rights attaching to Convertible Note. The Conversion Shares will be issued pursuant to the specific mandate to be sought at the SGM.

Early redemption

The Company may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem Convertible Note (in whole or in part) at par.

Ranking

Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares.

Status of the Convertible Note

Convertible Note constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Voting rights

Convertible Note does not confer any voting rights at any meetings of the Company.

Cancellation of Convertible Note or deduction from the outstanding sum

The Company has right to cancel the Convertible Note or deduct the shortfall from the outstanding sum under Convertible Note if Mr. Ng does not pay the shortfall between the Ocho Profit guaranteed and the Ocho Profits actually received and/or receivable by Best Mind during the relevant periods.

The Vendor has undertaken and covenanted to the Company that if Ocho's junket licence is cancelled, revoked, terminated or is not renewed or amended in a material and adverse manner to Ocho by the relevant authorities in Macau at any time before the maturity date of Convertible Note, the Vendor shall return the outstanding Convertible Note (without interest) to the Company and the Company shall not be obliged to pay any outstanding sums under Convertible Note.

Application for listing and miscellaneous

No application will be made by the Company for the listing of the Convertible Note. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Company will undertake to the Stock Exchange that it will notify the Stock Exchange as soon as possible upon becoming aware of any dealings in the Convertible Note by connected persons of the Company.

DEED OF VARIATION

Pursuant to the Deed of Variation, the parties to the Acquisition Agreement have agreed to vary the Acquisition Agreement by cancelling the Call Option.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The effect on the shareholding upon completion of the Initial Acquisition, the Acquisition and assuming the full conversion of the Convertible Note and Convertible Note I is illustrated in different scenarios as below:

Scenario I – Assuming no Shares are allotted and issued under the Placing

	As at the Latest Practicable Date		Upon completion of the Initial Acquisition		Upon completion of the Initial Acquisition and the Acquisition		Upon completion of the Initial Acquisition and the Acquisition and assuming full conversion of the Convertible Note and the Convertible Note I *(Note)*		Upon completion of the Initial Acquisition and the Acquisition and assuming full conversion of the Convertible Note and the Convertible Note I and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*
Porterstone	507,865,000	18.10	507,865,000	17.24	507,865,000	16.69	507,865,000	11.75	507,865,000	12.67
Dorest	27,645,000	0.99	27,645,000	0.94	27,645,000	0.91	27,645,000	0.64	27,645,000	0.69
Mr. Heung Wah Keung	54,592,500	1.94	54,592,500	1.85	54,592,500	1.80	54,592,500	1.27	54,592,500	1.36
Ms. Chen Ming Yin, Tiffany	31,716,615	1.13	31,716,615	1.08	31,716,615	1.04	31,716,615	0.73	31,716,615	0.79
Sub-total	621,819,115	22.16	621,819,115	21.11	621,819,115	20.44	621,819,115	14.39	621,819,115	15.51
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00	16	0.00	16	0.00	16	0.00
Public Shareholders:										
The Vendor	0	0.00	140,000,000	4.75	236,333,333	7.77	1,516,333,332	35.08	1,202,040,000	29.99
Other public Shareholders	2,184,277,942	77.84	2,184,277,942	74.14	2,184,277,942	71.79	2,184,277,942	50.53	2,184,277,942	54.50
	2,806,097,073	100.00	2,946,097,073	100.00	3,042,430,406	100.00	4,322,430,405	100.00	4,008,137,073	100.00

Note: *This is for illustration only. The Vendor is restricted to be interested in less than 30% of the issued share capital of the Company.*

Scenario II – Assuming all Shares are allotted and issued under the Placing

	Upon completion of the Initial Acquisition and the Acquisition, and assuming completion of the Placing		Upon completion of the Initial Acquisition and the Acquisition and assuming completion of the Placing, and assuming full conversion of the Convertible Note and the Convertible Note I	
	Shares	*%*	*Shares*	*%*
Porterstone	507,865,000	6.31	507,865,000	5.45
Dorest	27,645,000	0.34	27,645,000	0.30
Mr. Heung Wah Keung	54,592,500	0.68	54,592,500	0.58
Ms. Chen Ming Yin, Tiffany	31,716,615	0.40	31,716,615	0.34
Sub-total	621,819,115	7.73	621,819,115	6.67
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00
Public Shareholders:				
The Vendor	236,333,333	2.94	1,516,333,332	16.27
Other public Shareholders	2,184,277,942	27.16	2,184,277,942	23.43
Placees under Placing	5,000,000,000	62.17	5,000,000,000	53.63
	8,042,430,406	100.00	9,322,430,405	100.00

As at the Latest Practicable Date, there are 324,689,433 outstanding share options of the Company entitling holders thereof to subscribe for 324,689,433 Shares granted under the share option schemes of the Company and there are no convertible notes outstanding.

SERVICE AGREEMENT

Upon completion of the Initial Acquisition, Mr. Ng will enter into a service agreement with the Company to act as a general manager of the Company for managing the Group's investments in Best Mind. The scope of his work includes overseeing the business volume and progress of Best Mind and monitoring the development of Macau gaming industry which are relevant to the business of Best Mind. The Directors consider employing him as the general manager is beneficial to the Group based on, inter alia, the following factors:

(i) Mr. Ng is well versed in the Macau gaming market and can provide updated market information as to the trend, the move as well as the performance of various market practitioners in Macau. This will be beneficial to the Company if the Company decides to make further investments in Macau gaming business;

(ii) Mr. Ng is experienced in the market and can assist the Company in investor relations; and

(iii) By "recruiting" Mr. Ng as employee, the Company has the legal right in having Mr. Ng worked on an active basis via asking him the performance of Ocho when deem appropriate (rather than passively waiting till month end for the figures). Correspondingly, the Company can monitor the development of Ocho at a more timely manner.

Mr. Ng is not an employee of the Group as at the Latest Practicable Date.

DIRECTORS' VIEWS

The Directors had (i) reviewed the gaming experience of Mr. Ng and his network of agents; (ii) reviewed the performance of Ocho for the period from 17 August 2007 (being the opening date of Ocho VIP Club) to 31 October 2007; (iii) reviewed the Macanese legal opinion on the legality and validity of the Profit Agreement; and (iv) conducted extensive research on junket business in Macau, including reviewing reports prepared by well-known investment banks in relation to Macau gaming business and making enquiries with the practitioners in the gaming industry. The Directors understand that generally, the term of the agreement between the junket operator and the casino operator is tied with the term of the junket licence. Such kind of agreement will be revoked once the renewal of the junket licence fails. Having reviewed the Macanese lawyers' opinion on the Profit Agreement, the Directors have exercised their fiduciary duty to ensure that the business carried out or to be carried out by Ocho is legal and valid.

Other important terms

The Directors understand the importance of the Junket Representative Agreement in the Acquisition as it forms part of the source of the Ocho Profit. During arm's length negotiation, the Directors are given to understand that (1) the Junket Representative Agreement may be terminated at any time by either party to the Ocho Junket Representative Agreement; (2) term of the Junket Representative Agreement is substantially shorter than that of the Profit Agreement and may or may not be renewable upon expiry and (3) the Company is not a party to the Junket Representative Agreement and therefore it has no control on the termination and the renewal of the Junket Representative Agreement. Also, the Directors understand that the gaming promoter licence of Ocho is subject to renewal annually by the Macau Government.

In the event that the Junket Representative Agreement is terminated, or expired or the renewal of the Junket Representative Agreement fails, the Rolling Turnover generated by Ocho will no longer be the sources of the Ocho Profit that the Group is entitled to share and the Group will lose this part of the Ocho Profit.

As the Junket Representative Agreement is a confidential document, it is not subject to review by the Directors.

Despite this, the Directors consider that the consideration is fair and reasonable given that:

(1) Benefits of the Acquisition

There is no share of loss under the Profit Agreement as the Ocho Profit is simply based on 0.4% of the Rolling Turnover generated by Ocho (as the case may be) regardless of the actual operating expenses incurred by Ocho. This removes a lot of uncertainties on the Company's future profitability and reduces the risk of the Company.

(2) Renewal of gaming promoter licences

Ocho has obtained its gaming promoter licence on 23 July 2007 and will be valid until 31 December 2007. An application has already been made by Ocho to the DICJ for renewal of its gaming promoter licence for 2008. The appointment of Ocho as a junket representative by Grand Lisboa Casino on 15 August 2007 evidences Ocho's and Mr. Ng's credentials. So far as Ocho is aware, Ocho was one of the only three licensed junket representatives appointed by Grand Lisboa Casino as at the Latest Practicable Date. The Directors believe that the chance of non-renewal of Ocho's gaming promoter licence after 31 December 2007 is highly unlikely because:

(a) the Macau Government granted a gaming promoter licence to Ocho only a few months ago after considering its first application and the Directors are not aware of any change of circumstances of Ocho since the date of grant of the gaming promoter licence to Ocho by the Macau Government that would affect its application;

(b) the Directors are not aware of any breach of relevant rules and regulation by Ocho; and

(c) Ocho has the support from Grand Lisboa Casino who has to ensure that the gaming promoters have sound financial background and have no linkage to organized crime before co-operation with them, as evidenced by its making of a declaration accompanying with the renewal application of Ocho, indicating its intention to work with Ocho in the subsequent year.

(3) Profit Guarantees

In any event, the Group will receive not less than HK$364 million for the first two years as Mr. Ng has provided the First Profit Guarantee and Second Profit Guarantee to Best Mind for the relevant periods and guaranteed to pay any shortfall when the guarantees cannot be achieved. As the Group is entitled to 51% of the Ocho Profit through its 51% equity interest in Best Mind, it will receive not less than HK$192 million for the first two years in any event.

After balancing the risks as stated in the section headed “Risk Factors of Gaming Promotion Business” below with the benefits of the Acquisition, including the Group’s perpetual rights to the Ocho Profit, no share of loss by Best Mind and the source of the Ocho Profit under the Profit Agreement, the Directors (including the independent non-executive Directors) consider that the consideration is fair and reasonable and the Acquisition to be on normal commercial forms and is in the interest of the Company and the Shareholders as a whole.

The Board considers that the Sale and Purchase Agreement is fair and reasonable because:

(a) Mr. Ng has over 10 years of experience in Asian gaming, including working as an oversea promoter for various casinos’ VIP lounges in Macau. Based on the above, the Directors believe that Mr. Ng has the ability to bring in sufficient customers for generating Rolling Turnover at gaming rooms operated by Ocho in the Grand Lisboa Casino; and

(b) according to the representation of Mr. Ng, he has already obtained the support from the other agents and sub-agents of Ocho to continue to refer customers to Grand Lisboa Casino gaming room operated by Ocho.

The consideration is determined after arm’s length commercial negotiation between the Company, the Vendor and Mr. Ng after considering that the Acquisition will (1) broaden the Group’s revenue source; and (2) provide a substantial and stable income source to the Group in view of the acquisition of the Ocho Profit by Best Mind pursuant to the Profit Agreement, the loosening of travel restrictions of Mainland Chinese visitors and the prospects of Macau’s gaming business.

The Company considers acquiring a profit stream which has no share of loss under the Profit Agreement will not prejudicially affect the Company.

As such, the Directors (including the independent non-executive Directors) consider the consideration for the Acquisition is on normal commercial terms and is fair and reasonable. Please refer to the paragraph headed “Reasons for the Acquisition” for further details of the reasons for the Acquisition.

There will be no change in the Board following Completion.

Directors' View on the Junket Representative Agreement and the Due Diligence Work Done by the Directors

As the Junket Representative Agreement is confidential, the Directors had not reviewed the Junket Representative Agreement. However, prior to and after the signing of the Acquisition Agreement, the Directors had conducted the following work:

In respect of the Junket Representative Agreement,

(a) the Directors (including the independent non-executive Directors) had visited Grand Lisboa Casino on several occasions to observe the business operations, i.e. business level in terms of customers head count and operation flows and procedures;

(b) the Directors (including the independent non-executive Directors) had reviewed the Licenca De Promotor De Jogo Pessoa Colectiva (法人的博彩中介人准照), the licence granted by DICJ (the relevant governmental department in Macau responsible for the issuance of gaming promoter licences) to Ocho to act as a gaming promoter. It shows that the company for which Ocho can work as gaming promoter is Grand Lisboa Casino; and

(c) the Directors (including the independent non-executive Directors) had also reviewed the legal opinion of Macau lawyers instructed by the solicitors acting for Ocho for the transaction, concerning the legality and validity of the Profit Agreement and the transactions contemplated thereunder. It is stated in the Macau legal opinion prepared by the Macau lawyers instructed by Ocho that they had examined the Junket Representative Agreement between Grand Lisboa Casino and Ocho dated 15 August 2007 pursuant to which Ocho has agreed to act as a gaming promoter for Grand Lisboa Casino, inter alia, directing gaming patrons to Grand Lisboa Casino, for the preparation of the legal opinion. The opinion from the Macau lawyers further corroborates the belief of the Directors (including the independent non executive Directors) that the Junket Representative Agreement does, in fact, exist.

Although the Directors had not reviewed the Junket Representative Agreement and does not know its exact terms, the Directors had discharged their duties including their fiduciary duties under Rule 3.08 of the Listing Rules for the following reasons:

(1) with the restraint of the confidential provision of the Junket Representative Agreement, the Directors had tried their best to search for other sources of information to verify the existence of the same. The Directors (including the independent non-executive Directors) had actually visited Grand Lisboa Casino, i.e. business level in terms of customers head count and operation flows and procedures. Further, the Directors (including independent non-executive Directors) had reviewed the Licenca De Promotor De Jogo Pessoa Colectiva (法人的博彩中介人准照) granted to Ocho. They show that the company for which Ocho can work as gaming promoter is Grand Lisboa Casino. The Directors consider that all of these are solid support that the Junket

Representative Agreement actually exist. Moreover, the Directors (including the independent non-executive Directors) have also reviewed the Macau legal opinion in which a professional, the Macau lawyers, confirmed that they had examined the Junket Representative Agreements. This shows that the Directors had flexibly adopted an alternative approach to verify the existence of the Junket Representative Agreement and had reasonable grounds to believe that the Junket Representative Agreement actually exists.

(2) Prior to the signing of the Acquisition Agreement, the Directors had conducted extensive research on the junket business in Macau, including reviewing reports prepared by well-known investment banks in relation to Macau gaming business and making enquiries with the practitioners in the gaming industry. The Directors had also conducted research and background checking on Ocho and Mr. Ng. These include their respective histories, the current level of business, the existing business relationship between Grand Lisboa Casino and Ocho, their status in the gaming industry, words of mouth, the integrity of Mr. Ng. Through such extensive research, the Directors had thorough understanding of the arrangement between the gaming promoters and the casino operators and of the background of Ocho and Mr. Ng. The Directors have also conducted the following due diligence work:

(a) gathered information from the market in respect of Ocho and Mr. Ng to see if there is any unfavourable comment about them; and

(b) observed the internal control to be put in place by Ocho.

(3) The Directors understand from the research result that the term and renewal of the Junket Representative Agreement may tie with the term of the gaming promoter licences of Ocho, which are valid for one year and are subject to renewal. In the event that the licence are not renewal, Ocho cannot carry its gaming promoter business and the Company may have to resort to the escrow certificates as detailed on page 11 herein if this occurs during the First Relevant Period and Second Relevant Period. However, the Directors, in making the decision, do not just focus on one or two factors. The Directors, when making the decision, have to and have considered all the circumstances and information, in particular the risk involved and evaluate the chance of the incurrence of such risk, the impact of such risk to the Company, what can be done to minimize the incurrence of such risk, and whether such risk is justified, the benefits of the Acquisition and viewed the transaction as a whole.

(4) Moreover, in entering into the Acquisition Agreement, the Directors ensured that Completion is conditional upon the result of the due diligence investigation in respect of Best Mind, is to the satisfaction of the Company. The Directors have cautiously performed the due diligence investigation, including but not limited to meeting with the representatives of Grand Lisboa Casino through the arrangement of Ocho to further understand the arrangement between Grand Lisboa Casino and Ocho.

INDUSTRY OVERVIEW OVER THE GAMING BUSINESS AND JUNKET BUSINESS IN MACAU

Macau Gaming Business

History and Development

Macau is the only city in China where gambling is allowed. Gaming has been lawful in Macau since 1937. In 2002, the Macau Government decided to open up the 40-year gaming monopoly held by Sociedade de Turismo e Diversões de Macau, S.A., a company controlled by Dr. Stanley Ho, after the expiry of its exclusive concession. In addition to a new concession granted to Sociedade de Jogos de Macau, S.A., a subsidiary of Sociedade de Turismo e Diversões de Macau, S.A. for 18 years, two new 20-year concessions were granted to Wynn Resort (Macau), S.A. and the Galaxy/Venetian consortium.

Market demand

The gaming industry is now a vital industry of Macau. Recently, Macau has been ahead of Las Vegas in the USA and has become the largest gaming city in the world. Based on the gaming statistics prepared by DICJ, the revenue generated by the gaming activities is growing steadily at an average growth rate of approximately 23% each year for the period between 2002 and 2006. The total revenue from the gaming activities had increased from MOP23,496 million in 2002 to MOP57,521 million in 2006 whereas the gaming revenue (from games of fortune) had increased from MOP22,180 million in 2002 to MOP56,623 million in 2006. The revenue from the gaming activities for the first three quarters of 2007 amounted to MOP58,905 million.

One of the factors contributing to the strong growth should be the liberalization of the industry and entry of new players. The new players has opened more new casinos, which drive more visitors to Macau and hence generate more gaming revenue. Another reasons for the strong growth is the increase of total number of visitors arrived in Macau, especially the increase of the PRC visitors. When there is increase in number of visitors in Macau, especially increase in the number of PRC visitors, there will be greater demand for casinos as gaming is a popular leisure activity and Chinese have preference in gaming.

According to the Macau Statistics and Census Service, the number of visitors to Macau has increased significantly from approximately 9.2 million in 2000 to 22 million in 2006. During the same period, visitors from the PRC increased from approximately 2.3 million in 2000 to approximately 12 million in 2006.

The reason for the great increase of PRC visitors is mainly due to the relaxation of rules governing individual travelers and remittance of cash from the PRC, and the continuing strength of the Chinese economy. The easing of travel restrictions in the PRC makes travel to Macau easier and allows more Chinese middle class travel to Macau.

Different game types of games of fortunes

According to the gaming statistics of DICJ, there are different game types of games of fortune that generate revenue in Macau.

By far, Baccarat is the most popular game type. According to the gaming statistics of DICJ, the gross revenue come from VIP Baccarat, Baccarat and Mini Baccarat for the first three quarters of 2007 are MOP38,875 million, MOP11,614 million and MOP216 million respectively. Other popular game types include Cussec, Black Jack, Slot Machines and Fish-Prawn-Crab.

Number of gaming tables and casinos in Macau

According to the gaming statistics prepared by DICJ, there are 3,992 gaming tables in the third quarter of 2007 which shows a significant increase from 339 gaming tables in 2002.

Also, there is significant increase in the number of casinos in Macau. According to the gaming statistics prepared by DICJ, there is a total number of 27 casinos in Macau in the third quarter of 2007 which is more than double of 11 casinos in Macau in 2002.

Junket business in Macau

Market

The gaming promoters work with the casino operators in the high roller or VIP market. Many of the high rollers or VIP customers of the casinos are sourced by a network of junket operators who work with it.

Operation of gaming promotion business

Generally, the work of the gaming promoters in Macau includes marketing and organizing business trips for enticing customers to participate in the gaming activities provided by the casino operator at VIP gaming rooms and providing related services, including food and beverage services, entertainment, accommodation arrangement and even provide VIP customers with credit.

Licensing system

To become a gaming promoter in Macau, it is necessary for the gaming promoter to obtain a licence from DICJ. The licence granted to the gaming promoter is valid for one year and is renewable.

The licensing process is initiated with an application request submitted to DICJ including several documents, namely a completed form containing a questionnaire to ascertain the probity of the applicant and a declaration of a concessionaire, duly signed by a legal representative or a director with capacity to bind the company, indicating the intention of the concessionaire to work with such gaming promoter. All gaming promoters, corporate or individuals, must submit to the probity confirmation procedures and are obliged to disclose all information necessary and cooperate with the Macau Government. The licence can only be granted when the applicant is found to comply with the probity requirements. If the applicant is a corporate gaming operator, the probity requirements also apply to its shareholders that hold 5% or more of the share capital and its key employees. To consider whether the applicant fulfills the probity requirement, DICJ will consider the information provided by the applicant in the questionnaire, including its corporate, business and financial information, information regarding its key employees and shareholders, judicial litigation and governmental investigation, bankruptcy and insolvency, its previous experience in junket business. The relevant authorities will also consider the information provided by the corporate applicant's shareholders that hold 5% or more of the share capital and key employees, including their personal and family background, their financial information and civil proceedings or criminal investigation that they may involve.

In order to renew the licence, the gaming promoter shall submit an application form accompanied by a declaration made by the concessionaire or sub-concessionaire, duly signed by a legal representative or a director with capacity to bind the company, indicating the intention of the concessionaire to work with such gaming promoter in the subsequent year, to DICJ by 30 September of each year.

The gaming promoter, which is a commercial company, its shareholders that hold 5% or more of the issued capital, directors and key employees are subject to a suitability verification process every six years. The purpose of this suitability verification is to ensure that the gaming promoters, their shareholders that hold 5% or more of the share capital, directors and key employees remain suitable/idoneous during a certain period of time. In accordance with the Administrative Regulation no. 6/2002, dated 20 March 2002 (Gaming Promotion Regulation), notwithstanding the periodity mentioned above, DICJ may at its own discretion, subject the gaming promotion companies, their shareholders that hold 5% or more of the issued capital, directors and key employees, to an extraordinary assessment of suitability process. Furthermore, when the licences are renewed, the Macau Government has the discretionary power to settle any requisites or specific conditions that must be observed and accomplished by any promoter that applies for such renewal.

Unless otherwise agreed by the parties, the gaming promotion activity is not executed in exclusiveness. The gaming promoters may operate with several concessionaires.

RISK FACTORS OF GAMING PROMOTION BUSINESS

There are the following risk factors in relation to the gaming promotion business (commonly referred to as the junket business) operated by Ocho:

(1) The provision of junket business is competitive in general. There is no guarantee that the targeted customers of Ocho will not be lured away by other junket operators.

(2) The Rolling Turnover generated by Ocho operating as a junket representative in the Grand Lisboa Casino relies on, among other factors, the attractiveness of the Grand Lisboa Casino to the prospective customers, Ocho's ability to procure customers to the Grand Lisboa Casino, annual renewal of the junket licence of Ocho by the Macau Government, tenure of Ocho acting as junket representative for the Grand Lisboa Casino under the Junket Representative Agreement. There is no assurance that the Grand Lisboa Casino is always attractive. In the event that Ocho ceases to be committed to the junket business or cease to be appointed as a junket representative by the Grand Lisboa Casino, the junket business, and thereby the Ocho Profit to be paid to Best Mind, may be adversely affected. Moreover, if Ocho fails to obtain the renewal of its junket licence from the Macau Government, it can no longer operate its junket business and no Ocho Profit can be paid to Best Mind as a result.

(3) In the event that the Grand Lisboa Casino in Macau becomes the target for carrying out money laundering, the Rolling Turnover generated by Ocho may be affected and/or interrupted.

(4) As the Ocho Profit is sourced from Rolling Turnover generated or to be generated by Ocho and/or its customers, there is a risk that the source of the Ocho Profit will cease if the junket licence of Ocho cannot be renewed.

(5) The appointment of Ocho may be terminated at any time by the Grand Lisboa Casino.

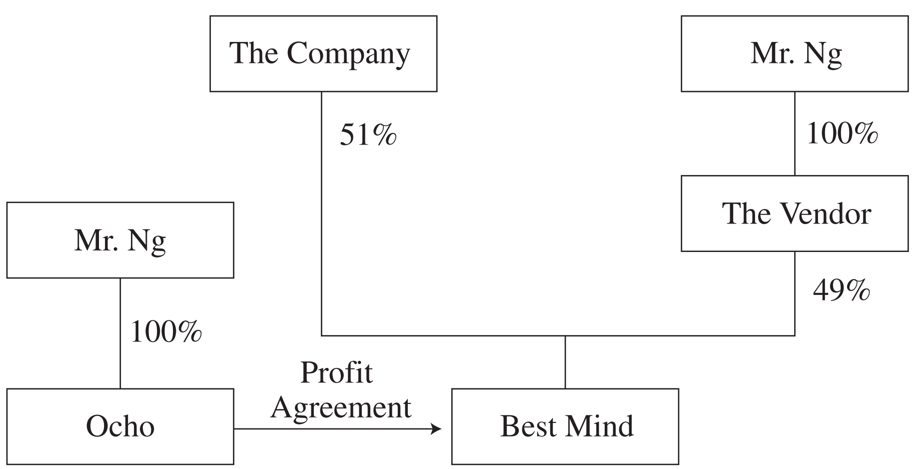
(6) The junket licence of Ocho granted or to be granted by the Macau Government is subject to renewal annually.

(7) The Grand Lisboa Casino's casino licence may be revoked by the Macau Government.

(8) There is a possibility that another junket representative could be appointed at Ocho VIP Club and if this is the case, the Ocho Profit would be affected.

SHAREHOLDING STRUCTURE OF THE RELEVANT ENTITIES AND THE COMPANY

The diagram below shows the shareholding structure of the relevant entities immediately before Completion (assuming completion of the Initial Acquisition):



The diagram below shows the shareholding structure of the relevant entities immediately after Completion (assuming completion of the Initial Acquisition)

INFORMATION OF BEST MIND AND OCHO

Information on Best Mind

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Best Mind is an investment holding company incorporated in the British Virgin Islands on 6 July 2007. The unaudited total assets value of Best Mind as at 31 October 2007 was HK$62,810,000. During 6 July 2007 (date of incorporation) to 31 October 2007, Best Mind recorded a net profit of HK$62,800,000.

On Completion, Best Mind will be accounted for as a subsidiary in the books of the Company and its results consolidated into that of the Company.

Under the Profit Agreement, Mr. Ng has undertaken to Best Mind that he will not at any time:

(1) carry on the business of directing gaming patrons to casinos in Macau without the prior written approval from all of the shareholders of Best Mind;

(2) he will not at any time either on his own account or in conjunction with or on behalf of any other person or body corporate or unicorporate in competition with Ocho directly or indirectly solicit or entice away from Ocho any person or body corporate or unicorporate who now is or at any time a customer of Ocho; and

(3) he will not any time either on his own account or in conjunction with or on behalf of any other person or body corporate or unincorproate directly or indirectly solicit or entice away from Ocho or employ or otherwise engage any person who now is or at any time an employee of Ocho.

Best Mind will become a wholly-owned subsidiary of the Company following Completion.

Information on Ocho

Ocho was incorporated in Macau on 23 May 2007. Ocho has been appointed as a junket representative of the Grand Lisboa Casino since 15 August 2007. Other than being a junket representative, Ocho does not engage in any other business. Ocho has been granted the licence for acting as a gaming promoter by the Macau Government on 23 July 2007. The licence is valid until 31 December 2007 and is renewable annually. An application has already been made by Ocho to the DICJ for renewal of its gaming promoter licence for 2008.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Ocho and its ultimate beneficial owner, Mr. Ng, are Independent Third Parties and all of them are independent of and not connected with the Directors and their respective associates.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, and the provision of post-production services, property and hotel investment. The Group will cease to invest in property and hotel following the disposal of Kingsway Hotel Limited to Riche Multi-Media Holdings Limited as per the Company's announcement dated 8 August 2007 and the Company's circular dated 9 October 2007.

In view of the recent booming economy of Macau, the prospects of Macau's gaming business and the entering into of the Initial Acquisition, the Directors believe that the Acquisition will further broaden the Group's revenue sources and provide a stable income stream to the Group. Furthermore, Mr. Ng has provided to Best Mind and the Company the Junket Representative Settlement Forms and Purchase of Non-negotiable Chips Statements for the months of August and September 2007. It can be ascertained that the Rolling Turnover achieved by Ocho for the period from 17 August 2007 (date of opening of the Ocho VIP Club) to 30 September 2007 amounted to approximately HK$8,888,000,000, or a monthly average Rolling Turnover of approximately HK$5,925,000,000. Pursuant to the Profit Agreement, Best Mind recorded a net profit of HK$35,552,000 (i.e. HK$8,888,000,000 x 0.4%), or a monthly average net profit of approximately HK$23,700,000.

It should be noted and as disclosed in the Company's announcement dated 30 August 2007 that Mr. Ng had guaranteed to Best Mind that the Ocho Profit for the First Relevant Period shall not be less than HK$264,000,000. As the First Relevant Period covers a period of approximately 16.5 months, this translates into a monthly Ocho Profit of HK$16,000,000 (ie. HK$264,000,000 ÷ 16.5 = HK$16,000,000). The average monthly net profit of Best Mind well exceeded the monthly guaranteed Ocho Profit by approximately 48%.

The Directors have considered the outstanding performance of Ocho during the Relevant Month as evidenced by the Rolling Turnover for such period and have decided that the entering into of the Sale and Purchase Agreement and the cancellation of the Call Option is in the interests of Shareholders and the Company as a whole as it would enable the Company to immediately capture the full Ocho Profit.

Accordingly, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The completion of the Initial Acquisition is still subject to approval by Shareholders in general meeting to be convened and the satisfaction of, inter alia, the conditions precedent as set out in the Company's circular dated 6 December 2007.

IMPLICATIONS UNDER THE LAWS OF HONG KONG AND THE LISTING RULES

Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to "Gambling activities undertaken by listing applicants and/or listed issuers" dated 11 March 2003, should the Group directly or indirectly be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas where such activities operate and/or (ii) contravene the Gambling Ordinance, the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, the Shares.

In relation to the prevention of the money laundering activities, as Ocho will be licensed to operate junket business and gaming business by the relevant authorities in Macau and the amount of bet/ Rolling Turnover is properly registered by Ocho, its gaming activities and businesses are subject to stringent control and regulation of the Macau Government. As its activities are under the regulation of the Macau Government and covered by a local legal opinion (as to Hong Kong law) that the gaming promotion businesses to be carried out by Ocho does not contravene any applicable laws of Hong Kong, the Directors, based on the legal opinions issued by Macanese lawyer and Hong Kong lawyer, confirms that the activities they participate are legal and lawful and thereby the income derived from these activities is also be lawful and proper.

The Company has also been advised by its legal advisers as to Macau law that to the best of the Macau lawyers' knowledge:

(1) the gaming activities carried out by Grand Lisboa Casino and Ocho in Macau are legal and lawful under Macau law;

(2) the gaming promoter activity carried out by Grand Lisboa does not contravene any applicable laws of Macau; and

(3) the Profit Agreement and the transactions contemplated thereunder do not contravene the laws of Macau.

In respect of the applicable regulatory or licensing requirement of gaming promotion business in Macau,

(1) Administrative Regulation no.6/2002, dated 20 March 2002 (Gaming Promotion Regulation) regulates the conditions to become a gaming promoter and conduct the activity of gaming promotion related to games of fortune or chance in casino, namely the probity verification procedures and the licensing process required to become a gaming promoter.

(2) The promotion of games of fortune or chance, also termed gaming promotion, is the activity of promoting games of fortune or chance before gaming patrons by granting certain amenities, like transportation, lodging, food and entertainment in return for a commission or other form of payment from a concessionaire.

(3) Only commercial companies, commercial entrepreneurs (empresario em nome individual) or individuals that fulfil the conditions set by Administrative Regulation no. 6/2002 are entitled to operate as a gaming promoter.

(4) DICJ may request the winding-up and judicial liquidation of any entity that carries out gaming promotion without the proper licence.

(5) If the gaming promoter is a commercial company, its scope of business must be solely the promotion of games of fortune or chance in casino and its shareholders must all be individuals.

(6) If the corporate gaming promoter is a joint stock company, the shares must all be nominative and the share capital must be fully subscribed and paid up upon incorporation.

(7) It is forbidden for corporate gaming promoters to resort to public subscription and the registration of a corporate gaming promoter can only be completed after the gaming promoter has obtained proper licence.

(8) For the gaming promoters that are commercial entrepreneurs (empresario em nome individual) the registration of its acts can only be made after obtaining of the proper licence.

(9) To become a gaming promoter it is necessary that the Macau Government through the DICJ grant a gaming promoter licence;

(10) This licence can only be granted when the applicant is found to comply with the probity requirements.

(11) The licensing process is initiated with an application request submitted to DICJ including several documents, namely a filled form containing a questionnaire to ascertain the probity of the applicant and a declaration of a concessionaire, duly signed by a legal representative or a director with capacity to bind the company, indicating the intention of the concessionaire to work with such gaming promoter.

(12) All gaming promoters, corporate or individuals, must submit to the probity confirmation procedures and are obliged to disclose all information necessary and cooperate with the Government.

(13) Regarding the corporate gaming promoters, the probity requirements also apply to its shareholder with 5% or more of the share capital and its key employees.

(14) The licence granted to the gaming promoters is valid for one civil year, renewable.

(15) In order to renew the licence, the gaming promoter shall submit an application form to the DICJ until 30 September of each year, the application procedures for the renewal finished on 30 September each year and the Macau Government will publish a list of licenced gaming promoters on 1 January in the following year.

(16) The application form shall be accompanied with a declaration subscribed by the concessionaire or sub-concessionaire, duly signed by a legal representative or a director with capacity to bind the company, indicating the intention of the concessionaire to work with such gaming promoter in the subsequent year.

(17) The gaming promoter, which is a commercial company – as Ocho – its shareholders that hold 5% or more of the issued capital, directors and key employees are subject to a suitability verification process every six years. The purpose of this suitability verification is to ensure that the gaming promoters, their shareholders with 5% or more of the share capital, directors and key employees remain suitable/idoneous during a certain period of time. In accordance with the Administrative Regulation no.6/2002, dated 20 March 2002 (Gaming Promotion Regulation), notwithstanding the periodity mentioned above, DICJ May at its own discretion, subject the gaming promotion companies, their shareholders that hold 5% or more of the issued capital, directors and key employees, to an extraordinary assessment of suitability process. Furthermore, when the licences are renewed, the Macau Government has the discretionary power to settle any requisites or specific conditions that must be observed and accomplished by any promoter that applies for such renewal.

(18) Unless otherwise agreed by the parties, the gaming promotion activity is not executed in exclusiveness; gaming promoters may operate with several concessionaires.

(19) The concessionaires and the gaming promoters are jointly and severally liable for the gaming promoters activity compliance with all relevant laws and regulations within its casinos.

(20) This regulation provides that the entities or individuals that already carried out gaming promotion activities at the time the regulation was enacted could temporarily continue to do so, until the first licensing process was completed.

Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to "Gambling activities undertaken by listing applicants and/or listed issuers" dated 11 March 2003, should the Group directly or indirectly be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas where such activities operate and/or (ii) contravene the Gambling Ordinance, the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, the Shares.

In relation to the prevention of the money laundering activities, as Ocho is licenced to operate junket business and Grand Lisboa Casino is licenced to operate gaming business by the relevant authorities in Macau and the amount of bet/Rolling Turnover on Grand Lisboa Casino is properly registered by both Ocho and Grand Lisboa Casino, their gaming activities and businesses are subject to stringent control and regulation of the Macau Government. The Directors believe that the activities Grand Lisboa Casino and Ocho should be legal and lawful and thereby the income derived from these activities should also be lawful and proper because:

(1) Grand Lisboa Casino is the concessionaire licenced by the Macau Government to carry out casino business in Macau;

(2) Ocho is validly licenced to act as gaming promoters in Macau, as evidenced in the "Licenca De Promotor De Jogo Pessoa Colectiva";

(3) Best Mind is an investment company to receive the Ocho Profit and it does not carry out any casino or gaming promotion activities in either Hong Kong or Macau. Therefore, the business activities of Best Mind will not constitute unlawful activities under the laws of Hong Kong and Macau;

(4) the Company's Hong Kong legal advisers, who had duly considered the relevant laws of Hong Kong, including the Gambling Ordinance (Cap. 148), Crimes Ordinance (Cap. 200) and laws governing money laundering activities, are of the view that:

    (a) the gaming promotion business carried out by Ocho does not convene any applicable laws of Hong Kong; and

    (b) the Company is not in breach of any applicable laws of Hong Kong as a result of the Acquisition.

(5) the Company's Macau legal advisers had advised that:

    (a) gaming activities of Grand Lisboa Casino and Ocho involved in Macau are legal and lawful under Macau law; and

    (b) the gaming promotion business carried out by Ocho does not contravene any applicable laws in Macau.

Apart from relying on such stringent official control, the Company will also use its best endeavours to procure that effective internal control systems are in place to make sure that the dividend distributed from Best Mind is derived from proper source.

In fact, the Company has issued its internal written policies to prevent money laundering, which has been communicated to the management and relevant staff in the Company. Basically, the Company has establish and maintain procedures to combat money laundering so as to enable suspicions of money laundering to be recognized and reported to the authorities and to produce its part of the audit trail to assist in official investigation. In particular, the Company:

(1) has procedures to verify the identity of new clients/counterparties;

(2) has record keeping procedures and will keep the relevant records, including account ledger records, a record of all internal reports to the money laundering reporting officer regarding suspected money laundering, a record of all investigations and other information taken into account by the money laundering reporting officer when deciding whether or not to report to the authority and a record of all reports to the authority regarding the suspected money laundering, for a certain period of time;

(3) has procedures for employees to report any suspicious transactions, normally, the employees have to report and discuss with the money laundering reporting officer any suspected transaction without delay;

(4) will ensure that employees are suitably trained and made aware of the reporting procedures and in the recognition and handling of suspicious transactions. Periodic training will be provided to the employees so as to regularly refresh their knowledge of combating money laundering; and

(5) has appointed a money laundering reporting officer. He will make further appropriate investigations into the suspected money laundering activities reported to him by the employees and will report the same to the relevant authorities, including the Hong Kong Monetary Authority and co-operate with them.

The Company will cross-check the Ocho Profit received or receivable with the original monthly Junket Representative Settlement Forms issued by Grand Lisboa Casino to Ocho. In addition to cross-check the original settlement forms issued by Grand Lisboa Casino, the director representing the Group will perform the followings to ensure the accuracy and completeness of the Ocho Profit:

(1) to observe the settlement of commission income by Grand Lisboa Casino to Ocho each month; and

(2) to perform a review on the internal control systems of Ocho on a quarterly basis to ensure they are properly in place.

The Company has already engaged HLB Hodgson Impey Cheng, to review the internal control systems as set out by Ocho periodically to ensure the efficiency and effectiveness of the internal control systems for Ocho. The Company has also engaged HLB Hodgson Impey Cheng to attend the monthly meeting between Grand Lisboa Casino and Ocho, in connection with the reconciliation of the Rolling Turnover as generated by Ocho and the settlement of monthly commission income earned by Ocho.

As an additional safeguard, the money remitted will also be routed through licenced Hong Kong banks which would exercise another level of anti-money laundering control.

Ocho has also implemented its internal control procedures and regulations in assisting Grand Lisboa Casino to detect suspicious transactions in combating the money laundering. The measures include the followings:

(1) Customer due diligence

Ocho does not keep anonymous accounts or accounts in obviously fictitious names. They undertake customer due diligence measures, including identifying and verifying the identity of their customers by using reliable, independent source documents, data or information like official identification documents such as passport and identification card before or during the course of establishing a business relationship with the customer.

(2) New and developing technologies that favour anonymity

Ocho pays attention to any money laundering threats that may arise from any new and developing technologies that favour anonymity and, if necessary, to prevent their use in money laundering schemes.

(3) Record keeping

Ocho maintains, for at least seven years, all necessary records on transactions to enable them to comply swiftly with information requests from the competent authorities. Such record must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal activity.

Ocho also keep records on the identification data obtained through the customer due diligence process and will make available to domestic competent authorities upon appropriate authorities.

(4) Reporting of suspicious transactions

Ocho pays attention to all settlement of unusually large sums and all unusual patterns of transactions which have no apparent economic or visible lawful purpose. If Ocho suspects or have reasonable grounds to suspect that money that they deal with when providing its settlement services are the proceeds of a criminal activity, or is related to terrorist financing, or otherwise is linked to or related to, or is to be used for terrorism, it will report promptly its suspicions to competent authorities.

Best Mind does not have its own money laundering procedures as it is only acquiring a net profit stream of a company. It relies on the procedures and steps taken by both the casino, that is, Grand Lisboa Casino and also the gaming promoter, that Ocho for this process.

Listing Rules Implications

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the SGM pursuant to Rule 14.49 of the Listing Rules. As no Shareholder has an interest in the Acquisition, different from other Shareholders, no Shareholder will be required to abstain from voting at the SGM.

GENERAL

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares and the Consideration Shares.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 70 of the Bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the Meeting; or

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

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

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

THE SGM

A notice convening the SGM to be held on Thursday, 27 December 2007 at 12:15 p.m. at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution in respect of the Acquisition is set out on pages 221 and 222 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Sale and Purchase Agreement and the Acquisition are in the interests of the Company and the Shareholders as a whole and that the terms of the Sale and Purchase Agreement and the Acquisition are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the ordinary resolution proposed at the SGM.

ADDITIONAL INFORMATION

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

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

Set out below is the management discussion and analysis (modified as appropriate) extracted from the annual reports of the Company for each of the three financial years ended 31 March 2004, 2005 and 2006 and the interim report of the Company for the six months ended 30 June 2007:

(i) For the six months ended 30 June 2007

Financial review

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

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

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

Business Review

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

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

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

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

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

Liquidity and Financial Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

Associates

Riche Multi-Media Holdings Limited

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

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

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

Together Again Limited

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

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

Brilliant Arts Multi-Media Holding Limited

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

Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

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

Acquisition of Best Mind International Inc.

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

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

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

Employees

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

Prospect

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, gaming business. After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry. The proposed acquisition of Best Mind expect to broaden the

Group's revenue sources and provide a stable income stream to the Group, given the recent booming economy of Macau and the prospects of Macau's gaming business. Currently, the Group is in various preliminary negotiations with different parties regarding the proposed acquisitions of certain entertainment and leisure businesses, including gaming, in Macau. The Group will sourced any possible investments with a positive impact on the Group's return in the long run.

(ii) For the year ended 31 December 2006

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group's turnover increased by 66% to approximately HK$152.8 million (2005: HK$92.2 million). Loss from operations amounted to approximately HK$10.6 million (2005: HK$39.5 million) and a profit attributable to equity holders of the Company amounted to approximately HK$36.9 million (2005: loss of HK$21.0 million) was recorded. The directors did not recommend the payment of a dividend for the year.

During the year, the Group had recognised a gain on deemed disposal of interest in an associate of HK$62.6 million from Riche Multi-Media Holdings Limited ("Riche Multi-Media") and a gain on disposal of an associate of HK$21.4 million from Golden Capital International Limited. The improvement in current year's result was mainly attributable to these gain and better performance in film distribution segment. However, the Group had recognised an impairment loss in respect of goodwill arising on acquisition of associates of approximately HK$32.6 million.

BUSINESS REVIEW

During the year, the Group had released 8 new films in the market including popular films like "The Shopaholic" and "Election II" which were the same as last corresponding year. In response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films, the Group has adopted cautious measures to secure the revenue and control budget for each new film. These measures were proved effective and better gross profit was achieved. On 13 September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Vendors"), all wholly owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Vendors the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). The transaction was approved by the Company's shareholders at a special general meeting held on 31 October 2006. During the year ended 31 December 2006, 65 out of these 100 motion pictures have been delivered and recorded in the income statement of the Group. Thus, the turnover and gross profit was further improved.

For the year ended 31 December 2006, total turnover was HK$152.8 million, of which HK$145.8 million or 95% was generated from film distribution and sales of film rights, the remaining 5% was generated from video distribution and other production services.

In year 2006, turnover and segment profit from Hong Kong and Macau amounted to HK$37.0 million (2005: HK$49.8 million) and HK$4.2 million (2005: HK$5.4 million) respectively. The performance in the market maintained at similar level as last year. The marketing and distribution expenses for the year ended 31 December 2006 was HK$9.8 million, representing a 56% decrease from HK$22.4 million for the last corresponding year.

Turnover and segment profit from the PRC amounted to HK$8.8 million (2005: HK$10.2 million) and HK$4.4 million (2005: loss of HK$6.4 million) respectively. The Group has sub-licensed China theatrical rights to other distributor for a fixed amount of distribution fees, thus securing the margin received by the Group.

Turnover and segment profit from America & Europe amounted to HK$1.1 million (2005: HK$8.0 million) and HK$0.3 million (2005: HK$2.6 million) respectively.

Turnover and segment profit from South-east Asia amounted to HK$11.5 million (2005: HK$22.6 million) and HK$4.4 million (2005: HK$6.7 million) respectively.

Turnover and segment profit from elsewhere amounted to HK$94.4 million (2005: HK$1.6 million) and HK$26.3 million (2005: HK$0.7 million) respectively. It mainly represent the sales of film rights to Fortune Star during the year.

To stay competitive in the market, the Group has regularly reviewed its costs structure in these years by taking prudent measures on cost policies and reducing its headcount. As a result, administrative expenses kept at a reasonable basis. For the year ended 31 December 2006, administrative expenses was HK$38.3 million (excluding share-based payment expenses of HK$11.3 million, a slight 4% increase from HK$37.0 million (excluding share-based payment expenses of HK$24.1 million) of the last corresponding year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had total assets of approximately HK$789.0 million and a net current assets of HK$352.7 million, representing a current ratio of 5.4 (2005: 4.0). The Group had a total cash and bank balances of approximately HK$89.3 million (2005: HK$31.5 million). As at 31 December 2006, the Group had total borrowings of HK$33.1 million comprising a bank mortgage loan of HK$13.2 million which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 85 monthly instalments; and unsecured convertible loan notes ("Notes") of HK$19.9 million (represent the liability component of principal amount of HK$20 million) which is bearing interest at 4% per annum and was mature on 30 June 2007. The Notes carry the right to convert into shares ("Shares" and each a "Share") of HK$0.05 each in the share capital of the Company at the conversion price of HK$5.83 per Share as of 31 December 2006. The Group's gearing remained low during the year with total debts of HK$33.1 million against shareholders' funds of HK$694.8 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 5%.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedging activity were considered necessary. As at 31 December 2006, the Group had no contingent liability.

On 17 May 2006, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany ("Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate 104,105,000 existing Shares to independent investors at a price of HK$0.33 per Share. Pursuant to the top-up subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for an aggregate of 104,105,000 new Shares at a price of HK$0.33 per Share. 104,105,000 new Shares issued for the subscription on 30 May 2006. The net proceeds of approximately HK$33.30 million was intended to be used as to HK$20,000,000 for future investment and as to the balance for general working capital of the Group.

On 6 June 2006, the Company had conditionally agreed to place in aggregate 80,000,000 new Shares to PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company at a price of HK$0.365 per Share. The issue of 80,000,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 5 July 2006. The placing was completed on 7 July 2006. The net proceeds of approximately HK$29 million was intended to be used by the Group for the proposed acquisition of a hotel in Macau.

Subsequent to the balance sheet date, the Company entered into three subscription agreements all dated 19 January 2007 with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK$168.5 million to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is the lower of (i) HK$0.32 per conversion Share and (ii) the average closing price of the Shares for the last ten trading days prior to the closing date provided that the conversion price of the Firm Bonds shall in no event be less than HK$0.25 per conversion Share (subject to adjustments). The net proceeds of approximately HK$159 million will be used for the Second Acquisition (as defined herein). As at the date of this report, the Firm Bonds has not yet been issued.

On 12 March 2007, Classical Statue Limited ("Classical"), a wholly owned subsidiary of the Company entered into a subscription agreement with Milkyway Image Holdings Limited ("Milkyway"), a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical has conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK$25 million due 2012 ("Convertible Bonds") to be issued by Milkyway at an issue price of HK$22.5 million. The conversion price of the Convertible Bonds is initially HK$0.33 per shares of Milkyway (subject to adjustments). As at the date of this report, the Convertible Bonds has not yet been issued.

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

On 29 March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche I Placing"). 124,900,000 new Shares was issued for the Tranche I Placing on 17 April 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23 June 2006. The net proceeds of approximately HK$44.8 million will be used for general working capital of the Group.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche II Placing"). The Tranche II Placing is subject to the approval of the shareholders of the Company at a special general meeting to be convened by the Company. The net proceeds of approximately HK$29.2 million will be used for general working capital of the Group.

EMPLOYEES

As at 31 December 2006, the Group employed 47 staff (2005: 51 staff). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staff according to the assessment of individual performance.

PROSPECT

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. The acquisition of Kingsway Hotel is expected to create a stable inflow of income to the Group and the Directors of the view that it is good opportunity for the Group to participate in the growing hospitality and entertainment business in Macau.

Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, hotel business.

After the relaxation of the rules governing China travellers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry. Kingsway Hotel is a three star hotel that located at the centre of Macau. The room rates and the location of it can fit for a wide range of tourists from China. With the experience of the Group in the entertainment industry, we can help to promote the image of Kingsway Hotel and benefit from individual travelers. Following the completion of the acquisition of 61.5% and 38.5% interests in Kingsway Hotel Limited as announced by the Company on 15 June 2006 and 4 January 2007 respectively and the subsequent disposal of 50% interest in Kingsway Hotel Limited as announced by the Company on 21 March 2007, Kingsway Hotel Limited becomes an indirect subsidiary of the Group. The Group can directly share the contribution from the hotel operation and the rental and marketing and promotion fee from the casino operation managed by SJM, a wholly owned subsidiary of Sociedade De Jogos De Macau, S.A. which is a reputable and experienced Macau conglomerate, particularly in the operation of casino business.

(iii) For the year ended 31 December 2005

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group's turnover decreased by 44% to approximately HK$92.2 million (2004: HK$165.3 million). Loss attributable to equity holders of the Company amounted to approximately HK$21.0 million, representing a 93% improvement over the last year of HK$303.2 million. Loss from operations amounted to approximately HK$39.5 million (2004: HK$155.9 million). Loss for the year of approximately HK$21.0 million (2004: HK$303.4 million) was recorded. The directors did not recommend the payment of a dividend for the year.

The decrease in current year's loss was mainly attributable to the substantial reduction in the impairment loss recognised and the share of attributable loss in associates which totally amounted to approximately HK$15.6 million (2004: HK$117.5 million) and HK$10.0 million (2004: HK$99.1 million, restated) respectively. The Group had also recognised a gain on deemed disposal of an associate of HK$45.0 million from Riche Multi-Media Holdings Limited ("Riche Multi-Media" and collectively with its subsidiaries, "Riche Group"). Following the adoption of new and revised Hong Kong Financial Reporting Standards, no amortisation of goodwill held by the Group was required. Amortisation of goodwill in the year ended 31 December 2004 amounted to HK$28.7 million. The effect was mitigated by the Group required to recognise the fair value of share options granted as an expense in the income statement which amounted to HK$24.1 million in the year.

BUSINESS REVIEW

For the year ended 31 December 2005, total turnover was HK$92.2 million, of which HK$86.0 million or 93% were generated from film distribution, HK$0.7 million or 1% was generated from video distribution and HK$5.6 million or 6% was generated from other production services. Although the turnover from film distribution division had decreased by 44% when compared with HK$153.7 million for the year ended 31 December 2004, gross profit maintained at similar amount of HK$31.4 million when compared with HK$33.5 million for last year. The decrease in turnover was mainly attributable to the decline in number of new films released. During the year, the Group had released eight films including popular films like "The Shopaholic" and "Election II" when compared with eleven films in last year. In response to the weak market condition of the entertainment industry, especially for the Chinese language films, the Group has adopted cautious measures to secure the revenue and control budget for each new film. These measures were proved effective and better gross profit was achieved. Nevertheless, the performance of film industry still threaten by growing popularity of advance technology in privacy activities such as “Bit Torrent” and “peer-to-peer” downloading, resulting in the overall loss generated by the Group.

In year 2005, Hong Kong remained the Group’s largest market. Turnover from Hong Kong and Macau decreased by 53% to approximately HK$49.8 million (2004: HK$104.9 million) and its segment result recorded a profit of HK$5.4 million (2004: loss of HK$8.8 million). The achievement in the performance of the market was mainly attributable to the cautious selection in film production and the tight control on marketing and distribution expenses. The marketing and distribution expenses spent on Hong Kong market decreased from HK$36.1 million in the year 2004 to HK$10.5 million in the year 2005, a drop of 71%.

The turnover from the PRC decreased by 40% to approximately HK$10.2 million (2004: HK$17.0 million) and its segment result recorded a loss of approximately HK$6.4 million (2004: HK$22.9 million). The segment loss was mainly attributed to the unfavorable cinema locations and screening period in exhibiting the Group’s films in the PRC as Chinese first-tier cinemas have strong preference for exhibiting Hollywood films. This preference has little improvement in the year 2005. Recently, the Group has sub-licensed China theatrical rights to other distributor for a fixed amount of distribution fees in order to secure the margin received by the Group. Besides, the territory supply agreement entered into between the Group and the Riche Group on 5 February 2002 expired in April 2005. In view of the current market condition in the PRC, both parties agreed not to renew the territory supply agreement. The Group believes that the non-renewal of the territory supply agreement provides a greater flexibility in formulating the Group’s distribution strategy.

The turnover from South-east Asia decreased by 21% to approximately HK$22.6 million (2004: HK$28.6 million) and its segment result recorded a profit of approximately HK$6.7 million (2004: HK$5.6 million). The improvement in segment profit was mainly attributed to the costs of certain films had been reduced by impairment losses recognised in previous years. In addition, some of the Group’s films released in previous years have been re-licensed during the year which carried minimal royalties in the accounts of the Group.

The turnover from America and Europe decreased by 28% to approximately HK$8.0 million (2004: HK$11.2 million) and its segment result recorded a profit of HK$2.6 million (2004: HK$8.6 million). The decrease in segment profit was attributed to certain films had been sub-licensed in last year which the costs had fully amortised in previous years. Comparatively, less sub-license titles were distributed for the year ended 31 December 2005.

To stay competitive in the market, the Group has regularly review its costs structure. During the year ended 31 December 2005, the Group had exercised prudence measures on cost policies and reduced its headcount. As a result, administrative expenses decreased to HK$37 million, a 24% decrease from HK$49.0 million in the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total assets of approximately HK$743.4 million and a net current assets of HK$330.9 million, representing a current ratio of 4.0 (2004: 3.6). The Group had a total cash and cash equivalent of approximately HK$31.5 million (2004: HK$54.1 million). As at 31 December 2005, the Group had total borrowings of HK$44.8 million comprising a bank mortgage loan of HK$15.3 million which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 97 monthly instalments; a revolving bank loan of HK$8.3 million which was secured by certain of the Group's leasehold land and buildings and investment properties, interest bearing at 1% per annum over Hong Kong Interbank Offered Rate and repayable on demand; an instalment loan from a bank of HK$1.8 million which was secured by a first legal charge over all copyrights on the Group's film, Himalaya Singh, interest bearing at 6.531% per annum and repayable by 7 monthly instalments; and unsecured convertible loan notes ("Notes") of HK$19.4 million (excluding equity component of HK$0.6 million) which is bearing interest at 4% per annum and will mature on 30 June 2007. The Notes carry the right to convert into shares of HK$0.05 each in the share capital of the Company ("Shares") at the conversion price of HK$5.83 per share as of 31 December 2005. The Group's gearing remained low during the year with total debts of HK$44.8 million against shareholders' funds of HK$597.6 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 0.08.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedging activity were considered necessary. As at 31 December 2005, the Group had no contingent liability.

On 15 December 2004, the Company had conditionally agreed to place 60,765,000 new Shares to independent investors at a price of HK$0.60 per Share. The issue of 60,765,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 21 January 2005. The placing was completed on 27 January 2005. The net proceeds of approximately HK$35.6 million were used as to approximately HK$20 million for the production of two movies and as to the balance of approximately HK$15.6 million for general working capital of the Group.

In January 2005, certain option holders exercised their option rights to subscribe for an aggregate of 7,969,939 Shares at an exercise price of HK$0.564 per Share and an aggregate of 9,800,000 Shares at an exercise price of HK$0.52 per Share. The net proceeds from the exercise of option rights amounted to HK$9.6 million.

On 24 February 2005, Porterstone Limited, a substantial shareholder of the Company and Mr. Heung Wah Heung, a substantial shareholder and an executive director of the Company, entered into a top-up placing agreement with a placing agent and a subscription agreement with the Company respectively. Pursuant to the top-up placing agreement, Porterstone Limited and Mr. Heung Wah Heung placed an aggregate of 76,600,000 existing Shares to independent investors at a price of HK$0.50 per Share. Pursuant to the subscription agreement, Porterstone Limited and Mr. Heung Wah Heung subscribed for an aggregate of 76,600,000 new Shares at a price of HK$0.50 per Share. 76,600,000 new Shares issued for the subscription on 7 March 2005. The net proceeds of approximately HK$37.3 million were used for general working capital of the Group and/or any future possible acquisition which is yet to be identified. These new Shares were issued under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 21 January 2005.

EMPLOYEES

As at 31 December 2005, the Group employed 51 staff (2004: 76 staff) of which 2 staff (2004: 3 staff) are based in China. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund and medical schemes, discretionary bonuses and options are awarded to certain staff according to the assessment of individual performance.

PROSPECT

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has, therefore, actively diversified the investment portfolio, in particular those that could generate a steady source of income in the long term.

Looking into the future, the Group will continue to produce best-selling original films which will rely greatly on our commitment to film-making, our understanding of the market needs, stringent control on capital investment and efficient management. The Group will also strive to explore new business opportunities; fully utilize the resources to strengthen business growth while minimizing risk for better return for the shareholders over the years.

(iv) For the year ended 31 December 2004

FINANCIAL PERFORMANCE

For the year ended 31 December 2004, the Group's turnover decreased by 23% to approximately HK$165.3 million (2003: HK$213.9 million). Loss from operations before impairment losses recognised amounted to approximately HK$83.2 million (2003: HK$82.0 million). Loss from operations amounted to approximately HK$155.9 million (2003: HK$110.5 million) and a net loss attributable to shareholders of approximately HK$303.2 million (2003: HK$53.5 million) was recorded. The directors did not recommend the payment of a dividend for the year.

The increase in current year's loss was mainly attributable to the impairment losses recognised in respect of films in progress, film rights and goodwill arising on acquisition of subsidiaries during the year in aggregate of approximately HK$72.6 million (2003: HK$28.5 million). The Group has also share the attributable loss of the group headed by Riche Multi-Media Holdings Limited ("Riche Multi-Media" and collectively with its subsidiaries "Riche Group"), an associate of the Group, of approximately HK$137.9 million (after goodwill amortisation and impairment loss recognised) whereas the Group had shared a profit of approximately HK$43.5 million in the previous year.

REVIEW OF OPERATIONS

For the year ended 31 December 2004, total turnover was HK$165.3 million, of which HK$153.7 million were derived from film distribution and the balance from video distribution and other services income. The turnover from film distribution division had decreased by 23% when compared with HK$200.3 million for the year ended 31 December 2003. The decline was mainly due to overall poor industry climate and fewer new films released. This year, the Group had released eleven films when compared with eighteen films in last year. The poor industry climate was resulted from the increasing popularity of copyright infringement behaviour using advanced technology such as downloading through Internet and copying through re-writable disc drives in addition to the traditional privacy activities.

In year 2004, Hong Kong remained the Group's largest market. The turnover from Hong Kong decreased by 12% to approximately HK$104.9 million and its segment result recorded a loss of approximately HK$8.8 million (2003: HK$2.4 million). Despite the unsatisfactory result from Hong Kong theatres, the substantial marketing and promotional expenses also worsen to the segment loss in the Hong Kong territories. Nevertheless, the marketing and promotional expenses were crucial for the sale of the films in other territories because this was the only means for the worldwide distributors to know the films more. The turnover from the PRC decreased by 49% to approximately HK$17.0 million and its segment result recorded a loss of approximately HK$22.9 million (2003: profit of HK$3.9 million). The loss was mainly attributed to the unfavourable cinema locations and screening period in exhibiting the Group's films in the PRC. As Chinese first-tier cinemas have strong preference for exhibiting Hollywood films, the lifting of foreign film quota restrictions intensifies the competition between Hollywood and Hong Kong. With the dominance of Hollywood films, the Group is not able to negotiate favourable cinema locations and screening period for our films. The contribution from the PRC was adversely affected accordingly. In the second half of 2004, the Group tried to distribute its films in second-tier cinemas, but the results were not satisfactory due to the illegal exhibition by the nearby cinemas. A territory supply agreement which granted Riche Group a first right of refusal to acquire the exclusive distribution rights excluding the theatrical and internet rights in respect of each film produced by the Group in the PRC and Mongolia and an option to acquire the theatrical rights was expired on 8 April 2005. The Group will have more flexibility in selection its marketing strategy and the means of distribution for future new films produced in the PRC market. The turnover from South-East Asia and America & Europe decreased by 29% and 41% to approximately HK$28.6 million and HK$11.2 million respectively. The decreases could be explained by decrease in the number of new films released this year and the high price pressure in these territories. However, their segment results improved to approximately HK$5.6 million (2003: HK$5.4 million) and HK$8.6 million (2003: HK$7.4 million) respectively because some of the Group's films released in previous years had re-licensed in South-East Asia or America & Europe. Being conservative, the Group had recorded all their royalties as cost of sales in the year of their first releases. Therefore, these re-licensing titles did not carry any remaining royalties.

The Group had regularly reviewed its operating costs and administrative expenses and made the Group stay competitive in the market. Administrative expenses before depreciation and amortisation decreased by about 21% to approximately HK$34.9 million for the year ended 31 December 2004. Staff costs and rental expenses decreased substantially by 25% and 29% to approximately HK$19.0 million and approximately HK$2.4 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of approximately HK$667.9 million and a net current assets of HK$307.6 million, representing a current ratio of 3.6 (2003: 3.0). The Group had a total cash and bank balances of approximately HK$54.1 million (2003: HK$21.5 million). As at 31 December 2004, the Group had total borrowings of approximately HK$56.2 million comprising mortgage loan from a bank of approximately HK$17.5 million, secured bank loans of approximately HK$18.7 million and unsecured convertible loan note ("Note") of HK$20 million. The Group's gearing remained low during the year with total debts of approximately HK$56.2 million against shareholders' funds of approximately HK$512.1 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund, of 11% (2003: 5%). The Group's mortgage loan and bank loans bear interest at commercial rate. The secured bank loans included revolving loans and a instalment loan. The instalment loan is secured by a first legal charge over all copyrights on a film produced by the Group in the beginning of 2005. The other bank loans and the mortgage loan are secured by certain of the Group's investment properties and leasehold land and buildings in Hong Kong with carrying values of HK$38.65 million and approximately HK$5.4 million respectively. The instalment loan is repayable by 18 monthly instalments, the revolving loans are repayable on demand and the mortgage loan is repayable in instalments over a period of ten years. The Note bears interest at 4% per annum and carry the right to convert into shares ("Shares") of HK$0.05 each in the share capital of the Company at the conversion price of HK$5.83 per share as at 31 December 2004. The Note was originally matured on 30 June 2004. On 14 June 2004, the Company and the holder of the Note agreed to extend the maturity date of the Note to 30 June 2007. Save for the extension of the maturity date, the other terms and conditions of the Note shall remain in full force and effect.

On 15 December 2004, Porterstone Limited ("Porterstone"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany ("Ms. Chen") entered into a top-up placing agreement with a placing agent and a subscription agreement with the Company respectively. Pursuant to the top-up placing agreement, Porterstone, Mr. Heung and Ms. Chen placed an aggregate of 60,765,000 existing Shares to independent investors at a price of HK$0.60 per Share. Pursuant to the subscription agreement, Porterstone, Mr. Heung and Ms. Chen subscribed for an aggregate of 60,765,000 new Shares at a price of HK$0.60 per Share. 60,765,000 new Shares were issued for the subscription on 29 December 2004 with net proceeds of approximately HK$35.6 million, of which approximately HK$20 million were used for two movies' production which have been scheduled to be produced in 2005, planned screenplay and principal production personal have been arranged and approximately HK$15.6 million were used as the general working capital of the Group. These new Shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 25 June 2004.

On the same date, the Company had conditionally agreed to place 60,765,000 new Shares to independent investors at a price of HK$0.60 per Share. The placing was completed on 27 January 2005. Net proceeds amounted to approximately HK$35.6 million, of which approximately HK$20 million were intended to be used for two movies' production which have been scheduled to be produced in 2005, planned screenplay and principal production personal have been arranged and approximately HK$15.6 million were used as the general working capital of the Group. The issue of 60,765,000 Shares was approved by the shareholders of the Company at a special general meeting held on 21 January 2005.

On the same date, an option holder exercised his option right to subscribe for an aggregate of 800,000 Shares at an exercise price of HK$0.564 per Share in an aggregate amount of approximately HK$0.45 million. Accordingly, 800,000 Shares were issued on the same day.

Subsequent to the balance sheet date, Porterstone and Mr. Heung entered into a top-up placing agreement with a placing agent and a subscription agreement with the Company respectively. Pursuant to the top-up placing agreement, Porterstone and Mr. Heung placed an aggregate of 76,600,000 existing Shares to independent investors at a price of HK$0.50 per Share. Pursuant to the subscription agreement, Porterstone and Mr. Heung subscribed for an aggregate of 76,600,000 new Shares at a price of HK$0.50 per Share. 76,600,000 new Shares issued for the subscription on 7 March 2005 with net proceeds of approximately HK$37.3 million were intended to be used for general working capital of the Group and/or any future possible acquisition which was yet to be identified. These new Shares were issued under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 21 January 2005.

Subsequent to the balance sheet date, certain option holders exercised their option rights to subscribe for an aggregate of 7,969,939 Shares at an exercise price of HK$0.564 per Share and an aggregate of 9,800,000 Shares at an exercise price of HK$0.52 per Share respectively in an aggregate amount of approximately HK$9.6 million.

In order to generate higher return on the Group's assets, it adopts a set of treasury policies to ensure well balance between cash and listed securities. As at 31 December 2004, the revalued amount of listed securities held by the Group amounted to approximately HK$33.8 million and an unrealized loss of approximately HK$4.7 million was provided during the year.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group. As at 31 December 2004, the Group had no contingent liability.

PROSPECT

Confronted by the downturn of the local film industry and fierce competition from overseas, and in order to achieve breakthroughs from the present difficulties, the Group must be flexible in its operations and diversify its entertainment business portfolio. As such, the Group will utilise its resources accumulated over the years and advantages in film production, and explore all possible opportunities in downstream industries. It will develop new services, re-package and re-position its products, and spearhead its development with businesses that have good potential.

EMPLOYEES

As at 31 December 2004, the Group employed 76 staff (2003: 84 staff) of which 3 staff (2003: 3 staff) are based in PRC. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staff according to the assessment of individual performance.

I. SUMMARY OF AUDITED FINANCIAL INFORMATION OF THE GROUP

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

RESULTS

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

ASSETS AND LIABILITIES

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

(b) The following is a summary of (i) the consolidated balance sheet of the Group as at 31 December 2006 and the consolidated income statement of the Group for the year ended 31 December 2006 as extracted from 2006 published annual report of the Group as set out in Appendix II of this Circular, (ii) the balance sheet of Kingsway Hotel Limitd ("KHL") as at 31 December 2006 and the income statement of KHL for the year ended 31 December 2006 as extracted from the accountants' report of KHL as set out in Appendix II of this Circular and (iii) a combined balance sheet and a combined income statement of the Group and KHL as at 31 December 2006 and for the year ended 31 December 2006 respectively.

BALANCE SHEET

	As at 31 December 2006		
	The Group	**KHL**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	9,630	59,568	69,198
Interests in leasehold land	5,807	80,393	86,200
Investment properties	40,880	–	40,880
Goodwill	59,203	–	59,203
Available-for-sale financial assets	42,700	–	42,700
Interests in associates	198,113	–	198,113
	356,333	139,961	496,294
Current assets			
Inventories	364	1,191	1,555
Convertible notes receivables	52,000	–	52,000
Film rights	97,427	–	97,427
Films in progress	29,469	–	29,469
Trade receivables	8,016	5,502	13,518
Deposits, prepayments and other receivables	45,161	288	45,449
Deposit for investment	40,000	–	40,000
Financial assets at fair value through profit or loss	64,560	–	64,560
Amounts due from associates	5,905	–	5,905
Prepaid tax	455	–	455
Cash and cash equivalents	89,347	29,935	119,282
	432,704	36,916	469,620
Total assets	789,037	176,877	965,914

	As at 31 December 2006		
	The Group	**KHL**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Capital and reserve attibutable to Company's equity holders			
Share capital	35,232	485	35,717
Reserves	659,595	48,653	708,248
	694,827	49,138	743,965
Minority interests	1,382	–	1,382
	696,209	49,138	745,347
Non-current liabilities			
Bank borrowings – due after one year	10,948	–	10,948
Amount due to group companies	–	115,395	115,395
Deferred taxation	1,888	–	1,888
	12,836	115,395	128,231
Current liabilities			
Trade payables	18,310	1,126	19,436
Deposits received, accruals and other payables	39,561	9,974	49,535
Bank borrowings – due within one year	2,254	–	2,254
Tax payables	–	786	786
Amount due to a related company	–	458	458
Unsecured convertible loan notes	19,867	–	19,867
	79,992	12,344	92,336
Total equity and liabilities	789,037	176,877	965,914
Net current assets	352,712	24,572	377,284
Total assets less current liabilities	709,045	164,533	873,578

INCOME STATEMENT

	For the year ended 31 December 2006		
	The Group	**KHL**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	152,777	62,922	215,699
Cost of sales	(103,365)	(19,456)	(122,821)
Gross Profit	49,412	43,466	92,878
Other Revenue	9,068	362	9,430
Other income	3,682	551	4,233
Administrative expenses	(38,309)	(26,545)	(64,854)
Marketing and distribution expenses	(9,777)	–	(9,777)
Share-based payment expenses	(11,340)	–	(11,340)
Fair value loss on financial assets at fair value through profit or loss	(21,757)	–	(21,757)
Net gain on disposals of financial assets at fair value through profit or loss	5,501	–	5,501
Increase in fair value of investment properties	2,880	–	2,880
(Loss)/profit from operations	(10,640)	17,834	7,194
Finance costs	(2,212)	–	(2,212)
Share of results of associates	(9,796)	–	(9,796)
Gain on deemed disposal of interest in an associate	62,582	–	62,582
Gain on disposal of an associate	21,400	–	21,400
Impairment loss recognised in respect of goodwill arising on acquisition of associates	(32,565)	–	(32,565)
Impairment loss reversed in respect of convertible notes receivables	10,000	–	10,000
Profit before taxation	38,769	17,834	56,603
Taxation	(1,918)	(873)	(2,791)
Profit for the year	36,851	16,961	53,812
Attributable to:			
Equity holders of the Company	36,880	16,961	53,841
Minority interests	(29)	–	(29)
	36,851	16,961	53,812

II. AUDITED FINANCIAL STATEMENTS

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

Consolidated Income Statement
For the year ended 31 December 2006

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

Consolidated Income Statement *(Continued)*
For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Attributable to:			
Equity holders of the Company		36,880	(20,961)
Minority interests		(29)	(52)
		36,851	(21,013)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
Basic	13	HK$0.06	HK$(0.04)
Diluted	13	HK$0.06	N/A

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

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

Consolidated Balance Sheet
At 31 December 2006

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

Consolidated Balance Sheet *(Continued)*
At 31 December 2006

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

Balance Sheet
At 31 December 2006

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

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

Consolidated Statement of Changes in Equity *(Continued)*

For the year ended 31 December 2006

Notes:

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

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

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2006

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

Consolidated Cash Flow Statement *(Continued)*
For the year ended 31 December 2006

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

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

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

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

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

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

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

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

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

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

Notes:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(b) Basis of consolidation

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

(i) Subsidiaries

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

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any impairment losses) identified in acquisition.

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) Revenue recognition

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

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

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

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

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

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

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

(d) Property, plant and equipment

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

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

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

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

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

(e) Interests in leasehold land

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

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

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

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

(g) Taxation

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

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

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

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

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

(h) Investments in subsidiaries

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(i) Goodwill

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

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

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

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

(j) Interests in associates

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

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

(k) Inventories

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

(l) Convertible notes receivables

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(m) Film rights

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

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

(n) Films in progress

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

(o) Trade and other receivables

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

(p) Financial instruments

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

i. Financial assets

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

Financial assets at fair value through profit or loss

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(p) **Financial instruments** *(Continued)*

i. Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments *(Continued)*

ii. Financial liabilities and equity instruments

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Convertible loan notes

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(p) Financial instruments *(Continued)*

ii. Financial liabilities and equity instruments (Continued)

Convertible loan notes *(continued)*

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

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

Financial guarantee contracts

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

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

iii. Derecognition

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

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

(q) Cash and cash equivalents

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

(r) Provision

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(s) Borrowings

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

(t) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(u) Operating leases

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

(v) Retirement benefits costs

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

(w) Employee benefits

(i) Bonuses

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

(ii) Retirement benefit obligations

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Employee benefits *(Continued)*

(iii) Share-based payment expenses

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

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

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

(x) Related parties

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

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

4. **FINANCIAL RISK MANAGEMENT** *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

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

4.2 Fair value estimation

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

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

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

5. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

(a) Estimated impairment of intangible assets and goodwill

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

5. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** *(Continued)*

(b) Trade receivables

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

(c) Useful lives of property, plant and equipment

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

(d) Estimate of fair values of investment properties

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

(e) Impairment of films in progress

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

6. SEGMENT INFORMATION

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

Geographical segments

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

Income statement for the year ended 31 December 2006:

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

6. **SEGMENT INFORMATION** *(Continued)*

Geographical segments *(Continued)*

Income statement for the year ended 31 December 2005:

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

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

6. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

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

Balance sheet as at 31 December 2005

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

Business segments

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

7. TURNOVER

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

8. OTHER REVENUE

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

9. OTHER INCOME

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

10. EXPENSES BY NATURE

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

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

11. FINANCE COSTS

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

12. TAXATION

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

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

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

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

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

13. EARNINGS/(LOSS) PER SHARE

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

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

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

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

14. EMPLOYEE BENEFIT EXPENSES

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

14. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' emoluments

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

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

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

The emoluments of the directors fell within the following bands:

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

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

(b) Five highest paid individuals

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

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

14. EMPLOYEE BENEFIT EXPENSES *(Continued)*

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

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

15. RETIREMENT BENEFITS SCHEMES

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

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

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

17. INTERESTS IN LEASEHOLD LAND

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

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

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

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

18. INVESTMENT PROPERTIES

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

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

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

18. INVESTMENT PROPERTIES *(Continued)*

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

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

19. INTERESTS IN SUBSIDIARIES

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

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

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

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

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

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

20. GOODWILL

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

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

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

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

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

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

22. INTERESTS IN ASSOCIATES

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

(a) Share of net assets of associates

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

(b) Goodwill

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

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

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

22. INTERESTS IN ASSOCIATES *(Continued)*

(b) Goodwill *(Continued)*

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

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

(c) Disposal of an associate:

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

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

(d) Interests in Riche Multi-Media:

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

22. INTERESTS IN ASSOCIATES *(Continued)*

(d) Interests in Riche Multi-Media: *(Continued)*

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

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

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

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

23. LOAN RECEIVABLE

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

24. INVENTORIES

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

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

25. CONVERTIBLE NOTES RECEIVABLES

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

Notes:

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

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

26. FILM RIGHTS

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

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

26. FILM RIGHTS *(Continued)*

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

27. FILMS IN PROGRESS

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

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

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

28. TRADE RECEIVABLES

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

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

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

29. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

30. DEPOSIT FOR INVESTMENT

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

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

33. CASH AND CASH EQUIVALENTS

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

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

34. SHARE CAPITAL

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

Notes:

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

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

35. RESERVES

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

35. RESERVES *(Continued)*

Notes:

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

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

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

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

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

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

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

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

36. BANK BORROWINGS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	13,202	25,390
The maturity of the above borrowings is as follows:		
Within one year	2,254	12,197
Between one and two years	2,380	2,252
Between two and five years	7,966	7,538
Over five years	602	3,403
	13,202	25,390
Less: Amount due within one year shown under current liabilities	(2,254)	(12,197)
Amount due after one year	10,948	13,193

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

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

	The Group	
	2006	**2005**
Secured bank loans	5.45-5.70%	1.70%-6.50%

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

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

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

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

37. UNSECURED CONVERTIBLE LOAN NOTES

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

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

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

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

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

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

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

38. DEFERRED TAXATION

The Group

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

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

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

The Company

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

39. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

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

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

40. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

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

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

41. LEASE COMMITMENTS

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

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

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

42. CAPITAL COMMITMENTS

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION

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

The Old Option Scheme

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

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

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

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

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

The Old Option Scheme *(Continued)*

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

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

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

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

The New Option Scheme

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

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

(ii) The participants include:

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

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

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

(ii) (1) (d) any business or joint venture partner, contractor, agent or representative of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

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

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

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

(ii) (1) (h) any landlord or tenant (including any sub-tenant) of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company; and

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

The New Option Scheme *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

Notes:

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

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

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

(a) Share-based payment expenses

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

(a) Share-based payment expenses *(Continued)*

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

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

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

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

44. MATERIAL RELATED PARTY TRANSACTIONS

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

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

44. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

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

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

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

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

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

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

Notes:

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

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

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

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

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

(f) Key management personnel

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

44. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Notes:

(a) Operating internationally.

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

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

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

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

46. PARTICULARS OF PRINCIPAL ASSOCIATES

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

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

46. PARTICULARS OF PRINCIPAL ASSOCIATES *(Continued)*

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
("Beijing Jian Guo Real Estate Development Co. Ltd")	Incorporated	PRC	33.29	Registeral capital of US$15,000,000	Property investment in the PRC
Together Again Limited	Incorporated	British Virgin Islands	49.00	48,080 shares of US$1 each	Investment Holding and provision of artists management services
China Entertainment Group, Inc.***#	Incorporated	United States of America	41.65	128,963,425 of US$0.001 each common stock	Investment Holding
China Star Management Limited***	Incorporated	Hong Kong	41.65	1,000,000 ordinary shares of HK$1 each	Provision of artists management services
Anglo Market International Limited ***	Incorporated	British Virgin Islands	41.65	1 share of US$1 each	Provision of artists management services
Metrolink Global Limited ***	Incorporated	British Virgin Islands	41.65	100 shares of US$1 each	Provision of artists management services

* These companies are subsidiaries of Riche Multi-Media.

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

*** These companies are subsidiaries of TAL.

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

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

47. SUBSEQUENT EVENTS

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

47. SUBSEQUENT EVENTS *(Continued)*

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

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

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

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

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

48. APPROVAL OF FINANCIAL STATEMENTS

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

III. UNAUDITED INTERIM FINANCIAL STATEMENTS

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

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

	Notes	**Six months ended 30 June 2007** *HK$'000* (Unaudited)	**2006** *HK$'000* (Unaudited)
Turnover	4	70,030	56,042
Cost of sales		(43,043)	(33,125)
Gross profit		26,987	22,917
Other revenue	5	4,302	4,063
Other income	6	2,710	2,105
Administrative expenses		(27,067)	(17,581)
Marketing and distribution expenses		(561)	(9,009)
Share-based payment expenses		(14,631)	–
Net gain on disposals of financial assets at fair value through profit or loss		10,538	4,936
Fair value gain/(loss) on financial assets at fair value through profit or loss		6,752	(12,069)
Profit/(loss) from operations	7	9,030	(4,638)
Finance costs		(3,818)	(984)
Share of results of associates		33,227	(1,043)
Discount on acquisition of subsidiaries		15,498	–
Discount on acquisition of interest in associates		2,659	–
Loss on disposal of interest in subsidiaries	8	(45,471)	–
Gain on disposal of an associate		–	21,400
(Loss)/gain on deemed disposal of interest in associates		(35,873)	62,582
Impairment loss recognized in respect of goodwill arising on acquisition of associates		–	(6,300)
(Loss)/profit before taxation		(24,748)	71,017
Taxation	9	(15)	(28)
(Loss)/profit for the period		(24,763)	70,989
Attributable to:			
Equity holders of the Company		(24,754)	71,002
Minority interests		(9)	(13)
		(24,763)	70,989
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company during the period			
Basic	10	(3.03 cents)	13.17 cents
Diluted	10	N/A	13.17 cents

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

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

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2007

	Notes	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	275,858	9,630
Interests in leasehold land	12	541,109	5,807
Investment properties	13	40,880	40,880
Goodwill		59,203	59,203
Available-for-sale financial assets		88,200	42,700
Convertible notes receivable from an associate	14	634	–
Conversion options embedded in convertible notes receivable from an associate	14	645	–
Interests in associates	15	261,052	198,113
		1,267,581	356,333
Current assets			
Inventories		750	364
Convertible notes receivables		–	52,000
Film rights		58,926	97,427
Films in progress		34,169	29,469
Trade receivables	16	56,511	8,016
Deposits, prepayments and other receivables		50,734	45,161
Deposit for investment		–	40,000
Financial assets at fair value through profit or loss		8,216	64,560
Amounts due from associates		6,532	5,905
Prepaid tax		514	455
Cash and cash equivalents		107,031	89,347
		323,383	432,704
Total assets		1,590,964	789,037
Capital and reserve attributable to Company's equity holders			
Share capital	17	68,699	35,232
Reserves		919,639	659,595
		988,338	694,827
Minority interests		321,844	1,382
		1,310,182	696,209

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2007

	Notes	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Non-current liabilities			
Bank borrowings – due after one year	19	9,775	10,948
Deferred taxation		88,106	1,888
		97,881	12,836
Current liabilities			
Trade payables	18	14,462	18,310
Amounts due to minority shareholders		39,999	–
Deposits received, accruals and other payables		66,122	39,561
Bank borrowings – due within one year	19	2,315	2,254
Unsecured convertible notes payable	20	60,003	19,867
		182,901	79,992
Total equity and liabilities		1,590,964	789,037
Net current assets		140,482	352,712
Total assets less current liabilities		1,408,063	709,045

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2007

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

1. BASIS OF PREPARATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Standards, amendments or interpretations issued but not yet effective

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

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

[1] Effective for financial period commencing on or after 1 January 2009
[2] Effective for financial period commencing on or after 1 March 2007
[3] Effective for financial period commencing on or after 1 January 2008

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

3. SEGMENT INFORMATION

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

Geographical segments

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

For the six months ended 30 June 2007:

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

For the six months ended 30 June 2006:

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

4. TURNOVER

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

5. OTHER REVENUE

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

6. OTHER INCOME

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

7. PROFIT/(LOSS) FROM OPERATIONS

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

8. DISPOSAL OF INTEREST IN SUBSIDIARIES

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

9. TAXATION

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

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

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit attributable to equity holders of the Company	(24,754)	71,002
	2007	**2006**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share	816,503	538,947

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

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

11. DIVIDEND

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

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

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

13. INVESTMENT PROPERTIES

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

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

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

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

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

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

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

15. INTERESTS IN ASSOCIATES

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

Notes:

(a) Share of net assets

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

(b) Goodwill

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

(c) Acquisition of an associate

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

(d) Interests in Riche Multi-Media

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

16. TRADE RECEIVABLES

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

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

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

17. SHARE CAPITAL

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

Notes:

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

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

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

18. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

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

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

19. BANK BORROWINGS

	As at 30 June 2007 *HK$'000* (Unaudited)	As at 31 December 2006 *HK$'000* (Audited)
Secured bank loans	12,090	13,202

The maturity of the above borrowings is as follows:

Within one year	2,315	2,254
Between one and two years	2,446	2,380
Between two and five years	6,865	7,966
Over five years	464	602
	12,090	13,202
Less: Amount due within one year shown under current liabilities	(2,315)	(2,254)
Amount due after one year	9,775	10,948

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

20. UNSECURED CONVERTIBLE NOTES PAYABLES

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

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

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

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

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

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

21. ACQUISITION OF SUBSIDIARIES

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

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

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

22. MATERIAL RELATED PARTY TRANSACTIONS

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

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

The amounts were determined at prices agreed between parties.

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

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

The amounts were determined at prices agreed between parties.

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

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

The amounts were determined at prices agreed between parties.

23. LEASE COMMITMENTS

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

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

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

24. SUBSEQUENT EVENTS

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

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

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

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

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

25. APPROVAL OF INTERIM FINANCIAL STATEMENT

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

IV. ACCOUNTANTS' REPORT ON KHL

The following is an extract of the text of an accountants' report on the KHL received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants, for inclusion in the circular of the Company dated 10 March 2007.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower,
The Landmark
11 Pedder Street, Central
Hong Kong

10th March, 2007

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

Dear Sirs,

We set out below our report on the financial information regarding Kingsway Hotel Limited ("KHL") for each of the three years ended 31st December, 2004, 2005 and 2006 (hereinafter collectively referred to as the "the Relevant Periods"), prepared on the basis set out below and in Note 2, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 10th March, 2007 (the "Circular") in connection with the acquisition of the 19.25% equity interest in KHL (the "Acquisition") by the Company.

KHL was incorporated in Macau with limited liability on 26th July, 1990. It is a company principally engaged in hotel management which its shares were owned as 50% by Xin Wei Property Investment Company Limited, 25% by Xin Son Investment Limited, 19.25% by Great Trust – Gestao E Participacoes, Limitada ("Great Trust") and 5.75% by Feng Ze Investments Limited as at 31st December, 2006.

The audited accounts for KHL have been prepared by CSC & Associates in accordance with the relevant rules and accounting principles applicable to Macau enterprises for the year ended 31st December, 2004 and 2005. The audited accounts of KHL for the year ended 31st December 2006 have not yet been prepared up to the date of the Circular.

Directors' responsibility for the financial information

The directors of the Company and KHL are responsible for the preparation and the true and fair presentation of the financial information as set out in Section A to C below (the "Financial Information") in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting Accountants' responsibility

Our responsibility is to express an opinion on this Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of KHL as at 31st December, 2004, 2005 and 2006 and of the consolidated results and cash flows of KHL for the periods then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

A. FINANCIAL INFORMATION OF KINGSWAY HOTEL LIMITED

BALANCE SHEET

	Notes	As at 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
Non-current assets				
Property, plant and equipment	6	64,021	64,611	59,568
Interest in leasehold land	7	92,351	86,372	80,393
		156,372	150,983	139,961
Current assets				
Inventories	8	1,232	1,217	1,191
Trade receivables	9	7,452	5,422	5,502
Prepayment, deposits and other receivables	10	1,874	278	288
Cash and cash equivalents	11	21,908	25,459	29,935
		32,466	32,376	36,916
Total assets		188,838	183,359	176,877
Capital and reserves attributable to KHL's equity holders				
Share capital	12	485	485	485
Reserves	13	13,973	31,692	48,653
		14,458	32,177	49,138
Non-current liabilities				
Amount due to an intermediate holding company	14	49,448	43,198	36,948
Amount due to an immediate holding company	14	114,200	97,197	78,447
		163,648	140,395	115,395
Current liabilities				
Trade payables	15	1,840	1,650	1,126
Accruals, deposit received and other payables	16	8,230	8,427	9,974
Tax payable		–	29	786
Amount due to a related company	14	662	681	458
		10,732	10,787	12,344
Total equity and liabilities		188,838	183,359	176,877
Net current assets		21,734	21,589	24,572
Total assets less current liabilities		178,106	172,572	164,533

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

INCOME STATEMENT

		Year Ended 31st December,		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	17	64,584	62,765	62,922
Cost of sales		(18,327)	(19,380)	(19,456)
Gross profit		46,257	43,385	43,466
Other revenue	18	4	133	362
Other income	19	6,269	547	551
Administrative expenses		(31,284)	(26,317)	(26,545)
Profit from operations	20	21,246	17,748	17,834
Finance costs	22	(67)	–	–
Profit before taxation		21,179	17,748	17,834
Taxation	23	–	(29)	(873)
Profit for the year		21,179	17,719	16,961
Attributable to:				
Equity holders of KHL	24	21,179	17,719	16,961
Dividend		–	–	–
Earnings per share attributable to the equity holders of KHL				
– Basic (HK$)		42.4	35.4	33.9

All KHL's operations are classified as continuing.

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Legal reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1st January, 2004	485	–	(7,206)	(6,721)
Transfer to legal reserve	–	243	(243)	–
Profit for the year	–	–	21,179	21,179
Balance as at 31st December, 2004	485	243	13,730	14,458
Balance as at 1st January, 2005	485	243	13,730	14,458
Profit for the year	–	–	17,719	17,719
Balance as at 31st December, 2005	485	243	31,449	32,177
Balance as at 1st January, 2006	485	243	31,449	32,177
Profit for the year	–	–	16,961	16,961
Balance as at 31st December, 2006	485	243	48,410	49,138

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

CASH FLOW STATEMENT

	Year Ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	21,179	17,748	17,834
Loss on disposal of property, plant and equipment	–	9	7
Depreciation	4,655	6,709	7,072
Amortisation of interest in leasehold land	5,978	5,979	5,979
Interest income	(4)	(133)	(341)
Interest expenses	67	–	–
Operating cash flow before movement in working capital	31,875	30,312	30,551
(Increase)/decrease in inventories	(182)	15	26
Decrease/(increase) in trade receivables	1,751	2,030	(80)
(Increase)/decrease in prepayment, deposits and other receivables	(1,621)	1,596	(10)
Increase/(decrease) in trade payables	649	(190)	(524)
(Decrease)/increase in accruals, deposit received and other payables	(4,299)	197	1,547
(Decrease)/increase in amount due to a related company	(335)	19	(223)
Cash generated from operations	27,838	33,979	31,287
Tax paid	–	–	(116)
Net cash generated from operating activities	27,838	33,979	31,171
Investing activities			
Proceeds from disposals of property, plant and equipment	–	73	–
Purchase of property, plant and equipment	(5,676)	(7,381)	(2,036)
Interest received	4	133	341
Interest paid	(67)	–	–
Net cash used in investing activities	(5,739)	(7,175)	(1,695)
Financing activities			
Increase/(decrease) in amount due to an intermediate holding company	1,441	(6,250)	(6,250)
Increase/(decrease) in amount due to an immediate holding company	5,012	(17,003)	(18,750)
Cash generated from/(used in) financing activities	6,453	(23,253)	(25,000)
Net increase in cash and cash equivalents	28,552	3,551	4,476
Cash and cash equivalents at the beginning of the year	(6,644)	21,908	25,459
Cash and cash equivalent at the end of the year	21,908	25,459	29,935

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

B. NOTES TO THE FINANCIAL INFORMATION OF KINGSWAY HOTEL LIMITED

1. GENERAL INFORMATION

Kingsway Hotel Limited ("KHL") was incorporated in Macau on 26th July, 1990 with registered office located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The ultimate holding company is Triumph Up Investment Limited, a company incorporated in British Virgin Island. It is principally engaged in hotel management business.

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of this Financial Information are set out in Note 3 below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention.

The presentation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgement in the process of applying the KHL's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following new standards, amendments to standards, interpretations have been issued but are not yet effective and have not been early adopted.

HKAS 1 (Amendment)	*(Note a)*	Capital Disclosure
HKFRS 7	*(Note a)*	Financial Instruments – Disclosures
HK(IFRIC) – Int 7	*(Note b)*	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	*(Note c)*	Scope of HKFRS 2
HK(IFRIC) – Int 9	*(Note d)*	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	*(Note e)*	Interim Financial Reporting and Impairment

Notes:

a. Effective for annual periods beginning on or after 1st January, 2007

b. Effective for annual periods beginning on or after 1st March, 2006

c. Effective for annual periods beginning on or after 1st May, 2006

d. Effective for annual periods beginning on or after 1st June, 2006

e. Effective for annual periods beginning on or after 1st November, 2006

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(a) Property, plant and equipment

Property, plant and equipment (including hotel property) are stated at cost less accumulated depreciation and accumulated impairment losses following the adoption of HKAS 16.

HKAS 40 clarifies the accounting policy for owner-managed hotel properties. It requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16, and therefore be accounted for either using cost model or the revaluation model. KHL has resolved to account for the hotel property using the cost model.

Upon the adoption of HKAS 17, KHL's leasehold interest in hotel land and buildings is separated into leasehold land and buildings. KHL's leasehold land is classified as an operating lease, as the title of the land is not expected to pass to the KHL by the end of the term, it is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified under property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

Subsequent expenditure on property, plant and equipment that has already be recognised is added to the carrying amount of the asset where there has a possible future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as expense when it is incurred.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, in the following annual rates:

Building	:	2% to 4%
Lifts, boilers, HVAC and electrical and waterproof work waterproof work under building	:	8.33% to 14.29%
Furniture, fixtures and equipment	:	20%
Motor vehicles	:	20%

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

(b) Interest in leasehold land

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

(c) Trade and other receivables

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

(d) Trade and other payables

Liabilities for trade and other payables which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to KHL.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(e) Cash and cash equivalents

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

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

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

(g) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the KHL and when the revenue can be measured reliably, on the following base:

(i) Room sales is recognised during the guest's period of stay in the hotel;

(ii) Sales of food and beverage are recognised when the goods are provided to customers;

(iii) Rental income is recognised to the relevant tenancy agreement;

(iv) Other auxiliary service income is recognised when incurred; and

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(h) Retirement benefits costs

Payments to the KHL retirement benefits scheme are charged as an expense as they fall due.

(i) Borrowing costs

Bank borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowings.

After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Borrowing costs are generally expensed as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for sale.

(j) Employee benefits

Salaries, bonus, paid annual leave, leave passage and the cost to KHL of non-monetary benefits are accrued in the year when the associated services are rendered by the employees to KHL. When payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to social security funds as required under the Macau Social Security Fund Ordinance, are recognised as expenses in the income statements as it incurred.

(k) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

(l) Provision

Provision are recognised when KHL has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(m) Contingent liabilities

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 KHL. 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.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(n) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial information of each of the KHL's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in HK dollars, which is the KHL's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(iii) Group companies

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

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(o) **Operating leases**

Leases where substantially all risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

KHL as lessor

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

KHL as lessee

Rental payables under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

(p) **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(q) **Segment Reporting**

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

Unallocated costs represent certain corporate expenses. Segment assets primary consist of properties under development, investment properties, properties held for sale and operating cash, and mainly exclude property, plant and equipment. Segment liabilities comprise operating liabilities, deposits received and interest-bearing borrowings, and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

4. **FINANCIAL RISK MANAGEMENT**

(a) **Financial risk factors**

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

(i) Market risk

Foreign exchange risk

The main operation of KHL is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, KHL's receivables and payables were mainly denominated in MOP. Management believes that KHL does not have significant foreign currency exchange risk. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

4. **FINANCIAL RISK MANAGEMENT** *(Continued)*

(a) **Financial risk factors** *(Continued)*

(ii) Credit risk

The credit risk of KHL is attributable to trade and other receivables. The KHL has no significant concentration of credit risks. It has policy to ensure the sale of products and services are made to customers with appropriate credit history.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. KHL minimise the bank and other borrowings. Management believes that KHL does not have significant liquidity risk.

(iv) Cash flow interest rate risk

KHL's interest rate risk arises from bank balances which bear market rates. As KHL has no significant interest-bearing assets, It's income and operating cash flows are substantially independent of changes in market interest rates.

(b) **Fair value estimation**

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

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

5. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT**

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

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

(a) **Provision for impairment of receivables**

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

5. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT** *(Continued)*

(b) **Useful lives of property, plant and equipment** *(Continued)*

In accordance with HKAS 16, KHL estimates the useful lives of property, plant and equipment that to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. KHL also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(c) **Impairment on non-current assets**

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which KHL expects to generate from future use of the assets, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(d) **Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings HK$'000	Staff quarter HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1st January, 2004	108,866	1,625	56,917	643	168,051
Additions	–	–	5,499	177	5,676
Disposals	–	–	(2)	–	(2)
At 31st December, 2004 & at 1st January, 2005	108,866	1,625	62,414	820	173,725
Additions	2,898	–	4,219	264	7,381
Disposals	–	–	(180)	(325)	(505)
At 31st December, 2005 & at 1st January, 2006	111,764	1,625	66,453	759	180,601
Additions	253	–	1,783	–	2,036
Disposals	–	–	(335)	–	(335)
At 31st December, 2006	112,017	1,625	67,901	759	182,302
Depreciation and impairment					
At 1st January, 2004	49,087	499	54,822	643	105,051
Charge for the year	3,220	46	1,368	21	4,655
Eliminated upon disposal	–	–	(2)	–	(2)
At 31st December, 2004 & at 1st January, 2005	52,307	545	56,188	664	109,704
Charge for the year	3,368	36	3,256	49	6,709
Eliminated upon disposal	–	–	(98)	(325)	(423)
At 31st December, 2005 & at 1st January, 2006	55,675	581	59,346	388	115,990
Charge for the year	3,453	31	3,500	88	7,072
Eliminated upon disposal	–	–	(328)	–	(328)
At 31st December, 2006	59,128	612	62,518	476	122,734
Net book value					
At 31st December, 2006	52,889	1,013	5,383	283	59,568
At 31st December, 2005	56,089	1,044	7,107	371	64,611
At 31st December, 2004	56,559	1,080	6,226	156	64,021

Depreciation charges of HK$ 4,655,000, HK$ 6,709,000 and HK$ 7,072,000 have been expensed in other operating expenses in the respective year ended 31st December, 2004, 2005 and 2006.

7. INTEREST IN LEASEHOLD LAND

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
In Macau			
Lease of over 50 years	92,351	86,372	80,393

Movement of interest in leasehold land during the Relevant Periods was as follows:–

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
As at 1st January,	98,329	92,351	86,372
Amortisation of interest in leasehold land	(5,978)	(5,979)	(5,979)
As at 31st December,	92,351	86,372	80,393

8. INVENTORIES

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Consumables	1,232	1,217	1,191

All inventories as at 31st December, 2004, 2005 and 2006 were stated at cost.

9. TRADE RECEIVABLES

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables, net	7,452	5,422	5,502

Notes:

(a) The carrying amounts of trade receivables approximate their fair value.

(b) The credit period generally granted to customers ranges from 0 to 180 days. The aging analysis of the trade receivables as at the balance sheet dates is as follows:

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	5,679	4,719	4,917
31 – 60 days	1,744	783	552
61 – 90 days	17	–	13
Over 90 days	1,071	1,227	20
	8,511	6,729	5,502
Less: Impairment loss on trade receivables	(1,059)	(1,307)	–
	7,452	5,422	5,502

9. TRADE RECEIVABLES *(Continued)*

(c) The movements of impairment loss of trade receivables are set out as follows:–

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
As at 1st January,	–	1,059	1,307
Impairment loss recognised for the year	1,059	248	93
Utilisation of impairment loss recognised	–	–	(1,400)
At 31st December,	1,059	1,307	–

10. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Prepayment	793	104	91
Deposits	1,048	167	193
Other receivables	33	7	4
	1,874	278	288

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

11. CASH AND CASH EQUIVALENTS

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank and in hand	21,908	25,459	29,935

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the Relevant Periods are made for varying period of between seven days and three months, depending on the immediate cash requirements of the KHL, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The average effective interest rate on cash at bank was 2.75% to 3% for the year ended 31st December, 2004, 2005 and 2006.

12. SHARE CAPITAL

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Authorised share capital			
500,000 ordinary shares at MOP 1 each	485	485	485
Issued share capital			
500,000 ordinary shares at MOP 1 each	485	485	485

13. RESERVES

	Legal reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance as at 1st January, 2004	–	(7,206)	(7,206)
Transfer to legal reserve	243	(243)	–
Profit for the year	–	21,179	21,179
Balance as at 31st December, 2004	243	13,730	13,973
Balance as at 1st January, 2005	243	13,730	13,973
Profit for the year	–	17,719	17,719
Balance as at 31st December, 2005	243	31,449	31,692
Balance as at 1st January, 2006	243	31,449	31,692
Profit for the year	–	16,961	16,961
Balance as at 31st December, 2006	243	48,410	48,653

Legal reserve

In accordance to the relevant rules and regulations governing the Macau enterprises, all companies in Macau are required to retain 25% profit for the year as a legal reserve, subject to the maximum of 50% of the issued share capital.

Distributable reserve

In the opinion of the directors, KHL's reserves available for distribution to shareholders at the balance sheet dates were as follows:

	As at 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
Retained earnings	13,730	31,449	48,410

14. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/ AN IMMEDIATE HOLDING COMPANY/ A RELATED COMPANY

The amount due is unsecured, interest free and repayable on demand.

15. TRADE PAYABLES

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	1,840	1,650	1,126

The ageing analysis of trade payables as at balance sheet dates is as follows:–

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	649	551	447
31 – 60 days	768	633	436
61-90 days	229	466	243
Over 90 days	194	–	–
	1,840	1,650	1,126

The carrying amounts of trade payables approximate their fair value.

16. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	1,467	1,179	1,083
Deposit received	2,004	1,192	1,222
Other payables	4,759	6,056	7,669
	8,230	8,427	9,974

The carrying amounts of accruals, deposit received and other payables approximate their fair value.

17. TURNOVER AND SEGMENT INFORMATION

	Year ended 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Rooms sales	39,260	40,599	39,733
Food and beverage	6,860	6,556	6,866
Rental income	15,412	13,490	13,556
Other operations, including laundry services, roaming services, in-house movie services services and room cleaning services	3,052	2,120	2,767
	64,584	62,765	62,922

(a) Analysis of turnover by category

Turnover for the Relevant Periods were principally provision of hotel services.

17. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Primary segment format – business segments

KHL is organised into the following main business segments: (i) room sales; (ii) food and beverage; (iii) rental income; (iv) other operating services including laundry, roaming, in-house movie and room cleaning.

Segment assets consist primarily of property, plant and equipment, interest in leasehold land, intangible assets, receivables and operating cash.

Segment liabilities consist primarily payables and operating liabilities.

Capital expenditure comprises mainly addition to property, plant and equipment and interest in leasehold land.

Unallocated assets and liabilities represent assets and liabilities not dedicated to a particular segment.

The segment results for the year ended 31st December, 2004, were as follows:

	Room sales	Food and beverage	Rental income	Other operating Services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	39,260	6,860	15,412	3,052	64,584
Segment results	19,685	500	13,607	2,047	35,839
Bank interest income					4
Other income					6,269
Net unallocated expenses					(20,866)
Profit from operations					21,246
Finance cost					(67)
Profit before taxation					21,179
Taxation					–
Attributable to equity holders of KHL					21,179

Other segment items included in the income statement were as follows:–

	Room sales	Food and beverage	Rental income	Other operating Services	Total
Depreciation of property, plant and equipment	3,939	72	644	–	4,655
Amortisation of interest in leasehold land	4,817	–	1,161	–	5,978

17. TURNOVER AND SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31st December, 2005, were as follows:

	Room sales	Food and beverage	Rental income	Other operating Services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	40,599	6,556	13,490	2,120	62,765
Segment results	18,568	(412)	11,655	1,062	30,873
Bank interest income					133
Other income					547
Net unallocated expenses					(13,805)
Profit from operations					17,748
Finance cost					–
Profit before taxation					17,748
Taxation					(29)
Attributable to equity holders of KHL					17,719

Other segment items included in the income statement were as follows:–

	Room sales	Food and beverage	Rental income	Other operating Services	Total
Depreciation of property, plant and equipment	5,945	90	674	–	6,709
Amortisation of interest in leasehold land	4,818	–	1,161	–	5,979

The segment results for the year ended 31st December, 2006, were as follows:

	Room sales	Food and beverage	Rental income	Other operating Services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	39,733	6,866	13,556	2,767	62,922
Segment results	17,544	25	11,987	1,794	31,350
Other revenue					362
Other income					551
Net unallocated expenses					(14,429)
Profit from operations					17,834
Finance cost					–
Profit before taxation					17,834
Taxation					(873)
Attributable to equity holders of KHL					16,961

17. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Other segment items included in the income statement were as follows:–

Depreciation of property, plant and equipment	6,278	72	722	–	7,072
Amortisation of interest in leasehold land	4,818	–	1,161	–	5,979

The segment assets and liabilities as at 31st December, 2004 and capital expenditure for the year then ended were as follows:–

	Room sales	Food and beverage	Rental income	Other operation services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	134,814	287	31,461	368	21,908	188,838
Liabilities	3,051	256	2,004	–	169,069	174,380
Capital expenditure	5,519	157	–	–	–	5,676

The segment assets and liabilities as at 31st December, 2005 and capital expenditure for the year then ended were as follows:–

	Room sales	Food and beverage	Rental income	Other operation services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	126,783	330	30,376	313	25,557	183,359
Liabilities	2,529	300	1,192	29	147,132	151,182
Capital expenditure	6,689	130	562	–	–	7,381

The segment assets and liabilities as at 31st December, 2006 and capital expenditure for the year then ended were as follows:–

	Room sales	Food and beverage	Rental income	Other operation services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	118,015	330	28,382	215	29,935	176,877
Liabilities	1,750	384	1,222	32	124,351	127,739
Capital expenditure	1,855	130	51	–	–	2,036

(c) Secondary reporting format – geographical segments

All of the activities of KHL are based in Macau and all of the KHL turnover, profit before taxation, assets and liabilities are derived from Macau.

18. OTHER REVENUE

	Year ended 31st December, 2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Bank interest income	4	133	341
Sundry income	–	–	21
	4	133	362

19. OTHER INCOME

	Year ended 31st December, 2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Gain on foreign exchange	–	547	551
Waiver on provision of bonus	6,269	–	–
	6,269	547	551

20. EXPENSES BY NATURE

	Year ended 31st December, 2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Auditors remuneration	70	86	85
Amortisation of interest in leasehold land	5,978	5,979	5,979
Depreciation	4,655	6,709	7,072
Employee benefits *(note 21)*	16,909	17,938	14,402
Impairment of provision of trade receivables	1,059	248	93
Loss on foreign exchange	4,178	–	–
Loss on disposal of property, plant and equipment	–	9	7
Operating lease of land and building	449	677	1,046

21. EMPLOYEE BENEFITS EXPENSES

	Year ended 31st December, 2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Salaries, allowance and bonus	12,426	13,424	9,518
Retirement scheme contributions	100	101	14
Other fringe benefits	4,383	4,413	4,870
	16,909	17,938	14,402

(a) KHL makes defined contribution to retirement schemes managed by local government of Macau based on certain percentage of the basic salary of eligible staff. It is the local government's responsibility paying the retirement pension to the retired staff.

21. EMPLOYEE BENEFITS EXPENSES *(Continued)*

(b) Directors' emolument

The remuneration of every director of KHL for the Relevant Periods is set out below.

	Fee	Salaries Allowance and bonus	Retirement scheme	Other fringe benefits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December, 2004					
Chan Chak Mo	–	–	–	–	–
Ng Cheow Leng	–	–	–	–	–
Victor Cheung Lup Kwan	–	–	–	–	–
	–	–	–	–	–
Year ended 31st December, 2005					
Chan Chak Mo	–	–	–	–	–
Cheung Hon Kit	–	–	–	–	–
Ng Cheow Leng	–	–	–	–	–
Victor Cheung Lup Kwan	–	–	–	–	–
	–	–	–	–	–
Year ended 31st December, 2006					
Chan Chak Mo	–	–	–	–	–
Cheung Hon Kit	–	–	–	–	–
Victor Cheung Lup Kwan	–	–	–	–	–
	–	–	–	–	–

i. Mr. Ng Cheow Leng was resigned as the director of KHL on 24th May, 2005.

ii. Mr. Cheung Hon Kit was appointed as the director of KHL on 24th May, 2005.

(c) Five highest paid individual

The emoluments payable to the five highest paid individuals of KHL during the Relevant Periods are as follows:

	Year ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowance and bonus	1,716	1,444	1,783
Retirement scheme contribution	17	17	17
	1,733	1,461	1,800

The emoluments to the five highest paid individuals in KHL in the Relevant Periods were all less than HK$1,000,000 per person.

(d) During the Relevant Periods, no emolument was paid by KHL to any of the above director or the five highest paid individuals as an inducement to join or upon joining KHL as compensation for loss of office.

22. FINANCE COSTS

	Year ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Bank overdraft interest wholly repayable within five years	67	–	–

23. TAXATION

	Year ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
– Overseas income tax	–	29	743
– Under-provision of overseas income tax	–	–	130
	–	29	873

(a) Hong Kong Profits Tax has not been provided as KHL did not generate any assessable profits in Hong Kong during the Relevant Periods.

(b) Overseas income tax represented Macau enterprise income tax which is provided on the basis of the profit as reported in the statutory accounts of KHL operating in Macau, which are prepared using the accounting rules and regulations applicable to Macau enterprises, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose.

(c) The taxation on KHL profit before income tax differs from the theoretical amount that would arise using Macau taxation rates at 12% for the Relevant Periods are as follows:

	Year ended 31st December, 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	21,179	17,748	17,834
Tax rate at 12% in Macau from 2004 to 2006	2,542	2,130	2,140
Income not subject to tax	(2,107)	(1,790)	(3,355)
Expenses not deductible for tax	1,171	319	1,958
Under-provision in prior years	–	–	130
Tax effect of prior year's tax losses utilised this year	(1,606)	(630)	–
Taxation for the year	–	29	873

(d) Deferred taxation
No provision for deferred tax liabilities or asset has been made as the Company had no material unprovided temporary difference as at year ended 31st December 2004, 2005 and 2006.

24. PROFITS ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders is dealt with in the accounts of KHL to the extent for the year ended 31st December, 2004, 2005 and 2006 were HK$21,179,000, HK$17,719,000 and HK$16,961,000 respectively.

25. COMMITMENTS

(a) Capital commitment

At each of the balance sheet date, KHL had the following capital commitments:

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for:			
Capital contributed payable for leasehold improvement	1,034	457	15

(b) Operating lease commitment

As lessee

KHL leases offices under non-cancellable operating lease agreements. KHL has future aggregate minimum lease payments as follows:

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Less than one year	–	590	606
Between one to five years	–	606	–
More than five years	–	–	–
	–	1,196	606

As lessor

At the balance sheet date, KHL had contracted with tenants for the following future minimum lease payments for its hotel property as follows:

	As at 31st December,		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Less than one year	12,958	13,845	2,532
Between one to five years	16,377	2,532	–
More than five years	–	–	–
	29,335	16,377	2,532

26. RELATED PARTY TRANSACTIONS

(a) Balances with related parties

	As at 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
Balance with immediate holding companies			
Non-trade balances due to:			
– Great Trust	37,990	33,178	28,366
– Xin Wei Property Investment Limited	64,825	54,072	41,572
– Feng Ze Investments Limited	11,385	9,947	8,509
	114,200	97,197	78,447
Balance with immediate holding company			
Non-trade balance due to:			
– Xin Son Investment Limited	49,448	43,198	36,948
Balance with related company with common director			
Trade balance due to:			
– Future Bright Group Limited	662	681	458

(b) Related party transactions

During the Relevant Periods, KHL had transactions with related parties as follows:

Related parties	Nature of transactions	Year ended 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
Directors				
Ng Cheow Leng	Other operating income	385	79	381
Chan Chak Mo	Other operating income	559	195	42
	Room sales income	14	46	39
Victor Cheung Lup Kwan	Room sales income	127	66	10

Note: Mr. Ng Cheow Leng was resigned as the director of KHL on 24th May, 2005.

(c) Key personnel management

	Year ended 31st December, 2004 HK$'000	2005 HK$'000	2006 HK$'000
Salaries, bonuses and other benefits	1,716	1,444	1,783
Retirement scheme benefits	17	17	17
	1,733	1,461	1,800

27. CONTINGENT LIABILITIES

As at 31st December, 2006, KHL had no contingent liabilities.

28. SUBSEQUENT EVENTS

No significant subsequent event took place subsequent to 31st December, 2006.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for KHL in respect to any period subsequent to 31st December, 2006.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

V. PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP AFTER COMPLETION OF THE INITIAL ACQUISITION

The following is an extract of the text of a letter, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, prepared for inclusion in the circular of the Company dated 6 December 2007.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

6 December 2007

The Board of 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 unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Best Mind International Inc. ("Best Mind") (together with the Group hereinafter referred to as the "Enlarged Group") set out on pages 182 to 195 under the heading of "Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix V of the Company's circular dated 6 December 2007 (the "Circular") in connection with the proposed acquisition of a 51% equity interest in Best Mind by the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition, which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix V of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 30 June 2007 or any future date, or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods.

OPINION

In our opinion:

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

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

(c) the adjustments are appropriate for the purpose 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
Chartered Accountants
Certified Public Accountants
Hong Kong

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet, income statement and cash flow statement of the Enlarged Group as if the Acquisition has been completed on 30 June 2007 for the unaudited pro forma consolidated balance sheet and on 1 January 2006 for the unaudited pro forma consolidated income statement and cash flow statement. The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of a 51% equity interest in Best Mind.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the Accountants' Report of Best Mind as set out in Appendix III and the historical financial information of the Group as set out in Appendix II and other financial information included elsewhere in this Circular.

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition has been completed on 30 June 2007. The unaudited pro forma consolidated balance sheet is based on the unaudited condensed consolidated interim financial statements of the Group for the period ended 30 June 2007 as set out in Appendix II to this Circular, the audited financial statements of Best Mind for the period from 6 July 2007 (date of incorporation) to 31 October 2007 as set out in Appendix III to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	The Group as at 30 June 2007	Best Mind as at 31 October 2007	Sub-total	Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets						
Property, plant and equipment	275,858	–	275,858			275,858
Interests in leasehold land	541,109	–	541,109			541,109
Investment properties	40,880	–	40,880			40,880
Goodwill	59,203	–	59,203			59,203
Available-for-sale financial assets	88,200	–	88,200			88,200
Convertible notes receivable from an associate	634	–	634			634
Conversion options embedded in convertible notes receivable from an associate	645	–	645			645
Interests in associates	261,052	–	261,052			261,052
Interest in a profit sharing agreement	–	–	–	1,742,069	*5*	1,742,069
	1,267,581	–	1,267,581			3,009,650
Current assets						
Inventories	750	–	750			750
Film rights	58,926	–	58,926			58,926
Films in progress	34,169	–	34,169			34,169
Trade receivables	56,511	62,806	119,317			119,317
Deposits, prepayments and other receivables	50,734	–	50,734			50,734
Financial assets at fair value through profit or loss	8,216	–	8,216			8,216
Amounts due from associates	6,532	–	6,532			6,532
Prepaid tax	514	–	514			514
Cash and cash equivalents	107,031	1	107,032	(300,000)	*3(i)*	(192,968)
	323,383	62,807	386,190			86,190
Total assets	1,590,964	62,807	1,653,771			3,095,840

	The Group as at 30 June 2007	Best Mind as at 31 October 2007	Sub-total	Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Capital and reserve attributable to Company's equity holders						
Share capital	68,699	1	68,700	6,999	*4*	75,699
Reserves	919,639	62,801	982,440	384,861	*6*	1,367,301
	988,338	62,802	1,051,140			1,443,000
Minority interests	321,844	–	321,844	884,387	*6(iii)*	1,206,231
	1,310,182	62,802	1,372,984			2,649,231
Non-current liabilities						
Bank borrowings – due after one year	9,775	–	9,775			9,775
Deferred taxation	88,106	–	88,106	6,401	*6(ii)*	94,507
Unsecured convertible notes payable	–	–	–	159,421	*3(ii)*	159,421
	97,881	–	97,881			263,703
Current liabilities						
Trade payables	14,462	–	14,462			14,462
Amount due to a related party	–	5	5			5
Amounts due to minority shareholders	39,999	–	39,999			39,999
Deposits received, accruals and other payables	66,122	–	66,122			66,122
Bank borrowings – due within one year	2,315	–	2,315			2,315
Unsecured convertible notes payable	60,003	–	60,003			60,003
	182,901	5	182,906			182,906
Total equity and liabilities	1,590,964	62,807	1,653,771			3,095,840

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. The unaudited pro forma consolidated income statement is based on (i) the audited financial statements of the Group for the year ended 31 December 2006 as set out in Appendix II to this Circular, (ii) the audited financial statements of Kingsway Hotel Limited ("KHL") for the year ended 31 December 2006 as set out in Appendix II to this Circular and (iii) the audited financial statements of Best Mind for the period ended 31 October 2007 as set out in Appendix III to this Circular. Subsequent to 31 December 2006, the Group had completed its acquisitions of 38.5% and 61.5% equity interests in KHL on 30 March 2007 and 30 May 2007 respectively. The Group also completed the disposal of 50% equity interest in KHL on 22 June 2007. The combined results of the Group and KHL reflect the pro forma results of the Group with the effects of acquisition of KHL. Details of the acquisitions of 38.5% and 61.5% equity interests in KHL and disposal of 50% equity interest in KHL are set out in the Company's circular dated 10 March 2007, 8 September 2006 and 31 May 2007 respectively. Such information is included for the purpose of more fairly presenting the Group's results for the preparation of the unaudited pro forma consolidated income statement of the Enlarged Group.

As the unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group after completion of the Acquisition for the year ended to which it is made up to or for any future date.

	The Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Adjustments in respect of acquisition and disposal of KHL		Combined results of the Group and KHL for the year ended 3 1 December 2006	Best Mind for the period ended 31 October 2007	Sub-total	Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	152,777	62,922			215,699	62,806	278,505			278,505
Cost of sales	(103,365)	(19,456)			(122,821)	–	(122,821)			(122,821)
Gross Profit	49,412	43,466			92,878	62,806	155,684			155,684
Discount on acquisition	–	–	15,498	*2(i)*	15,498	–	15,498	372,684	*6(iii)*	388,182
Other revenue	9,068	362			9,430	–	9,430			9,430
Other income	3,682	551			4,233	–	4,233			4,233
Administrative expenses	(38,309)	(26,545)			(64,854)	(5)	(64,859)			(64,859)
Marketing and distribution expenses	(9,777)	–			(9,777)	–	(9,777)			(9,777)
Share-based payment expenses	(11,340)	–			(11,340)	–	(11,340)			(11,340)
Fair value loss on financial assets at fair value through profit or loss	(21,757)	–			(21,757)	–	(21,757)			(21,757)
Net gain on disposal of financial assets at fair value through profit or loss	5,501	–			5,501	–	5,501			5,501
Increase in fair value of investment properties	2,880	–			2,880	–	2,880			2,880

	The Group for the year ended 31 December 2006 *HK$'000*	KHL for the year ended 31 December 2006 *HK$'000* *(Note 1)*	Adjustments in respect of acquisition and disposal of KHL *HK$'000*	*Notes*	Combined results of the Group and KHL for the year ended 3 1 December 2006 *HK$'000*	Best Mind for the period ended 31 October 2007 *HK$'000*	Sub-total *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group Total *HK$'000*
(Loss)/profit from operations	(10,640)	17,834			22,692	62,801	85,493			458,177
Finance costs	(2,212)	–	(10,312)	*2(ii)*	(12,524)	–	(12,524)	(12,355)	7	(24,879)
Share of results of associates	(9,796)	–			(9,796)	–	(9,796)			(9,796)
Gain on deemed disposal of an associate	62,582	–			62,582	–	62,582			62,582
Gain on disposal of an associate	21,400	–			21,400	–	21,400			21,400
Loss on disposal of a subsidiary	–	–	(45,471)	*2(iii)*	(45,471)	–	(45,471)			(45,471)
Impairment loss recognised in respect of goodwill arising on acquisition of associates	(32,565)	–			(32,565)	–	(32,565)			(32,565)
Impairment loss reversed in respect of convertible notes receivables	10,000	–			10,000	–	10,000			10,000
Profit before taxation	38,769	17,834			16,318	62,801	79,119			439,448
Taxation	(1,918)	(873)	1,805	*2(ii)*	(986)	–	(986)	2,162	7	1,176
Profit for the year/period	36,851	16,961			15,332	62,801	78,133			440,624

C. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. The unaudited pro forma consolidated cash flow statement is based on (i) the audited financial statements of the Group for the year ended 31 December 2006 as set out in Appendix II to this Circular, (ii) the audited financial statements of KHL for the year ended 31 December 2006 as set out in Appendix II to this Circular and (iii) the audited financial statements of Best Mind for the period ended 31 October 2007 as set out in Appendix III to this Circular. Subsequent to 31 December 2006, the Group had completed its acquisitions of 38.5% and 61.5% equity interests in KHL on 30 March 2007 and 30 May 2007 respectively. The Group also completed the disposal of 50% equity interest in KHL on 22 June 2007. The combined cash flows of the Group and KHL reflect the pro forma cash flows of the Group with the effects of acquisition of KHL. Details of the acquisitions of 38.5% and 61.5% equity interests in KHL and disposal of 50% equity interest in KHL are set out in the Company's circular dated 10 March 2007, 8 September 2006 and 31 May 2007 respectively. Such information is included for the purpose of more fairly presenting the Group's cash flows for the preparation of the unaudited pro forma consolidated cash flow statement of the Enlarged Group.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow of the Enlarged Group after completion of the Acquisition for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2006 *HK$'000*	KHL for the year ended 31 December 2006 *HK$'000* *(Note 1)*	Adjustments in respect of acquisition and disposal of KHL *HK$'000*	*Notes*	Combined cash flows of the Group and KHL for the year ended 31 December 2006 *HK$'000*	Best Mind for the period ended 31 October 2007 *HK$'000*	Sub-total *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group Total *HK$'000*
Cash flows from operating activities										
Profit before taxation	38,769	17,834	(40,285)	*2(i), (ii), (iii)*	16,318	62,801	79,119	360,329	*6(iii), 7*	439,448
Adjustments for:										
Interest expenses	2,212	–	10,312	*2(ii)*	12,524	–	12,524	12,355	*7*	24,879
Interest income	(3,603)	(341)			(3,944)	–	(3,944)			(3,944)
Dividend income	(290)	–			(290)	–	(290)			(290)
Discount on acquisition	–	–	(15,498)	*2(i)*	(15,498)	–	(15,498)	(372,684)	*6(iii)*	(388,182)
Reversal of impairment loss on trade receivables	(5)	–			(5)	–	(5)			(5)
Reversal of impairment loss on other receivables	(763)	–			(763)	–	(763)			(763)
Depreciation and amortisation of property, plant and equipment	6,580	7,072			13,652	–	13,652			13,652
Amortisation on interest in leasehold land	–	5,979			5,979	–	5,979			5,979
Impairment loss recognised in respect of goodwill arising on acquisition of associates	32,565	–			32,565	–	32,565			32,565
Increase in fair value of investment properties	(2,880)	–			(2,880)	–	(2,880)			(2,880)
(Gain)/loss on disposal of property, plant and equipment	(973)	7			(966)	–	(966)			(966)
Gain on disposal of investment properties	(1,810)	–			(1,810)	–	(1,810)			(1,810)
Gain on disposal of an associate	(21,400)	–			(21,400)	–	(21,400)			(21,400)
Loss on disposal of a subsidiary	–	–	45,471	*2(iii)*	45,471	–	45,471			45,471
Gain on deemed disposal of interest in an associate	(62,582)	–			(62,582)	–	(62,582)			(62,582)
Net realised gain on disposals of financial assets at fair value through profit or loss	(5,501)	–			(5,501)	–	(5,501)			(5,501)
Fair value loss on financial assets at fair value through profit or loss	21,757	–			21,757	–	21,757			21,757
Impairment loss reversed in respect of convertible note receivables	(10,000)	–			(10,000)	–	(10,000)			(10,000)
Share of results of associates	9,796	–			9,796	–	9,796			9,796
Share-based payment expenses	11,340	–			11,340	–	11,340			11,340

	The Group for the year ended 31 December 2006 HK$'000	KHL for the year ended 31 December 2006 HK$'000 (Note 1)	Adjustments in respect of acquisition and disposal of KHL HK$'000	Notes	Combined cash flows of the Group and KHL for the year ended 31 December 2006 HK$'000	Best Mind for the period ended 31 October 2007 HK$'000	Sub-total HK$'000	Pro forma adjustments HK$'000	Notes	The Enlarged Group Total HK$'000
Operating cash flows before movements in working capital	13,212	30,551			43,763	62,801	106,564			106,564
(Increase)/decrease in inventories	(2)	26			24	–	24			24
Decrease in film rights	38,571	–			38,571	–	38,571			38,571
Decrease in films in progress	17,992	–			17,992	–	17,992			17,992
Decrease/(increase) in trade receivables	6,586	(80)			6,506	(62,806)	(56,300)			(56,300)
Decrease/(increase) in deposits, prepayments and other receivables	36,149	(10)			36,139	–	36,139			36,139
Increase in deposits for investment	(40,000)	–			(40,000)	–	(40,000)			(40,000)
Decrease in amounts due from associates	2,055	–			2,055	–	2,055			2,055
Decrease in trade payables	(582)	(524)			(1,106)	–	(1,106)			(1,106)
(Decrease)/increase in deposits received, accruals and other payables	(41,131)	1,547			(39,584)	–	(39,584)			(39,584)
(Decrease)/increase in amount due to a related party	–	(223)			(223)	5	(218)			(218)
Cash generated from operations	32,850	31,287			64,137	–	64,137			64,137
Tax paid	(356)	(116)			(472)	–	(472)			(472)
Net cash generated from operating activities	32,494	31,171			63,665	–	63,665			63,665

	The Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Adjustments in respect of acquisition and disposal of KHL		Combined cash flows of the Group and KHL for the year ended 31 December 2006	Best Mind for the period ended 31 October 2007	Sub-total	Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Cash flow from investing activities										
Interest received	3,603	341			3,944	–	3,944			3,944
Dividend income	290	–			290	–	290			290
Proceeds from disposal of financial assets at fair value through profit or loss	34,727	–			34,727	–	34,727			34,727
Proceeds from disposal of property, plant and equipment	15,188	–			15,188	–	15,188			15,188
Proceeds from disposal of investment property	6,000	–			6,000	–	6,000			6,000
Proceeds from disposal of an associate	25,000	–			25,000	–	25,000			25,000
Repayment of loan from an investee company	25,000	–			25,000	–	25,000			25,000
Loan repaid from an associate	33,800	–			33,800	–	33,800			33,800
Acquisition of interest in an associate	(19,407)	–			(19,407)	–	(19,407)			(19,407)
Acquisition of interest in a subsidiary	–	–	(238,277)	*1*	(238,277)	–	(238,277)	(300,000)	*3(i)*	(538,277)
Purchases of available-for-sale financial assets	(52,500)	–			(52,500)	–	(52,500)			(52,500)
Purchases of financial assets at fair value through profit or loss	(92,198)	–			(92,198)	–	(92,198)			(92,198)
Purchases of property, plant and equipment	(3,401)	(2,036)			(5,437)	–	(5,437)			(5,437)
Net cash used in investing activities	(23,898)	(1,695)			(263,870)	–	(263,870)			(563,870)

	The Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Acquisition in respect of acquisition and disposal of KHL		Combined cash flows of the Group and KHL for the year ended 31 December 2006	Best Mind for the period ended 31 October 2007	Sub-total	Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Cash flow from financing activities										
Proceeds from issue of shares	63,555	–			63,555	1	63,556	(1)	*4(ii)*	63,555
Interest paid	(1,779)	–			(1,779)	–	(1,779)			(1,779)
Share issuing expenses	(1,172)	–			(1,172)	–	(1,172)			(1,172)
Decrease in amount due to related companies	–	(25,000)			(25,000)	–	(25,000)			(25,000)
Repayment of bank loans	(12,188)	–			(12,188)	–	(12,188)			(12,188)
Net cash generated from/(used in) financing activities	48,416	(25,000)			23,416	1	23,417			23,416
Net increase/(decrease) in cash and cash equivalents	57,012	4,476			(176,789)	1	(176,788)			(476,789)
Cash and cash equivalents at the beginning of the year/period	31,500	25,459			56,959	–	56,959			56,959
Effect of foreign exchange rate changes	835	–			835	–	835			835
Cash and cash equivalents at the end of the year/period	89,347	29,935			(118,995)	1	(118,994)			(418,995)
Analysis of the balances of cash and cash equivalents										
Cash and bank balances	89,347	29,935			(118,995)	1	(118,994)			(418,995)

NOTES ON THE PRO FORMA ADJUSTMENTS TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

On 16 August 2007, the Company entered into an agreement with Lucky State Group Limited (the "Vendor") and Mr. Ng Cheuk Fai for the Acquisition. Upon the completion of the Acquisition, Best Mind was accounted as a subsidiary of the Company. Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of Best Mind. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Best Mind will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount on acquisition arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Best Mind at the date of completion. A discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the income statement.

(1) Subsequent to the date of the latest published audited financial statements, the Group had entered into transactions in relation to acquisitions and disposals of KHL:

(a) On 30 March 2007, the Group acquired 38.5% equity interest in KHL and the related sales loan through acquisition of equity interest of several holding companies of KHL at an aggregate consideration of approximately HK$231,777,000. Details of this transaction is set out in the Company's circular dated 10 March 2007;

(b) On 30 May 2007, the Group further acquired 61.5% equity interest in KHL and related sales loan through acquisition of equity interest of several holding companies of KHL at an aggregate consideration of approximately HK$490,000,000. Details of this transaction is set out in the Company's circular dated 8 September 2006.

(c) On 22 June 2007, the Group disposed of 50% equity interest in KHL at a consideration of approximately HK$315,000,000. Details of this transaction is set out in the Company's circular dated 31 May 2007.

Following the completion of disposal of KHL, the Group has 50% equity interest in KHL. The Group has controlling power in the board of directors of KHL and KHL is accounted for as a subsidiary of the Group.

The total net cash flow effect for the Group in relation to the above three transactions is a cash outflow of approximately HK$238,277,000, as part of the acquisition consideration was settled by an unsecured convertible notes (the "Notes") with principal amount of HK$168,500,000.

(2) The adjustments in respect of acquisition and disposal of KHL reflect the followings:

(i) On 30 March 2007 and 30 May 2007, the Group acquired 100% equity interest in KHL through the above two transactions stated in (a) and (b) at a total consideration of approximately HK$721,777,000. The principal assets of KHL were Kingsway Hotel which located in Macau. The fair value of the net assets of KHL attributable to the Group and the related sale loan as at the date of the completion of the acquisitions were approximately HK$737,275,000 and a discount on acquisition of approximately HK$15,498,000 was recognised.

(ii) The pro forma adjustments represent the imputed interest on the liability component of the Notes amounted to approximately HK$10,312,000 and the respective deferred tax credit amounted to approximately HK$1,805,000.

(iii) On 22 June 2007, the Group disposed of a 50% equity interest in KHL at a consideration of approximately HK$315,000,000. The fair value of the 50% net assets of KHL was approximately HK$360,471,000 and a loss on disposal of interests in subsidiaries of approximately HK$45,471,000 was recognised.

(3) The fair value of the consideration for the Acquisition to be satisfied by the Group is approximately HK$547,800,000. The consideration is to be satisfied by:

	HK$'000
Cash consideration	300,000
Convertible notes (the "Convertible Note I")	196,000
Consideration shares (the "Consideration Shares I") *(note)*	51,800
	547,800

note: Pursuant to the agreement, 140,000,000 ordinary shares of the Company with par value of HK$0.05 each will be issued on the actual date of completion. The fair value of the shares to be issued is approximately HK$51,800,000 with reference to the market value of HK$0.37 per share of the Company's share as at 29 June 2007, being the nearest trading date of 30 June 2007. The actual value of the Consideration Shares I would be different on the completion date of the Acquisition.

On completion of the Acquisition, the fair value of the acquired identifiable assets, liabilities and contingent liabilities will have to be reassessed. The market value of the Company's Shares at the date of Completion, would also be different from the market value as at 30 June 2007. Accordingly, the actual goodwill or discount on acquisition at the date of completion may be significantly different from the amount presented above.

(i) The cash consideration will be settled by the Company (a) paying a refundable amount in a sum of HK$250,000,000 and (b) paying HK$50,000,000 in cash assuming that the Acquisition had been completed on 30 June 2007.

(ii) In accordance with Hong Kong Accounting Standards 32 "Financial Instruments – Disclosure and Presentation", convertible bonds should be separated as liability portion and equity portion. In preparing the Unaudited Pro Forma Financial Information on the Enlarged Group, the fair value of the Convertible Note I of HK$196,000,000 is taken to be its fair value as if it was issued on 30 June 2007. The adjustment of approximately HK$159,421,000 represented the liability portion of the Convertible Note I based on the calculation of the discounted cash flow method. Please refer to note 6(ii) for the details of the equity portion of the Convertible Note I.

(iii) HK$51,800,000 would be satisfied by procuring the Company to allot and issue the Consideration Shares I at an issue price of HK$0.37 per Consideration Shares I. Upon completion of the Acquisition, the share capital and share premium of the Company will increase by approximately HK$7,000,000 and HK$44,800,000 respectively.

(4) The pro forma adjustment of approximately HK$6,999,000 represents the net effect of the followings:

(i) Assuming the issuance of 140,000,000 Consideration Shares I at par value of HK$0.05 by the Company, the share capital of the Company would increase by approximately HK$7,000,000.

(ii) The adjustment of approximately HK$780 represents the elimination of the share capital of US$100 of Best Mind upon the consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group.

(5) The pro forma adjustment represents the fair value adjustments of the interest in a profit sharing agreement of approximately HK$1,742,069,000.

The fair value of the profit sharing agreement as at 31 October 2007 is determined with reference to valuation at 31 October 2007 carried out by an independent qualified professional valuers not connected to the Enlarged Group.

(6) The pro forma adjustment of HK$384,861,000 represents the net effect of elimination of the pre-acquisition reserves, share premium arising from the issuance of the Consideration Shares I and the equity component of the Convertible Note I. Details are set out as follows:

	HK$'000
Elimination of pre-acquisition reserves	(62,801)
Share premium *(note 6(i))*	44,800
Convertible Note I *(note 6(ii))*	30,178
Discount on acquisition *(note 6(iii))*	372,684
	384,861

(i) The increase in share premium of approximately HK$44,800,000 arising from the issuance of the Consideration Shares I assuming the issue price of HK$0.37 was the fair value of the share of the Company at 30 June 2007 as described in note 3(iii) above; and

(ii) The equity component of the Convertible Note I was approximately HK$36,579,000. Please also refer to note 3(ii) for details of the Convertible Note I. The deferred tax liabilities of HK$6,401,000 represent the resulting deferred tax liability of the equity components of Convertible Note I of approximately HK$36,579,000 at the Hong Kong Profits Tax rate of 17.5%.

(iii) Discount on acquisition of approximately HK$372,684,000 arising from the Acquisition of Best Mind, which is derived from the calculation as follow:

	HK$'000
Fair value of net assets of Best Mind	1,804,871
Less: Minority interests	(884,387)
	920,484
Discount on acquisition	(372,684)
Total consideration	547,800

The balances of all identifiable assets, liabilities and considerations are taken to be at their fair values in this transaction.

The pro forma adjustment represents minority interest of approximately HK$884,387,000 as Lucky State would become a minority shareholder having 49% equity interest in Best Mind upon completion of the Acquisition.

(7) The pro forma adjustments represent the imputed interest on the liability component of the Convertible Note I amounted to approximately HK$12,355,000 and the respective deferred tax credit amounted to approximately HK$2,162,000.

(8) After making the above pro forma adjustments, the consolidated balance sheet showed a shortfall of cash and cash equivalents of HK$192,968,000. The shortfall will be settled by the internal resources of the Group such as proceeds from sales of properties and disposal of film library and the proceeds from the subsequent placing of Shares as completed in September 2007, the Placing and the Rights Issue to ensure that the Group has sufficient working capital to proceed the Acquisition.

(9) On 5 October 2007, the Company further entered into a sale and purchase agreement with the Vendor that the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose the remaining 49% equity interest in Best Mind (the "49% Acquisition"). Details of the 49% Acquisition was set out in the Company's announcement dated 10 October 2007.

I. ACCOUNTANTS' REPORT ON BEST MIND

The following is the text of an accountants' report on Best Mind received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants, for the sole purpose of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 December 2007

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Best Mind International Inc. ("Best Mind") for the period from 6 July 2007 (date of incorporation) to 31 October 2007 (the "Relevant Period") for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 7 December 2007 (the "Circular") in connection with the proposed further acquisition of a 49% equity interest in Best Mind by the Company.

Best Mind was incorporated in the British Virgin Islands with limited liability on 6 July 2007. The registered office of Best Mind is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. During the Relevant Period, Best Mind has not yet engaged in any business, except that on 16 August 2007, Best Mind has entered into an agreement with Ocho Sociedade Unipessoal Limitada ("Ocho") and Mr. Ng Cheuk Fai ("Mr. Ng") to acquire the interest of the 0.4% of the Rolling Turnover generated by Ocho and its customers at an VIP gaming room operated by Ocho at the Grand Lisboa Casino, a luxury hotel and entertainment complex, in Macau.

Best Mind adopted 31 December as its financial year end date. No audited financial statements of Best Mind have been prepared since its date of incorporation.

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BASIS OF PREPARATION

The Financial Information has been prepared by the directors of Best Mind based on the unaudited management accounts of Best Mind, after making adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with Hong Kong Financial Reporting Standards and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE REPORTING ACCOUNTANTS

The directors of Best Mind are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountants" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of Best Mind in respect of any period subsequent to 31 October 2007.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of Best Mind in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of Best Mind, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of Best Mind's financial position as at 31 October 2007 and of Best Mind's financial results and cash flows for the Relevant Period.

A. FINANCIAL INFORMATION OF BEST MIND

BALANCE SHEET

	Notes	At 31 October 2007 HK$
ASSETS		
Non-current asset		
Intangible asset	5	1
Current assets		
Trade receivables	6	62,806,000
Cash and cash equivalents		779
		62,806,779
Total assets		62,806,780
EQUITY		
Capital and reserves attributable to the equity holders of Best Mind		
Share capital	7	780
Retained profits		62,801,300
Total equity		62,802,080
LIABILITY		
Current liability		
Amount due to a related party	8	4,700
Total equity and liability		62,806,780
Net current assets		62,802,079
Total assets less current liability		62,802,080

INCOME STATEMENT

	Notes	For the period from 6 July 2007 (date of incorporation) to 31 October 2007 HK$
Turnover	9	62,806,000
Administrative expenses		(4,700)
Profit from operating activities	10	62,801,300
Taxation	12	–
Profit for the period		62,801,300
Attributable to:		
Equity holders of Best Mind		62,801,300

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of Best Mind		
	Share capital *HK$*	**Retained profits** *HK$*	**Total** *HK$*
At 6 July 2007 (date of incorporation)	780	–	780
Profit for the period	–	62,801,300	62,801,300
At 31 October 2007	780	62,801,300	62,802,080

CASH FLOW STATEMENT

	For the period from 6 July 2007 (date of incorporation) to 31 October 2007
	HK$
Cash flows from operating activities	
Profit before taxation and operating cash flows before working capital changes	62,801,300
Increase in trade receivables	(62,806,000)
Increase in amount due to a related party	4,700
Net cash generated from operating activities	–
Cash flows from investing activities	
Payment for purchase of intangible asset	(1)
Net cash used in investing activities	(1)
Cash flows from financing activities	
Issuance of shares	780
Net cash generated from financing activities	780
Net increase in cash and cash equivalents	779
Cash and cash equivalents at the beginning of the period	–
Cash and cash equivalents at the end of the period	779
Analysis of the balances of cash and cash equivalents	
Cash and bank balance	779

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Best Mind was incorporated in the British Virgin Islands with limited liability on 6 July 2007. The registered office of Best Mind is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

During the Relevant Period, Best Mind has not yet engaged in any business, except that on 16 August 2007, Best Mind has entered into an agreement with Ocho and Mr. Ng to acquire the interest of the 0.4% of the Rolling Turnover generated by Ocho and its customers at an VIP gaming room operated by Ocho at the Grand Lisboa Casino, a luxury hotel and entertainment complex, in Macau.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The HKICPA issued a number of new or revised HKASs, HKFRSs and INTs (hereinafter collectively referred to as the "new HKFRSs") which are currently in use and effective for accounting periods beginning on or after 1 January 2007. For the purpose of preparing and presenting Financial Information of the Relevant Period, Best Mind has adopted all these new HKFRSs over the Relevant Period.

Best Mind has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of Best Mind anticipate that the applications of these new standards and interpretations will have no material impact on the Financial Information of Best Mind.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – INT 12	Service Concession Arrangements[3]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual period beginning on or after 1 January 2009
2 Effective for annual period beginning on or after 1 March 2007
3 Effective for annual period beginning on or after 1 January 2008
4 Effective for annual period beginning on or after 1 July 2008

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 Relevant Period presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared under historical cost convention, except for financial assets and financial liabilities which are carried at fair values. The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying Best Mind's accounting policies.

The Financial Information is presented in Hong Kong Dollars ("HK$") which is the functional currency of Best Mind.

(b) Intangible asset (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(c) Trade receivables

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Best Mind's cash management.

(e) Revenue recognition

Revenue from assignment of profit is recognised when the right to receive profit is established.

(f) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. Best Mind's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

(g) Impairment of assets

At each balance sheet date, Best Mind reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Provisions

Provision are recognised when Best Mind has a present obligation as a result of a past event, and it is probable that Best Mind will be required to settle that obligations. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(i) Contingent liabilities

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 Best Mind. 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. A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(j) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(k) Related parties transactions

Parties are considered to be related to Best Mind if:

(i) the party, directly or indirectly through one or more intermediaries, (I) controls, is controlled by, or is under common control with, Best Mind; (II) has an interest in Best Mind that gives it significant influence over Best Mind; (III) has joint control over Best Mind;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Best Mind or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, joint-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of Best Mind, of any entity that is related party of Best Mind.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

Best Mind's activities expose it to a variety of financial risks: market risk (foreign exchange risk), liquidity risk, credit risk and cash flow interest-rate risk. Best Mind focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Best Mind's financial performance.

(i) Market risk – foreign exchange risk

The main operation of Best Mind is in Macau with most of the transactions settled in HK$. Management believes that Best Mind does not have significant foreign currency exchange risk.

(ii) Liquidity risk

Best Mind manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash to meet the Best Mind's liquidity requirements in the short and long term.

(iii) Credit risk

Credit risk will cause a financial loss due to failure to discharge the obligation by the counterparties. The credit risk of Best Mind mainly arises from the trade receivables. The management of Best Mind performs ongoing credit evaluation of its customers' financial positions. Provision for impairment is based upon a review of the expected collectibility of all receivables.

(iv) Cash flow interest-rate risk

Best Mind has no significant cash flow interest-rate risk as there is no significant floating interest-bearing asset, Best Mind's income and operating cash flows are substantially independent of changes in market interest rates and no sensitivity analysis disclosed to reflect the impact of changes in market interest rates.

(b) Capital risk management

Best Mind manages its capital to ensure that Best Mind 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 capital structure of Best Mind consists of debts which include amount due to a related party, cash and cash equivalents and equity attributable to equity holders of Best Mind, comprising issued share capital and retained profits. The directors of Best Mind review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and associated risks, and take appropriate actions to adjust Best Mind's capital structure and gearing ratio. Best Mind's overall strategy remains unchanged during the Relevant Period.

(c) Fair value estimation

The carrying amounts of Best Mind's financial assets, including trade receivables and cash and cash equivalents approximate to their fair values due to their short maturities. The face values less any credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values.

The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate available to Best Mind for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Best Mind makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of trade receivables

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

5. INTANGIBLE ASSET

The intangible asset represents historical cost to acquire the right for assignment of the Ocho Profit from Ocho pursuant to the Profit Agreement at a consideration of HK$1.

The intangible asset is not subject to amortisation as the right has an indefinite useful life and is carried at cost less accumulated impairment losses.

6. TRADE RECEIVABLES

The ageing analysis of Best Mind's trade receivables as at the balance sheet date is as follows:

	At 31 October 2007
	HK$
0 – 90 days	62,806,000

The directors of Best Mind consider that the carrying amounts of the trade receivables approximate to their fair values.

7. SHARE CAPITAL

	Number of shares	**Amount**	
		US$	*HK$*
Authorised:			
Ordinary shares of US$ 1 each	50,000	50,000	390,000
Issued and fully paid:			
Ordinary shares of US$ 1 each	100	100	780

8. AMOUNT DUE TO A RELATED PARTY

The amount due to a related party is unsecured, interest-free and repayable on demand.

The directors of Best Mind consider that the carrying amount of the amount due to a related party approximates to its fair value.

9. TURNOVER AND SEGMENT INFORMATION

Turnover represents the profits assigned by Ocho pursuant to the Profit Agreement during the Relevant Period.

Segment information is not presented as 100% of Best Mind's turnover was derived from assignment of profit in Macau in accordance with the Profit Agreement.

10. PROFIT FROM OPERATING ACTIVITIES

No directors' emoluments were paid by Best Mind during the Relevant Period.

No auditors' remuneration and employees' emoluments were paid by Best Mind during the Relevant Period.

11. EMPLOYEE BENEFIT EXPENSES

(a) Directors' emoluments for the period from 6 July 2007 (date of incorporation) to 31 October 2007.

	Fee	**Salaries, allowance and bonus**	**Total**
	HK$	*HK$*	*HK$*
Lucky State Group Limited (appointed on 6 July 2007)	–	–	–

(b) During the Relevant Period, no emoluments were paid by Best Mind to the directors or employees for services rendered or as an inducement to join or upon joining or as a compensation for loss of office. No directors of Best Mind waived or agreed to waive any emoluments.

12. TAXATION

No provision for profits tax has been made as Best Mind did not generate any assessable profits during the Relevant Period.

There are no material unprovided deferred tax assets and liabilities as at the balance sheet date.

13. EARNINGS PER SHARE

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

14. DIVIDENDS

The directors of Best Mind do not recommend a payment of dividend during the Relevant Period.

15. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in note 8 and elsewhere in the Financial Information, during the Relevant Period, Best Mind had the following material transactions with related party.

Name of related party	Nature of transactions	For the period from 6 July 2007 (date of incorporation) to 31 October 2007 *HK$*
Ocho Sociedade Unipessoal Limitada ("Ocho")	Profits assigned pursuant to the Profit Agreement	62,806,000

Note: Best Mind and Ocho are under common control of Mr. Ng.

16. CAPITAL COMMITMENTS

Best Mind did not have any significant capital commitments as at 31 October 2007.

17. CONTINGENT LIABILITIES

Best Mind did not have any significant contingent liabilities as at 31 October 2007.

18. SUBSEQUENT EVENTS

No significant subsequent events took place subsequent to 31 October 2007.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Best Mind in respect of any period subsequent to 31 October 2007.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

II. MANAGEMENT DISCUSSION AND ANALYSIS ON BEST MIND

FINANCIAL REVIEW

For the period from 6 July 2007 (date of incorporation) to 31 October 2007, Best Mind's turnover was approximately HK$62.81 million. Profit attributable to the equity holders of Best Mind amounted to approximately HK$62.80 million.

BUSINESS REVIEW

On 16 August 2007, Best Mind as a purchaser, Mr. Ng as a vendor and Ocho entered into the Profit Agreement in relation to the acquisition of 100% interest of the Ocho Profit. Pursuant to the Profit Agreement, Mr. Ng has irrevocably and unconditionally guaranteed to Best Mind that the Ocho Profit for the First Relevant Period and the Second Relevant Period shall not be less than HK$264 million and HK$120 million, respectively. In the event that the Ocho Profit received and/or receivable by Best Mind for the First Relevant Period and the Second Relevant Period shall be less than HK$264 million and HK$120 million respectively, Mr. Ng has undertaken to pay to Best Mind the shortfall. The Profit Agreement was completed on 17 August 2007.

During the period from 17 August 2007 (date of opening of Grand Lisboa) to 31 October 2007, Ocho generated the Rolling Turnover of approximately HK$15,702 million at Ocho VIP Club. As a result, Best Mind recorded the Ocho Profit of approximately HK$62.81 million pursuant to the Profit Agreement.

The Ocho Profit for the period under review represents a monthly average Ocho Profit of approximately HK$25.12 million, which well exceeds the monthly guaranteed Ocho Profit of HK$16 million (i.e. HK$264 million ÷ 16.5 months) by approximately 57%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 October 2007, Best Mind had total assets of approximately HK$62.81 million and the net current assets of Best Mind amounted to approximately HK$62.80 million.

As at 31 October 2007, Best Mind had no borrowings or banking facilities. As there were no borrowings, the gearing ratio was nil.

As the majority of Best Mind's transactions, assets and liabilities are denominated in Hong Kong dollars, the exchange risk of Best Mind is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by Best Mind.

Other than the issue of 100 shares of USD1.00 each at par to Vendor, there were no changes in the capital structure of Best Mind during the period under review.

Other than the Profit Agreement, Best Mind did not make any significant investments and material acquisition during the period under review.

As at 31 October 2007, Best Mind had no charges on its assets.

As at 31 October 2007, Best Mind had no capital commitments.

As at 31 October 2007, Best Mind had no contingent liability.

EMPLOYEES

During the period under review, Best Mind had no employees and no staff costs were paid or payable.

I. STATEMENT OF INDEBTEDNESS

Borrowings

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

Contingent liabilities

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

Disclaimer

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

II. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the available credit facilities as described in more detail in the above section "Statement of Indebtedness", internal resources (for example, cash generated from operating activities) of the Enlarged Group and the estimated net proceeds from the Placing and the Rights Issue, the directors of the Company are of opinion that the Enlarged Group has sufficient working capital for its normal business for the next twelve months from the date of this circular.

III. MATERIAL ADVERSE CHANGE

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

The following is the text of a letter, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, prepared for the sole purpose of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 December 2007

The Board of 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 unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Best Mind International Inc. ("Best Mind") (together with the Group hereinafter referred to as the "Enlarged Group") set out on pages 198 to 210 under the heading of "Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix V of the Company's circular dated 7 December 2007 (the "Circular") in connection with the proposed further acquisition of a 49% equity interest in Best Mind by the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition, which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix V of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 30 June 2007 or any future date, or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods.

OPINION

In our opinion:

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

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

(c) the adjustments are appropriate for the purpose 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
Chartered Accountants
Certified Public Accountants
Hong Kong

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet, income statement and cash flow statement of the Enlarged Group as if the Acquisition has been completed on 30 June 2007 for the unaudited pro forma consolidated balance sheet and on 1 January 2006 for the unaudited pro forma consolidated income statement and cash flow statement. The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the proposed further acquisition of a 49% equity interest in Best Mind subsequent to the proposed acquisition of a 51% equity interest in Best Mind ("Initial Acquisition").

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the Accountants' Report of Best Mind as set out in Appendix III and the historical financial information of the Group as set out in Appendix II and other financial information included elsewhere in this Circular.

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition has been completed on 30 June 2007. In the unaudited pro forma consolidated balance sheet, the column of the Enlarged Group after completion of the Initial Acquisition is based on the "Pro Forma Financial Information on the Enlarged Group after Completion of the Initial Acquisition" as set out in Appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments		The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Non-current assets				
Property, plant and equipment	275,858			275,858
Interests in leasehold land	541,109			541,109
Investment properties	40,880			40,880
Goodwill	59,203			59,203
Available-for-sale financial assets	88,200			88,200
Convertible notes receivable from an associate	634			634
Conversion options embedded in convertible notes receivable from an associate	645			645
Interests in associates	261,052			261,052
Interest in a profit sharing agreement	1,742,069			1,742,069
	3,009,650			3,009,650
Current assets				
Inventories	750			750
Film rights	58,926			58,926
Films in progress	34,169			34,169
Trade receivables	119,317			119,317
Deposits, prepayments and other receivables	50,734			50,734
Financial assets at fair value through profit or loss	8,216			8,216
Amounts due from associates	6,532			6,532
Prepaid tax	514			514
Cash and cash equivalents	(192,968)	(300,000)	*1(i)*	(492,968)
	86,190			(213,810)
Total assets	3,095,840			2,795,840

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments		The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Capital and reserve attributable to Company's equity holders				
Share capital	75,699	4,817	*2*	80,516
Reserves	1,367,301	420,516	*4*	1,787,817
	1,443,000			1,868,333
Minority interests	1,206,231	(884,387)	*3*	321,844
	2,649,231			2,190,177
Non-current liabilities				
Bank borrowings – due after one year	9,775			9,775
Deferred taxation	94,507	6,140	*4(ii)*	100,647
Unsecured convertible notes payable	159,421	152,914	*1(ii)*	312,335
	263,703			422,757
Current liabilities				
Trade payables	14,462			14,462
Amount due to a related party	5			5
Amounts due to minority shareholders	39,999			39,999
Deposits received, accruals and other payables	66,122			66,122
Bank borrowings – due within one year	2,315			2,315
Unsecured convertible notes payable	60,003			60,003
	182,906			182,906
Total equity and liabilities	3,095,840			2,795,840

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. In the unaudited pro forma consolidated income statement, the column of the Enlarged Group after completion of the Initial Acquisition is based on the "Pro Forma Financial Information on the Enlarged Group after Completion of the Initial Acquisition" as set out in Appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group after completion of the Acquisition for the year ended to which it is made up to or for any future date.

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments		The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Turnover	278,505			278,505
Cost of sales	(122,821)			(122,821)
Gross Profit	155,684			155,684
Discount on acquisition	388,182	360,744	*4(iii)*	748,926
Other revenue	9,430			9,430
Other income	4,233			4,233
Administrative expenses	(64,859)			(64,859)
Marketing and distribution expenses	(9,777)			(9,777)
Share-based payment expenses	(11,340)			(11,340)
Fair value loss on financial assets at fair value through profit or loss	(21,757)			(21,757)
Net gain on disposal of financial assets at fair value through profit or loss	5,501			5,501
Increase in fair value of investment properties	2,880			2,880
Profit from operations	458,177			818,921
Finance costs	(24,879)	(11,851)	*5*	(36,730)
Share of results of associates	(9,796)			(9,796)
Gain on deemed disposal of an associate	62,582			62,582
Gain on disposal of an associate	21,400			21,400
Loss on disposal of a subsidiary	(45,471)			(45,471)
Impairment loss recognised in respect of goodwill arising on acquisition of associates	(32,565)			(32,565)
Impairment loss reversed in respect of convertible notes receivables	10,000			10,000
Profit before taxation	439,448			788,341
Taxation	1,176	2,074	*5*	3,250
Profit for the year/ period	440,624			791,591

C. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2006. In the unaudited pro forma consolidated cash flow statement, the column of the Enlarged Group after completion of the Initial Acquisition is based on the "Pro Forma Financial Information on the Enlarged Group after Completion of the Initial Acquisition" as set out in Appendix II to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group after completion of the Acquisition for the year ended to which it is made up to or for any future period.

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments		The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Cash flows from operating activities				
Profit before taxation	439,448	348,893	*4(iii), 5*	788,341
Adjustments for:				
Interest expenses	24,879	11,851	*5*	36,730
Interest income	(3,944)			(3,944)
Dividend income	(290)			(290)
Discount on acquisition	(388,182)	(360,744)	*4(iii)*	(748,926)
Reversal of impairment loss on trade receivables	(5)			(5)
Reversal of impairment loss on other receivables	(763)			(763)
Depreciation and amortisation of property, plant and equipment	13,652			13,652
Amortisation on interest in leasehold land	5,979			5,979
Impairment loss recognised in respect of goodwill arising on acquisition of associates	32,565			32,565
Increase in fair value of investment properties	(2,880)			(2,880)
Gain on disposal of property, plant and equipment	(966)			(966)
Gain on disposal of investment properties	(1,810)			(1,810)
Gain on disposal of an associate	(21,400)			(21,400)
Loss on disposal of a subsidiary	45,471			45,471
Gain on deemed disposal of interest in an associate	(62,582)			(62,582)
Net realised gain on disposals of financial assets at fair value through profit or loss	(5,501)			(5,501)
Fair value loss on financial assets at fair value through profit or loss	21,757			21,757
Impairment loss reversed in respect of convertible note receivables	(10,000)			(10,000)
Share of results of associates	9,796			9,796
Share-based payment expenses	11,340			11,340

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments	Notes	The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Operating cash flows before movements in working capital	106,564			106,564
Decrease in inventories	24			24
Decrease in film rights	38,571			38,571
Decrease in films in progress	17,992			17,992
Increase in trade receivables	(56,300)			(56,300)
Decrease in deposits, prepayments and other receivables	36,139			36,139
Increase in deposits for investment	(40,000)			(40,000)
Decrease in amounts due from associates	2,055			2,055
Decrease in trade payables	(1,106)			(1,106)
Decrease in deposits received, accruals and other payables	(39,584)			(39,584)
Decrease in amount due to a related party	(218)			(218)
Cash generated from operations	64,137			64,137
Tax paid	(472)			(472)
Net cash generated from operating activities	**63,665**			**63,665**

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments	Notes	The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Cash flows from investing activities				
Interest received	3,944			3,944
Dividend income	290			290
Proceeds from disposal of financial assets at fair value through profit or loss	34,727			34,727
Proceeds from disposal of property, plant and equipment	15,188			15,188
Proceeds from disposal of investment property	6,000			6,000
Proceeds from disposal of an associate	25,000			25,000
Repayment of loan from an investee company	25,000			25,000
Loan repaid from an associate	33,800			33,800
Acquisition of interest in an associate	(19,407)			(19,407)
Acquisition of interest in a subsidiary	(538,277)	(300,000)	*1(i)*	(838,277)
Purchases of available-for-sale financial assets	(52,500)			(52,500)
Purchases of financial assets at fair value through profit or loss	(92,198)			(92,198)
Purchases of property, plant and equipment	(5,437)			(5,437)
Net cash used in investing activities	**(563,870)**			**(863,870)**
Cash flows from financing activities				
Proceeds from issue of shares	63,555			63,555
Interest paid	(1,779)			(1,779)
Share issuing expenses	(1,172)			(1,172)
Decrease in amount due to related companies	(25,000)			(25,000)
Repayment of bank loans	(12,188)			(12,188)

	The Enlarged Group after completion of the Initial Acquisition	Pro forma adjustments	Notes	The Enlarged Group after completion of the Initial Acquisition and the Acquisition Total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Net cash generated from financing activities	23,416			23,416
Net decrease in cash and cash equivalents	(476,789)			(776,789)
Cash and cash equivalents at the beginning of the year/ period	56,959			56,959
Effect of foreign exchange rate changes	835			835
Cash and cash equivalents at the end of the year/ period	(418,995)			(718,995)
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	**(418,995)**			**(718,995)**

NOTES ON THE PRO FORMA ADJUSTMENTS TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

On 5 October 2007, the Company entered into an agreement with Lucky State Group Limited and Mr. Ng Cheuk Fai for the Acquisition. Upon the completion of the Acquisition, Best Mind was accounted as a subsidiary of the Company. Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of Best Mind. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Best Mind will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill on acquisition or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Best Mind at the date of completion. A discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the income statement.

The adjustments reflect the followings:

(1) The fair value of the consideration for the Acquisition to be satisfied by the Group is approximately HK$523,643,000. The consideration is to be satisfied by:

	HK$'000
Cash consideration	300,000
Convertible notes (the "Convertible Note")	188,000
Consideration shares (the "Consideration Shares") *(note)*	35,643
	523,643

note:
Pursuant to the agreement, 96,333,333 ordinary shares of the Company with par value of HK$0.05 each will be issued on the actual date of completion. The fair value of the shares to be issued is approximately HK$35,643,000 with reference to the market value of HK$0.37 per share of the Company's share as at 29 June 2007, being the nearest trading date of 30 June 2007. The actual value of the Consideration Shares would be different on the completion date of the Acquisition.

On completion of the Acquisition, the fair value of the acquired identifiable assets, liabilities and contingent liabilities will have to be reassessed. The market value of the Company's Shares at the date of completion, would also be different from the market value as at 30 June 2007. Accordingly, the actual goodwill or discount on acquisition at the date of completion may be significantly different from the amount presented above.

(i) The cash consideration will be settled by the Company (a) paying a refundable amount in a sum of HK$250,000,000 and (b) paying HK$50,000,000 in cash assuming that the Acquisition had been completed on 30 June 2007.

(ii) In accordance with Hong Kong Accounting Standards 32 "Financial Instruments – Disclosure and Presentation", convertible bonds should be separated as liability portion and equity portion. In preparing the Unaudited Pro Forma Financial Information, the fair value of the Convertible Note of HK$188,000,000 is taken to be its fair value as if it was issued on 30 June 2007. The adjustment of approximately HK$152,914,000 represented the liability portion of the Convertible Note based on the calculation of the discounted cash flow method. Please refer to note 4(ii) for the details of the equity portion of the Convertible Note.

(iii) HK$35,643,000 would be satisfied by procuring the Company to allot and issue the Consideration Shares at an issue price of HK$0.37 per Consideration Shares. Upon completion of the Acquisition, the share capital and share premium of the Company will increase by approximately HK$4,817,000 and HK$30,826,000 respectively.

(2) The pro forma adjustment represents the assumed issuance of 96,333,333 Consideration Shares at par value of HK$0.05 each by the Company, the share capital of the Company would increase by approximately HK$ 4,817,000.

(3) The pro forma adjustment of approximately HK$884,387,000 represents the elimination of the minority interest of Best Mind on consolidation upon completion of acquisition of 49% equity interest in Best Mind by the Group.

(4) The pro forma adjustment of HK$420,516,000 represents the net effect of elimination of the share premium arising from the issuance of the Consideration Shares and the equity component of the Convertible Note. Details are set out as follows:

	HK$'000
Share premium *(note 4(i))*	30,826
Convertible Note *(note 4(ii))*	28,946
Discount on acquisition *(note 4(iii))*	360,744
	420,516

(i) The increase in share premium of approximately HK$30,826,000 arising from the issuance of the Consideration Shares assuming the issue price of HK$0.37 per Consideration Share was the fair value of the share of the Company at 30 June 2007 as described in note 1(iii) above; and

(ii) The equity component of the Convertible Note was approximately HK$35,086,000. Please also refer to note 1(ii) for details of the Convertible Note. The deferred tax liabilities of HK$6,140,000 represent the resulting deferred tax liability of the equity components of Convertible Note of approximately HK$35,086,000 at the Hong Kong Profits Tax rate of 17.5%.

(iii) Discount on acquisition of approximately HK$360,744,000 arising from the Acquisition of Best Mind, which is derived from the calculation as follow:

	HK$'000
Minority interests	884,387
Discount on acquisition	(360,744)
Total consideration	523,643

The balances of all identifiable assets, liabilities and considerations are taken to be at their fair values in this transaction.

(5) The pro forma adjustments represent the imputed interest on the liability component of the Convertible Note amounted to approximately HK$11,851,000 and the respective deferred tax credit amounted to approximately HK$2,074,000.

(6) After making the above pro forma adjustments, the consolidated balance sheet showed a shortfall of cash and cash equivalents of HK$492,968,000. The shortfall will be settled by the internal resources of the Group such as proceeds from sales of properties and disposal of film library and the proceeds from the subsequent placing of Shares as completed in September 2007, the Placing and the Rights Issue to ensure that the Group has sufficient working capital to proceed the Acquisition.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following the issued of the Consideration Shares, Consideration Shares I, Convertible Note and Convertible Note I were and will be as follows:

Authorised:		*HK$*
20,000,000,000	Shares	1,000,000,000
Issued and fully paid or credited as fully paid or to be issued:		
2,806,097,073	Shares as at the Latest Practicable Date	140,304,854
140,000,000	Shares to be issued pursuant to the Consideration Shares I	7,000,000
96,333,333	Shares to be issued pursuant to the Consideration Shares	4,816,667
653,333,333	Shares to be issued upon conversion in full of the conversion rights attached to the Convertible Note I	32,666,667
626,666,666	Shares to be issued upon conversion in full of the conversion rights attached to the Convertible Note	31,333,333
4,322,430,405	Shares *(Note)*	216,121,521

Note: The total Shares demonstrate in the above will be change after completion of the Placing.

All the Shares in issue and to be issued (when fully paid) rank and will rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

As at the Latest Practicable Date, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Consideration Shares, Consideration Shares I, Convertible Note, Convertible Note I and Shares to be issued under the Placing.

The issued Shares are listed on the Stock Exchange. No part of the Share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the Share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

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

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	621,819,115 *(Note a)*	2,190,892 *(Note b)*	624,010,007	22.23
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	621,819,115 *(Note a)*	2,190,892 *(Note b)*	624,010,007	22.23
Ms. Li Yuk Sheung	Beneficial owner	16	3,685,251 *(Note c)*	3,685,267	0.13

All interests stated above represent long positions.

(a) These Shares are held as to 54,592,500 Shares by Mr. Heung, as to 31,716,615 Shares by Ms. Chen (the spouse of Mr. Heung), as to 507,865,000 Shares by Porterstone (a company wholly-owned by Ms. Chen) and as to 27,645,000 Shares by Dorest (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung).

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

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

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

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed herein) had interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group:

(i) Interest in Shares

Name	Capacity	Number of Shares held	Approximate % of interest held
Porterstone Limited	Beneficial owner	507,865,000	
	Interest of controlled corporation	27,645,000 *	
		535,510,000	19.08
Ng Cheuk Fai	Interest of controlled corporation	1,516,333,332	49.83

All interests stated above represent long positions.

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

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

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

7. LITIGATION

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

8. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which was not determinable by any member of the Group within one year without payment of compensation, other than statutory compensation.

9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise, which is contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusions of its respective letter and references to its names in the form and context in which its appear.

10. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, HLB Hodgson Impey Cheng:

(a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

11. MATERIAL CONTRACTS

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

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

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

(iii) a sale and purchase agreement dated 3 August 2006 entered into between Classical, a wholly owned subsidiaries of the Company, Vision Harvest Limited, an Independent Third Party and its guarantor, Mr. To Shu Fai, for the purchase of 700,000,000 shares of HK$0.01 each in the share capital of Daido Group Limited at an aggregate consideration of HK$52,500,000;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xxv) the sale and purchase agreement dated 1 August 2007 entered into between Legend Rich and Riche and the Company in relation to the sale and purchase of a 100% of the issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company and a sale loan amounted to approximately HK$409,222,000 for an aggregate consideration of HK$447,000,000;

(xxvi) the Acquisition Agreement;

(xxvii) the underwriting agreement dated 17 August 2007 entered into between the Company and Kingston Securities Limited relating to the underwritten of not less than 684,289,319 new Shares and not more than 780,914,094 new shares at HK$0.20 each;

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

(xxix) conditional placing agreement dated 5 September 2007 relating to the Placing;

(xxx) the Sale and Purchase Agreement;

(xxxi) the Deed of Variation;

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

(xxxiii) the conditional loan agreement dated 23 October 2007 entered into between Kingsway Hotel Limited as lender and Most Famous Enterprises Limited as borrower in respect of a loan facility of up to HK$196 million to be granted by Kingsway Hotel Limited to Most Famous Enterprises Limited.

12. MISCELLANEOUS

(a) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(b) The head office and principal place of business of the Company is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

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

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

(e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

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

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

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

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

(d) the accountants' report on Best Mind for the period from 6 July 2007 (date of incorporation) to 31 October 2007 from HLB Hodgson Impey Cheng, the text of which is set out in Appendix III to this circular;

(e) the letter from HLB Hodgson Impey Cheng regarding the unaudited pro forma financial information on the Enlarged Group as set out in Appendix V to this circular;

(f) all reports, letters and other documents, balance sheets and statements by any expert of part of which is extracted or referred to in this circular, if any;

(g) the written consents referred to in paragraph 9 of this Appendix;

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

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

(j) the Sale and Purchase Agreement; and

(k) the Deed of Variation.

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 Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Thursday, 27 December 2007 at 12:15 p.m. for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the sale and purchase agreement dated 5 October 2007 entered into between the Company, Lucky State Group Limited and Mr. Ng Cheuk Fai relating to the sale and purchase of 49 ordinary shares in Best Mind International Inc. (the "Acquisition") for a total consideration of HK$516,900,000, a copy of which is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purposes, be and is hereby approved, ratified and confirmed in all respects and that all transactions contemplated under the Acquisition be and are hereby approved and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem to be necessary, desirable or expedient to carry into effect or to give effect to the Acquisition."

By Order of the Board
China Star Entertainment Limited
Wong Shuk Han, Dorothy
Company Secretary

Hong Kong, 7 December 2007

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

Notes:

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

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

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

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

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

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