THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in the Company, you should at once hand this circular, together with the accompanying 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 not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.

The Stock Exchange and HKSCC take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

CHINA STAR ENTERTAINMENT GROUP
中国星

CHINA STAR ENTERTAINMENT LIMITED

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

(1) OPEN OFFER OF NOT LESS THAN 888,486,080 OFFER SHARES AND NOT MORE THAN 1,064,486,080 OFFER SHARES ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF THREE BONUS SHARES FOR EVERY ONE OFFER SHARE TAKEN UP UNDER THE OPEN OFFER;

(2) VERY SUBSTANTIAL ACQUISITION: SUBSCRIPTION OF GC CONVERTIBLE BONDS;

(3) INCREASE IN THE AUTHORISED SHARE CAPITAL;

AND

(4) NOTICE OF SPECIAL GENERAL MEETING

Underwriter

KINGSTON SECURITIES LIMITED

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

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

Terms used in this cover page have the same meanings as defined in this circular.

The letter from the Independent Financial Adviser is set out on pages 35 to 45 of this circular. The letter from the Independent Board Committee is set out on pages 33 and 34 of this circular.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date, which is currently expected to be Friday, 23rd January 2009. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant Share certificate(s)) with the Registrar by 4:30 p.m. on Monday, 19th January 2009. The last day of dealings in Shares on a cum-entitlement basis is therefore expected to be Thursday, 15th January 2009. The Shares will be dealt with on an ex-entitlement basis from Friday, 16th January 2009.

A notice convening the SGM to be held at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong at 2:00 p.m. on Friday, 23rd January 2009 is set out on pages 347 to 350 of this circular. If you are unable to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Registrar at Shops 1712-1716, 17th 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. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

(1) in the absolute opinion of Kingston Securities, the success of the Open Offer would be materially and adversely affected by:

    (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

    (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of Kingston Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of Kingston Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any of Kingston Securities, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

Kingston Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

(1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or

(2) any Specified Event comes to the knowledge of Kingston Securities.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

The Shares will be dealt in on an ex-entitlement basis from Friday, 16th January 2009 and the Open Offer is conditional. If the conditions of the Open Offer are not satisfied by the relevant date(s) or, if no such date is specified, the Latest Time for Termination or such later date or dates as the Underwriter may agree with the Company in writing, or the Underwriting Agreement is terminated by the Underwriter, the Open Offer will not proceed and will lapse. Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Open Offer are satisfied bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares are recommended to consult their own professional advisers.

30th December 2008

CONTENTS

DEFINITIONS

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

"AGM"	the annual general meeting of the Company held on 27th June 2008
"Announcement"	the announcement of the Company dated 8th December 2008 relating to, among other things, the Open Offer
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Bonus Issue"	the issue of the Bonus Shares pursuant to the terms and conditions of the Underwriting Agreement
"Bonus Share(s)"	the bonus Share(s) to be issued (for no additional payment) to the first registered holders of Offer Shares on the basis of three (3) bonus Shares for every one (1) Offer Share taken up under the Open Offer subject to the terms and upon conditions as set out in the Underwriting Agreement
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	China Star Entertainment Limited, an exempted company incorporated in the Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"Convertible Bonds"	the outstanding unsecured convertible notes in aggregate principal amount of HK$168,000,000 issued by the Company on 18th March 2008 conferring rights to convert the same into a total of 56,000,000 Shares at the conversion price of HK$3.00 per Share (subject to further adjustments)
"Director(s)"	director(s) of the Company

"Dorest"	Dorest Company Limited, a company owned as to 60% by Porterstone and as to 40% by Mr. Heung and as at the Latest Practicable Date, holding 2,764,500 Shares
"GC Convertible Bonds"	the zero coupon convertible bonds in principal amount of HK$60 million to be issued by Golife in five tranches of HK$12,000,000 each due on the tenth anniversary of the date of issue for such tranche of the Subscription to the Company pursuant to the Subscription Agreement during the Subscription Period
"GC Conversion Share(s)"	the GC Share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the GC Convertible Bonds
"GC Group"	Golife and its subsidiaries
"GC Share(s)"	share(s) of HK$0.05 each in the share capital of Golife
"GC Shareholder(s)"	holder(s) of the GC Share(s)
"GEM"	the Growth Enterprise Market of the Stock Exchange
"General Mandate"	the general mandate to allot, issue and deal with Shares granted to the Directors by resolution of the Shareholders passed at the AGM
"Golife"	Golife Concepts Holdings Limited, a company incorporated in Cayman Island with limited liability whose issued GC Shares are listed on GEM
"Grand Cathay"	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation to carry out types 1 (dealing in securities), 6 advising on corporate finance) and 9 (asset management) regulated activities as defined in Schedule 5 of the SFO being appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Bonus Issue
"Group"	the Company and its subsidiaries
"Heung Undertaking"	the irrevocable undertaking given by Mr. Heung in favour of the Company and Kingston Securities, further details of which are set out in the paragraph headed "Undertaking given by Mr. Heung" in the section headed "Open Offer with Bonus Issue" in this circular
"HKSCC"	Hong Kong Securities Clearing Company Limited

"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$100,000,000 divided into 2,000,000,000 Shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each
"Independent Board Committee"	a committee of the Board, comprising all the independent non-executive Directors, constituted to advise the Independent Shareholders on the Open Offer and the Bonus Issue
"Independent Financial Adviser"	Grand Cathay Securities (Hong Kong) Limited, which have been appointed by the Company as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Bonus Issue
"Independent Shareholder(s)"	Shareholder(s) other than the Directors (excluding the independent non-executive Directors) and their respective associates
"Independent Third Party"	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
"Kingston Securities" or "Underwriter"	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Last Trading Day"	26th November 2008, being the last trading day for the Shares before the date of the Announcement
"Latest Lodging Date"	4:30 p.m. on 19th January 2009 as the latest time for lodging transfer of Shares in order to qualify for the Open Offer
"Latest Practicable Date"	24th December 2008, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
"Latest Time for Acceptance"	4:00 p.m. on 16th February 2009 or such later time or date as may be agreed between the Company and Kingston Securities, being the latest time for acceptance of, and payment for, the Offer Shares

"Latest Time for Termination"	4:00 p.m. on the third business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and Kingston Securities, being the latest time to terminate the Underwriting Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Heung"	Mr. Heung Wah Keung, the Chairman of the Company and an executive Director and as at the Latest Practicable Date, personally holding 5,459,250 Shares
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, the Vice-chairman of the Company and an executive Director and as at the Latest Practicable Date, personally holding 3,171,661 Shares
"Offer Share(s)"	not less than 888,486,080 new Shares and not more than 1,064,486,080 new Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of two (2) Offer Shares for every one (1) existing Share held on the Record Date and payable in full on acceptance pursuant to the Open Offer
"Open Offer"	the proposed issue of the Offer Shares by way of Open Offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
"Options"	the share options granted or to be granted under the share option schemes adopted by the Company
"Overseas Letter"	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
"Overseas Shareholders"	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
"Placee(s)"	any individual(s), institutional or other professional investor(s) or any of their respective subsidiaries or associates procured by Kingston Securities to subscribe for any of the Placing Shares pursuant to Kingston Securities' obligations under the Placing Agreement
"Placing"	the placing for 88,000,000 new Shares pursuant to the terms of the Placing Agreement

"Placing Agreement"	the conditional placing agreement entered into between the Company and Kingston Securities dated 1st December 2008 in relation to the Placing
"Placing Price"	HK$0.102 per Placing Share
"Placing Share(s)"	88,000,000 new Shares to be placed through Kingston Securities pursuant to the Placing Agreement
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability and its entire issued share capital is owned by Ms. Chen and holding 101,471,500 Shares as at the Latest Practicable Date
"Prohibited Shareholder(s)"	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus, the application form in respect of the assured allotment of Offer Shares and the form of application for excess Offer Shares
"Prospectus Posting Date"	29th January 2009 or such later date as may be agreed between Kingston Securities and the Company for the despatch of the Prospectus Documents
"Qualifying Shareholders"	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
"Record Date"	23rd January 2009, being the date by reference to which entitlements to the Open Offer will be determined
"Registrar"	Computershare Hong Kong Investor Services Limited, Shops 1712 – 1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the branch share registrar of the Company in Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened and held at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong at 2:00 p.m. on Friday, 23rd January 2009 for the purposes of considering and approving, among other things, the Open Offer, the Bonus Issue, the Increase in Authorised Share Capital and the Subscription
"Share(s)"	ordinary share(s) of HK$0.05 in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specified Event"	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of GC Convertible Bonds by the Company pursuant to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 26th November 2008 and entered into between the Company and Golife in relation to the subscription and issue of the GC Convertible Bonds
"Subscription Completion Notice"	a notice to be given by Golife to the Company pursuant to the terms and conditions of the Subscription Agreement
"Subscription Period"	the period of five years commencing from the date of the extraordinary general meeting of the GC Shareholders to approve, inter alia, the issue of the GC Convertible Bonds and the issue and allotment of the GC Conversion Shares, being the period for subscription of the GC Convertible Bonds
"Subscription Price"	the subscription price of HK$0.05 per Offer Share
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Underwriting Agreement"	the underwriting agreement dated 1st December 2008 (as supplemented by the supplemental agreement dated 8th December 2008) entered into between the Company and Kingston Securities in relation to the Open Offer
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

	2009
Last day of dealing in Shares on a cum-entitlement basis	Thursday, 15th January
First day of dealing in Shares on an ex-entitlement basis	Friday, 16th January
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. Monday, 19th January
Register of members of the Company closes (both dates inclusive)	Tuesday, 20th January to Friday, 23rd January
SGM	Friday, 23rd January
Record Date	Friday, 23rd January
Register of members for the Shares reopens	Thursday, 29th January
Despatch of Prospectus Documents	Thursday, 29th January
Latest time for acceptance of and payment for Offer Shares	4:00 p.m. on Monday, 16th February
Latest time for the Open Offer to become unconditional	4:00 p.m. on Thursday, 19th February
Announcement of the results of the Open Offer and the Bonus Issue	Thursday, 19th February
Despatch of refund cheques in respect of wholly or partly unsuccessful excess applications	Thursday, 26th February
Share certificates for Offer Shares and Bonus Shares to be posted	Thursday, 26th February
Dealing in Offer Shares and Bonus Shares commences	Monday, 2nd March

All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer and the Bonus Issue will be announced as appropriate.

Notes:

1. All times and dates refer to Hong Kong local times and dates.

2. Completion and return of the form of proxy will not preclude a Shareholder or, as the case may be, an Independent Shareholder from attending and voting in person at the meeting convened or any adjournment thereof.

3. EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR OFFER SHARES

   The Latest Time for Acceptance and the latest time for any payment for the Offer Shares will not take place if there is:

   - a tropical cyclone warning signal number 8 or above; or

   - a "black" rainstorm warning

   (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 16 February 2009. Instead, the Latest Time for Acceptance and payment for the Offer Shares will be extended to 5:00 p.m. on the same day;

   (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 16 February 2009. Instead, the Latest Time for Acceptance and the latest time for payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

   If the Latest Time for Acceptance and the latest time for payment for the Offer Shares do not take place on Monday, 16 February 2009, the dates mentioned in this section headed "Expected timetable" may be affected. An announcement will be made by the Company in such event.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed "Termination of the Underwriting Agreement" on pages 17 to 19 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

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 HM12
Bermuda

Principal place of business in Hong Kong
Unit 3409 Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

30th December 2008

To the Shareholders and , for information only the holders of Options and the holders of Convertible Bonds

Dear Sir or Madam,

(1) OPEN OFFER OF NOT LESS THAN 888,486,080 OFFER SHARES AND NOT MORE THAN 1,064,486,080 OFFER SHARES ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF THREE BONUS SHARES FOR EVERY ONE OFFER SHARE TAKEN UP UNDER THE OPEN OFFER;

(2) VERY SUBSTANTIAL ACQUISITION: SUBSCRIPTION OF GC CONVERTIBLE BONDS;

(3) INCREASE IN THE AUTHORISED SHARE CAPITAL;

AND

(4) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

The Board announced on 8th December 2008 that the Company proposed to, among others,

1. raise not less than approximately HK$44.4 million before expenses, by way of Open Offer of not less than 888,486,080 Offer Shares and not more than 1,064,486,080 Offer Shares at the Subscription Price of HK$0.05 per Offer Share on the basis of two (2) Offer Shares for every

one (1) existing Share held on the Record Date and payable in full on acceptance. Subject to the satisfaction of the conditions of the Open Offer, the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of three (3) Bonus Shares for every one (1) Offer Share taken up under the Open Offer;

2. subscribe the GC Convertible Bonds in the principal amount of HK$60 million in five tranches of HK$12,000,000 each during the Subscription Period; and

3. increase the authorised share capital of the Company from HK$100,000,000 divided into 2,000,000,000 Shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each.

The Subscription constitutes a very substantial acquisition of the Company under the Listing Rules. The Subscription and the transaction contemplated thereunder and the Increase in Authorised Share Capital are subject to Shareholders' approval at the SGM. The Open Offer and the Bonus Issue are subject to Independent Shareholders' approval at the SGM.

As at the date of the Announcement, the Company had an issued share capital of 444,243,040 Shares. Upon completion of the Placing on 23rd December 2008 and as at the Latest Practicable Date, the Company had an issued share capital of 532,243,040. As such, the number of Offer Shares to be issued under the Open Offer will be 1,064,486,080 Offer Shares and the number of Bonus Shares to be issued under the Bonus Issue will be 3,193,458,240 Bonus Shares, being the maximum number of the Offer Shares to be issued under the Open Offer and the maximum number of the Bonus Shares to be issued under the Bonus Issue.

The purpose of this circular is to give you further information on, among other things, details of the Open Offer, the Bonus Issue, the Subscription and the Increase in Authorised Share Capital, the recommendation of the Independent Board Committee and the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders together with notice convening the SGM.

OPEN OFFER WITH BONUS ISSUE

Issue statistics

Basis of the Open Offer:	Two (2) Offer Shares for every one (1) existing Share held on the Record Date and payable in full on acceptance, together with three (3) Bonus Shares for every one (1) Offer Share taken up
Subscription Price:	HK$0.05 per Offer Share
Number of Shares in issue as at the date of the Announcement	444,243,040 Shares
Number of Shares in issue as at the Latest Practicable Date:	532,243,040 Shares

Number of Offer Shares:	Not less than 888,486,080 Offer Shares and not more than 1,064,486,080 Offer Shares
Number of Bonus Shares:	Not less than 2,665,458,240 Bonus Shares and not more than 3,193,458,240 Bonus Shares to be issued to the first registered holders of the Open Offer on the basis of three (3) Bonus Shares for every one (1) Offer Share taken up under the Open Offer
Number of Offer Shares undertaken to be taken up or procured to be taken up by Mr. Heung and his associates:	Mr. Heung has given the Heung Undertaking in favour of the Company and Kingston Securities that (a) to subscribe for or procure subscriptions for: (i) 10,918,500 Offer Shares to which Mr. Heung is entitled under the Open Offer; (ii) 6,343,322 Offer Shares to which Ms. Chen is entitled under the Open Offer; and (iii) 202,943,000 Offer Shares to which Porterstone is entitled under the Open Offer; and (b) to subscribe for additional not less than 50,442,955 Offer Shares and not more than 109,644,955 Offer Shares under excess application form, which, when the Offer Shares are fully allotted and issued under the Open Offer together with all Shares held by Mr. Heung, Ms. Chen, Porterstone, Dorest and their respective associates after the Open Offer, shall represent an aggregate of approximately 29.90% of the issued share capital of the Company on fully diluted basis. For the avoidance of doubt, under the Heung Undertaking, Mr. Heung will not procure subscription for those Offer Shares to which Dorest is entitled under the Open Offer.
Number of Offer Shares underwritten by Kingston Securities:	Not less than 617,838,303 Offer Shares and not more than 734,636,303 Offer Shares, being the number of the Offer Shares less the aggregate number of the Offer Shares agreed to be taken up or procured to be taken up under the Heung Undertaking
Number of Shares in issue upon completion of the Open Offer with the Bonus Issue:	Not less than 3,998,187,360 Shares and not more than 4,790,187,360 Shares

As at the Latest Practicable Date, the Company has (i) 75,922,972 outstanding Options entitling the holders thereof to subscribe for 75,922,972 Shares; and (ii) 56,000,000 underlying Shares to be issued and allotted upon the exercising of the conversion rights attaching to the Convertible Bonds. Save for the Options and the Convertible Bonds, the Company has no other outstanding warrants, options or convertible securities as at the Latest Practicable Date.

All the holders of the Options have given irrevocable undertakings in favour of the Company and the Underwriter not to exercise any of the Options held by them on or before the Record Date. The holder of the Convertible Bonds has given irrevocable undertaking in favour of the Company and the Underwriter not to convert part or the whole of the Convertible Bonds held by it into Shares on or before the Record Date.

Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer, the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of three (3) Bonus Shares for every one (1) Offer Share taken up under the Open Offer.

On the basis of not less than 888,486,080 Offer Shares and not more than 1,064,486,080 Offer Shares to be issued under the Open Offer, not less than 2,665,458,240 Bonus Shares and not more than 3,193,458,240 Bonus Shares will be issued.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders. To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

(i) be registered on the register of members of the Company; and

(ii) not be the Prohibited Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. on 19th January 2009. The address of the Registrar is at Shops 1712 – 1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

Closure of register of members

The register of members of the Company will be closed from 20th January 2009 to 23rd January 2009, both dates inclusive, to determine the eligibility of the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price is HK$0.05 per Offer Share, payable in full on application. The Subscription Price represents:

(i) a discount of approximately 60% to the closing price of HK$0.125 per Share as quoted on Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 60% to the closing price of HK$0.126 per Share as quoted on Stock Exchange on the Latest Practicable Date;

(iii) a premium of 100% over the theoretical ex-entitlement price of approximately HK$0.025 per Share based on the closing price of HK$0.125 per Share after the Bonus Issue as quoted on the Stock Exchange on the Last Trading Day;

(iv) a discount of approximately 60.51% to the average of the closing prices of HK$0.1266 per Share for the last five consecutive trading days including and up to the Last Trading Day.

The Subscription Price was arrived at after arm's length negotiation between the Company and Kingston Securities with reference to, among other things, the prevailing market price of the Shares and the recent financial requirements of the Company in light of the Subscription. In view of the recent financial requirements of the Group as mentioned above and taking into consideration of the theoretical ex-entitlement price per Share, in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (including the independent non-executive Directors) consider that the proposed discount of the Subscription Price to the market price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the independent non-executive Directors) consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Status of the Offer Shares and the Bonus Shares

The Offer Shares and the Bonus Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares and the Bonus Shares. Holders of the Offer Shares and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares and the Bonus Shares.

Rights of the Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Board will make enquiries to its lawyers as to whether the issue of Offer Shares and the Bonus Shares to the Overseas Shareholders (if any) may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to the Listing Rules. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders (if any), no provisional allotment of Offer Shares will be made to such Overseas Shareholders (if any). Accordingly, the Open Offer will not be extended to the Prohibited Shareholders.

Application for excess Offer Shares

Qualifying Shareholders are entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Open Offer by the Latest Time for Acceptance.

For excess application of Offer Shares, the Company will determine on a fair and equitable basis based on the following principles:

(1) preference will be given to applications for less than a board lot of Offer Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings; and

(2) subject to availability of excess Offer Shares after allocation under principle (1) above, the excess Offer Shares will be allocated to Qualifying Shareholders who have applied for excess application based on a pro-rata basis to the excess Offer Shares applied by them, with board lots allocations to be made on best effort's basis.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares and the Bonus Shares.

Fractions of Offer Shares

No fractional entitlements to the Offer Shares will be allotted to individual Shareholder. All such fractional entitlements will be aggregated and form part of the Offer Shares to be underwritten by the Underwriter.

Share certificates for the Offer Shares and the Bonus Shares and refund cheques

Subject to the fulfillment of the conditions of the Open Offer (details of which are set out in the section "**Conditions of the Open Offer and the Bonus Issue**" below), certificates for all fully-paid Offer Shares and the respective Bonus Shares are expected to be sent by ordinary post on or before 26th February 2009 to the Qualifying Shareholders who have applied for, and paid for the Offer Shares at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares are also expected to be posted on or before 26th February 2009 by ordinary post at their own risk.

Conditions of the Open Offer and the Bonus Issue

The Open Offer and the Bonus Issue are conditional upon:

(1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;

(2) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;

(3) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares and the Bonus Shares by no later than the first day of their dealings;

(4) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;

(5) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement;

(6) the passing of the necessary ordinary resolutions at the SGM to approve the Open Offer by the Independent Shareholders, the Increase in Authorised Share Capital by the Shareholders and the transactions contemplated hereunder;

(7) the passing of a special resolution by the Independent Shareholders to approve the allotment and issue of the Bonus Shares;

(8) compliance with and performance of all undertakings and obligations of Mr. Heung under the Heung Undertaking;

(9) compliance with and performance of all undertakings and obligations of the holders of the Options and the Convertible Bonds under their respective irrevocable undertakings;

(10) the filing of a copy of the Prospectus with the Registrar of Companies in Bermuda which is signed by or on behalf of all Directors prior to or as soon as reasonably practicable after the publication of the Prospectus; and

(11) the entering into of binding agreements by Kingston Securities with certain placees and/or sub-underwriters, which shall be Independent Third Parties, for placing and/or sub-underwriting the Offer Shares and the Placing Shares, such that none of (i) Kingston Securities together with its parties acting in concert nor (ii) any of the placees and/or sub-underwriters and their respective parties acting in concert shall in aggregate be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer, the Bonus Issue and the Placing.

The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole or in part by the Company by the Latest Time for Termination or such other date as the Company and Kingston Securities may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date:	1st December 2008 (as supplemented by the supplemental agreement dated 8th December 2008)
Underwriter:	Kingston Securities Limited
Number of Offer Shares underwritten:	Pursuant to the Underwriting Agreement, Kingston Securities has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up under the Heung Undertaking) which have not been taken up. Accordingly, the Open Offer is fully underwritten.

To the best of Directors' knowledge, information and belief, Kingston Securities and its ultimate beneficial owners are Independent Third Parties.

It is one of the conditions of the Underwriting Agreement that Kingston Securities would enter into of binding agreements with certain placees and/or sub-underwriters, which shall be Independent Third Parties, for placing and/or sub-underwriting the Offer Shares and Bonus Shares, such that none of (i) Kingston Securities together with its parties acting in concert nor (ii) any of the placees and/or sub-underwriters and their respective parties acting in concert shall in aggregate be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer, the Bonus Issue and the Placing.

Undertaking given by Mr. Heung

Mr. Heung has given the Heung Undertaking that (a) to subscribe for or procure subscriptions for: (i) 10,918,500 Offer Shares to which Mr. Heung is entitled under the Open Offer; (ii) 6,343,322 Offer Shares to which Ms. Chen is entitled under the Open Offer; and (iii) 202,943,000 Offer Shares to which Porterstone is entitled under the Open Offer; and (b) to subscribe for additional not less than 50,442,955 Offer Shares and not more than 109,644,955 Offer Shares under excess application forms, which, when the Offer Shares are fully allotted and issued under the Open Offer together with all Shares held by Mr. Heung, Ms. Chen, Porterstone, Dorest and their respective associates after the Open Offer, shall represent an aggregate of approximately 29.90% of the issued share capital of the Company on fully diluted basis. For the avoidance of doubt, under the Heung Undertaking, Mr. Heung will not procure subscription for those Offer Shares to which Dorest is entitled under the Open Offer.

Undertaking given by the holders of the Options and the holder of the Convertible Bonds

All the holders of the Options have given irrevocable undertakings in favour of the Company and the Underwriter not to exercise any of the Options held by them on or before the Record Date. The holder of the Convertible Bonds has given irrevocable undertaking in favour of the Company and the Underwriter not to convert part or the whole of the Convertible Bonds held by it into Shares on or before the Record Date.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal number 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal number 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

(1) in the absolute opinion of Kingston Securities, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of Kingston

Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of Kingston Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of Kingston Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any of Kingston Securities, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

Kingston Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

(1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or

(2) any Specified Event comes to the knowledge of Kingston Securities.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

EFFECTS ON SHAREHOLDING STRUCTURE

The existing and enlarged shareholding structures of the Company (i) as at the date of the Announcement; (ii) immediately upon completion of the Placing and as at the Latest Practicable Date; and (iii) the Open Offer and the Bonus Issue are set out below:

	As at the date of the Announcement		**Immediately after completion of the Placing and as at the Latest Practicable Date**		**Immediately after completion of the Placing, the Open Offer and the Bonus Issue (assuming no Qualifying Shareholders take up his/her/its entitlements under the Open Offer)**		**Immediately after completion of the Placing, the Open Offer and the Bonus Issue (assuming all Qualifying Shareholders take up his/her/its entitlements under the Open Offer)**	
	No. of Shares	*Approx. percentage*	*No. of Shares*	*Approx. percentage*	*No. of Shares*	*Approx. percentage*	*No. of Shares*	*Approx. percentage*
Porterstone	101,471,500	22.84%	101,471,500	19.06%	913,243,500	19.06%	913,243,500	19.06%
Dorest *(Note 3)*	2,764,500	0.62%	2,764,500	0.52%	2,764,500	0.06%	24,880,500	0.52%
Mr. Heung	5,459,250	1.23%	5,459,250	1.03%	487,713,070	10.18%	49,133,250	1.03%
Ms. Chen	3,171,661	0.72%	3,171,661	0.60%	28,544,949	0.60%	28,544,949	0.60%
Sub-total:	112,866,911	25.41%	112,866,911	21.21%	1,432,266,019	29.90%	1,015,802,199	21.21%
Lucky State Group Limited *(Note 1)*	23,633,333	5.32%	23,633,333	4.44%	23,633,333	0.49%	212,699,997	4.44%
Public Shareholders:								
Underwriter and/or sub-underwriters *(Note 2)*	–	–	–	–	2,938,545,212	61.35%	–	–
Placees	–	–	88,000,000	16.53%	88,000,000	1.84%	792,000,000	16.53%
Other public Shareholders	307,742,796	69.27%	307,742,796	57.82%	307,742,796	6.42%	2,769,685,164	57.82%
Sub-total:	307,742,796	69.27%	395,742,796	74.35%	3,334,288,008	69.61%	3,561,685,164	74.35%
	444,243,040	100.00%	532,243,040	100.00%	4,790,187,360	100.00%	4,790,187,360	100.00%

Notes:

1. Lucky State Group Limited is wholly owned by Mr. Ng Cheuk Fai. Lucky State Group Limited is also the holder of the Convertible Bonds and Mr. Ng Cheuk Fai is the general manager of the Company. Save for being a Shareholder and the general manager of the Company, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Lucky State Group Limited and Mr. Ng Cheuk Fai are Independent Third Parties.

2. It is one of the conditions of the Underwriting Agreement that Kingston Securities would enter into of binding agreements with certain placees and/or sub-underwriters, which shall be Independent Third Parties, for placing and/or sub-underwriting the Offer Shares and Bonus Shares, such that none of (i) Kingston Securities together with its parties acting in concert nor (ii) any of the placees and/or sub-underwriters and their respective parties acting in concert shall in aggregate be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer, the Bonus Issue and Placing.

3. Among those Shares held by Dorest, Dorest has deposited 24,000 Shares with C. A. Pacific Finance Limited which is in liquidation.

The Company will take all appropriate steps to ensure that sufficient public float be maintained prior to the completion of the Open Offer in compliance with Rule 8.08(1)(a) of the Listing Rules.

REASONS FOR THE OPEN OFFER AND THE BONUS ISSUE AND USE OF PROCEEDS

The estimated net proceeds from the Open Offer will be not less than approximately HK$42 million. The Board intends to apply such proceeds from the Open Offer to finance the Subscription.

The estimated expense in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses amounted to approximately HK$2.4 million will be borne by the Company. Having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates. The Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. In addition, the Bonus Issue will be as additional incentive for the Shareholders to take part into the Open Offer. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

The Directors (including the independent non-executive Directors) consider that the Open Offer and the Bonus Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Open Offer and the Bonus Issue.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any other fund raising activities in the past twelve months before the date of the Announcement and up to the Latest Practicable Date.

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
13th December 2007	Placing of 1,400,000,000 new Shares	HK$163,500,000	For the proposed acquisition of Best Mind International Inc.	For the acquisition of Best Mind International Inc.
8th December 2008	The Placing	HK$8,800,000	For financing the Subscription	Not yet utilised

WARNING OF THE RISK OF DEALINGS IN THE SHARES

Shareholders and potential investors should note that the Open Offer and the Bonus Issue are conditional upon the Underwriting Agreement having become unconditional and Kingston Securities not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Open Offer and the Bonus Issue may or may not proceed.

Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-entitlement basis commencing from 16th January 2009 and that dealing in Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer and the Bonus Issue are subject are fulfilled (which is expected to be on 19th February 2009), will accordingly bear the risk that the Open Offer and the Bonus Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

LISTING AND DEALINGS

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Offer Shares and the Bonus Shares in their fully-paid form.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the grant of listing of, and permission to deal in, the Offer Shares and the Bonus Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares and the Bonus Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares and the Bonus Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Offer Shares and Bonus Shares in their fully-paid form to be admitted into CCASS.

The Offer Shares and the Bonus Shares, together with the Shares, will be traded in board lots of 5,000 (same as the current board lot size of the Shares as traded on the Stock Exchange). Dealings in Offer Shares and Bonus Shares will be subject to the payment of the applicable stamp duty and any other applicable fees and charges in Hong Kong.

The first day of dealings in the Offer Shares and the Bonus Shares are expected to commence on Monday, 2nd March 2009.

Adjustments to Options and Convertible Bonds

As at the Latest Practicable Date, there are 75,922,972 outstanding Options granted under the share option schemes adopted by the Company entitling the holders thereof to subscribe for a total of 75,922,972 Shares and the Convertible Bonds entitling the holder thereof to convert into 56,000,000 Shares. Save for the Options and the Convertible Bonds, the Company has no other outstanding options, warrants or other securities convertible into Shares.

Adjustments to the conversion price of the outstanding Convertible Bonds in issue and the exercise prices and numbers of the outstanding Options may be required under the relevant terms of the instrument constituting the Convertible Bonds and the share option schemes of the Company. An approved investment bank or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the conversion price of the outstanding Convertible Bonds and the exercise prices and numbers of the outstanding Options. Further announcement will be made by the Company in this regard.

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in film production, distribution of film and television drama series, the provision of post-production services, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

For the financial year ended 31st December 2007, the Group recorded an audited net loss of approximately HK$103.8 million, of which approximately HK$62.6 million was arrived from discontinued operations. The audited net assets value after minority interests of the Group as at 31st December 2007 was approximately HK$1,174.1 million. For six months ended 30th June 2008, the Group recorded an unaudited net profit of approximately HK$11.6 million, of which approximately loss of HK$12.5 million was arrived from discontinued operation. The unaudited net assets value after minority interests of the Group as at 30th June 2008 was approximately HK$1,420.9 million.

Currently, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group's revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging. Despite the recent tightening of travel restrictions for Mainland Chinese travelers to visit Macau may have impact on Macau's gaming revenue growth over the next few months, the Group remains optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. Besides, the Group will continue its strength in the production of high quality films with stringent control and cautious measure on capital investment and efficient management. Looking ahead, the Group will allocate its resources on investment opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000 divided into 2,000,000,000 Shares of HK$0.05 each of which 532,243,040 Shares have been allotted and issued and fully paid or credited as fully paid. In order to accommodate the Open Offer and the Bonus Issue and also future expansion and growth of the Group, the Directors propose to increase the authorised share capital of the Company from HK$100,000,000 divided into 2,000,000,000 Shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each.

The Increase in Authorised Share Capital is subject to and conditional upon the passing of an ordinary resolution by the Shareholders approving the Increase in Authorised Share Capital at the SGM.

SUBSCRIPTION AGREEMENT DATED 26TH NOVEMBER 2008

(1) Parties

Issuer:	Golife
Subscriber:	the Company

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, each of Golife and its beneficial owners is independent of and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates or its connected persons and is not a connected person of the Company.

(2) Principal terms of the GC Convertible Bonds

Principal amount:	In the aggregate sum of HK$60 million which will be issued by Golife in five tranches of HK$12,000,000 each at the aggregate price of HK$60 million, being 100% of the face value of the GC Convertible Bonds.
Interest rate:	The GC Convertible Bonds shall not carry any interest.
Maturity date:	Unless previously redeemed, repurchased and cancelled or converted, any outstanding GC Convertible Bonds shall be redeemed on the date falling on the tenth anniversary of the date of issue of such tranche of the GC Convertible Bonds.
Ranking:	The GC Convertible Bonds constitutes general and unsecured obligations of Golife and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of Golife.
Subscription price:	HK$12,000,000, being the subscription price of each tranche of the Subscription, shall be payable by the Company to Golife at completion of each tranche of the Subscription in cash.
Early redemption:	Golife may at any time upon the date of issue and before the maturity date of the GC Convertible Bonds, by serving at least seven days' prior written notice on the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified therein, redeem the GC Convertible Bonds at par. Any amount of the GC Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion:	Provided that any conversion of the GC Convertible Bonds (i) does not trigger off a mandatory offer under rule 26 of the Takeovers Code on the part of the Company and its concerted parties (as defined under the Takeovers Code) which exercised the conversion right; and (ii) will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules, the Company will have the right to convert the whole or part of the principal amount of the GC Convertible Bonds into GC Shares at any time and from time to time, from the date of issue of the GC Convertible Bonds in amounts of not less than a whole multiple of HK$1,000,000 on each conversion.
Conversion price:	The conversion price is initially HK$0.05 per GC Share, subject to adjustment for, among other matters, subdivision or consolidation of GC Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events (which are the standard anti-dilution adjustment) (i) from the date of the extraordinary general meeting to be convened by Golife to approve, among others, the Subscription and the issue of GC Convertible Bonds until the date immediately before the issue date of the GC Convertible Bonds; and (ii) from the date of issue of the GC Convertible Bonds. The initial conversion price represents: (a) a discount of 18.03% to the closing price of HK$0.061 per GC Share as quoted on the Stock Exchange on 18th November 2008, being the date immediately prior to the date of suspension of trading in the GC Shares on GEM before the date of the Subscription Agreement; and (b) a discount of approximately 43.82% to the average of the closing prices of HK$0.089 per GC Share for the last five trading days ended on 18th November 2008, being the date immediately prior to the date of suspension of trading in the GC Shares on GEM before the date of the Subscription Agreement.
Voting:	The Company will not be entitled to attend or vote at any general meeting of Golife by reason only of it being the holder of the GC Convertible Bonds.
Transfer:	The bondholder(s) may only assign or transfer the GC Convertible Bonds to the transferee subject to the consent of Golife.

Based on the conversion price of HK$0.05 per GC Conversion Share, a maximum number of 1,200,000,000 GC Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the GC Convertible Bonds in full, which represent: (i) approximately 434.90% of the issued share capital of Golife of 275,926,613 GC Shares as at the date of the Announcement; (ii) approximately 364.82% of the issued share capital of Golife of 328,926,613 GC Shares as at the Latest Practicable Date; and (iii) approximately 78.49% of the issued share capital of Golife as enlarged by the allotment and issue of the GC Conversion Shares upon the exercise in full of the conversion rights attaching to the GC Convertible Bonds in full.

The GC Conversion Shares will rank pari passu in all respects with the GC Shares in issue as at the date of allotment and issue of the GC Conversion Shares.

No application will be made for listing of, or permission to deal in, the GC Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by Golife to the Stock Exchange for the listing of, and permission to deal in, the GC Conversion Shares.

(3) Conditions precedent

Completion of the Subscription Agreement is conditional upon the fulfillment of the following conditions precedent:

(a) the GEM Listing Committee of the Stock Exchange shall have granted the listing of and permission to deal in the GC Conversion Shares;

(b) (if necessary) the passing by the GC Shareholders of the necessary resolution at the extraordinary general meeting to be convened and held to approve the issue of the GC Convertible Bonds and the transactions contemplated thereunder including but not limited to the allotment and issue of the GC Conversion Shares;

(c) (if necessary) the passing by the Shareholders of the necessary resolution at the SGM to approve the Subscription and the transactions contemplated thereunder;

(d) there being no event existing or having occurred and no condition being in existence which would be (after the issue of the GC Convertible Bonds) an event of default under the GC Convertible Bonds and no event or act having occurred which, with the giving of notices, or the lapse or time, or both, would (after the issue of the GC Convertible Bonds), constitute such an event of default;

(e) the Company being satisfied in its absolute discretion with the results of the due diligence review to be conducted on the assets, liabilities, affairs and operations of the GC Group;

(f) the representations and warranties given by Golife to the Company under the Subscription Agreement remaining true, accurate and complete in all material respects; and

(g) all necessary consents and approvals required to be obtained on the part of the Company and Golife in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained.

If any of the above conditions are not fulfilled on or before the date falling 180 days from the date of the Subscription Agreement or such other date as the Company and Golife may agree, the Subscription Agreement will lapse and become null and void and the parties shall be released from all obligations hereunder, save the liabilities for any antecedent breaches thereof.

(4) Completion

Completion shall take place on the date as specified in the Subscription Completion Notice for each tranche of the Subscription which in any event shall not be later than (i) seven (7) days after the date the Subscription Completion Notice or (ii) the date falling on the last day of the Subscription Period (whichever is earlier).

Subject to fulfillment of the conditions precedent, each tranche of the Subscription may be demanded by Golife by serving on the Company a Subscription Completion Notice for the relevant tranche of the Subscription at any time during the Subscription Period. The Subscription Completion Notice shall specify the completion date of such tranche of Subscription which, once given, may not be withdrawn without the prior written consent of the Company.

Subscription Completion Notices for all five tranches of the Subscription shall be served by Golife to the Company on or before the expiry of the Subscription Period. Should there be a failure on the part of Golife to fulfill the aforementioned obligation, the Subscription shall be terminate and the Subscription for the remaining portion of the GC Convertible Bonds will not proceed and all obligations and liabilities of the parties under the Subscription Agreement shall forthwith cease and determine and party thereto shall have any claim against the others (save for any antecedent breaches thereof).

(5) Termination

The Subscription Agreement may, as agreed in writing by the Company and Golife, be terminated at any time prior to the payment in full of the maximum aggregated Subscription Price to Golife, and the Subscription for the remaining portion of the GC Convertible Bonds shall not proceed and all obligations and liabilities of the parties under the Subscription Agreement shall forthwith cease and determine and neither party shall have any claim against the others (save for any antecedent breaches hereof and the obligations and liabilities of the parties hereto under any Bonds issued prior to such termination).

In addition, the Company may, by notice to Golife given at any time prior to payment of the subscription price for the GC Convertible Bonds to Golife, terminate the Subscription Agreement in any of the following circumstances:

(a) in the absolute opinion of the Company, the success of the Subscription would be materially and adversely affected by:

(i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Company materially and adversely affect the business or the financial or trading position or prospects of the GC Group as a whole or is materially adverse in the context of the Subscription; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Company materially and adversely affect the business or the financial or trading position or prospects of the GC Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the Subscription; or

(iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Company is likely to materially or adversely affect the success of the Subscription or otherwise makes it inexpedient or inadvisable to proceed with the Subscription; or

(iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(v) any suspension in the trading of securities generally or the Golife' securities on GEM for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the announcement, the circular or other documents in connection with the Subscription; or

(vi) any material breach of any of the representations, warranties or undertakings contained in the Subscription Agreement comes to the knowledge of the Company.

In the event that the Company terminates the Subscription Agreement, the obligations of all parties under the Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

(6) Financial Information of the GC Group

According to the unaudited consolidated financial statements of the GC Group for the six months ended 30th June 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, the unaudited consolidated net liabilities of the GC Group as at 30th June 2008 was approximately HK$12.2 million. The unaudited loss before and after taxation for the six months ended 30th June 2008 were both approximately HK$25.1 million.

According to audited financial statements of the GC Group for the nine months ended 31st December 2006 and the year ended 31st December 2007, the profit before and after taxation for the nine months ended 31st December 2006 were approximately HK$1.8 million and HK$1.1 million respectively. The loss before and after taxation for the year ended 31st December 2007 were both approximately HK$92.2 million.

As the conversion of the GC Convertible Bonds is subject to the provision that such conversion will not trigger off a mandatory offer under Rule 26 of the Takeovers Code on the part of the Company and its concerted parties, under the current Takeovers Code regime, the ultimate equity interest of the Company in Golife would be limited to less than 30% unless a whitewash waiver would be granted by the Securities and Futures Commission in accordance with the Takeovers Code.

The accounting treatments of the Company on the GC Convertible Bonds will be as follows:

a. upon the completion of each tranches the Subscription, each tranches of the GC Convertible Bonds will be recognised as a financial asset on the Company's consolidated balance sheet; or

b. upon the conversion of the GC Convertible Bonds into the GC Conversion Shares and the converted GC Conversion Shares representing less than 20% of the issued share capital of Golife as enlarged by the converted GC Conversion Shares, the converted GC Conversion Shares will be recognised as a financial asset on the Company's consolidated balance sheet; or

c. upon the conversion of the GC Convertible Bonds into the GC Conversion Shares and the converted GC Conversion Shares representing more than 20% of the issued share capital of Golife as enlarged by the converted GC Conversion Shares, Golife will be treated as an associate of the Company and the investment in the converted GC Conversion Shares will be accounted for in the Group's consolidated financial statements using the equity method in accordance with Hong Kong Accounting Standard 28 – Investments in Associates.

REASON FOR THE SUBSCRIPTION

The GC Group is principally engaged in design, development and sales of location-based technology devices and applications, and distribution of high-end apparel and accessories.

The conversion price of the GC Convertible Bonds represents a discount of approximately 18.03% as compared to the latest market price of the GC Shares, The conversion rights attached to the GC Convertible Bonds offer to the Company a ten-year timeframe to evaluate the financial performance of the GC Group and the market performance of the GC Shares, and the flexibility to acquire equity interests in Golife and an opportunity to enjoy any potential capital gain in the value of the GC Shares. Based on the above, the Directors (including independent non-executive Directors) consider that the terms of the Subscription Agreement is entered into on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE SUBSCRIPTION

Net assets

As extracted from the interim report of the Company for the six months ended 30th June 2008 as shown in Appendix I to this circular, the unaudited consolidated net assets value after minority interests of the Group as at 30th June 2008 was HK$1,420,894,000. The unaudited consolidated total assets and total liabilities of the Group as at 30th June 2008 were HK$2,728,669,000 and HK$1,306,578,000 respectively.

As set out in Section A-1 of Appendix III to this circular, assuming completion of the Subscription and the Partial Conversion (as defined in Section A-1 of Appendix III to this circular) had taken place on 30th June 2008, the pro forma net assets value after minority interests of the Group would have been HK$1,433,882,000. The pro forma total assets and total liabilities of the Group would have been HK$2,741,657,000 and HK$1,306,578,000 respectively.

Earnings

The Group recorded consolidated net loss from continuing and discontinued operations of approximately HK$103,807,000 for the year ended 31st December 2007 as shown in Appendix I to this circular.

Assuming completion of the Subscription and the Partial Conversion (as defined in Section A-1 of Appendix III to this circular), the pro forma net loss from continuing and discontinued operations of the Group for the year ended 31st December 2007 as set out in Appendix III to this circular would improved to approximately HK$62,062,000.

Gearing

As at 30th June 2008, the total borrowings of the Group was HK$786,761,000 (included borrowings in liabilities associated with assets classified as held for sale) and the Group's gearing calculated in the basis of total borrowings over total equity was 0.55. The total borrowings and gearing of the Group would be unchanged assuming the Subscription and the Partial Conversion (as defined in Section A-1 of Appendix III to this circular) had been completed on 30th June 2008.

As at 30th June 2008, the Group had cash and cash equivalents of HK$24,914,000 (included cash and cash equivalents in assets classified as held for sale). Taking into account the present internal resources and the proceeds from the Placing, the Directors are of the opinion that the Group has sufficient cashflow for at least the next 12 months following the date of this circular.

SGM

There is set out on pages 347 to 350 of this circular a notice convening the SGM to be held at 2:00 p.m. on Friday, 23rd January 2009 at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong, at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the Open Offer, the Bonus Issue, the Subscription and Increase in Authorised Share Capital.

Pursuant to Rule 7.24(5) of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer and the Bonus Issue. As at the Latest Practicable Date, there is no controlling Shareholder. Accordingly, Mr. Heung, Ms. Chen, Ms. Li Yuk Sheung, being the executive Directors, and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer and the Bonus Issue at the SGM.

As at the Latest Practicable Date, no Shareholders are required to abstain from voting to approve the Subscription and the Increase in Authorised Share Capital at the SGM.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

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.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 33 and 34 in this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the Open Offer and the Bonus Issue.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 35 to 45 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Open Offer and the Bonus Issue and the principal factors and reasons considered by it in arriving thereat.

The Independent Board Committee has considered the terms of the Open Offer and the Bonus Issue and the advice given by the Independent Financial Adviser, and recommend the Independent Shareholders to vote in favour of the resolution in relation to the Open Offer and the Bonus Issue at the SGM.

The executive Directors consider the terms of the Open Offer, the Bonus Issue, the Increase in Authorised Share Capital and the Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole. They recommend Shareholders to vote in favour of all resolutions proposed at the SGM.

Yours faithfully,
For and on behalf of the Board of
China Star Entertainment Limited
Heung Wah Keung
Chairman

中国星

CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

30th December 2008

To the Independent Shareholders

Dear Sir or Madam,

OPEN OFFER OF NOT LESS THAN 888,486,080 OFFER SHARES AND NOT MORE THAN 1,064,486,080 OFFER SHARES ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF THREE BONUS SHARES FOR EVERY ONE OFFER SHARE TAKEN UP UNDER THE OPEN OFFER

We refer to the Letter from the Board set out in the circular of the Company dated 30th December 2008 ("**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Open Offer and the Bonus Issue and to advise the Independent Shareholders as to the fairness and reasonableness of the Open Offer and the Bonus Issue and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the SGM to approve the Open Offer and the Bonus Issue. The Independent Financial Adviser has been appointed to advise the Independent Board Committee in relation to the terms of the Open Offer and the Bonus Issue.

We wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Open Offer and the Bonus Issue as set out in the Circular. We also draw your attention to the Letter from the Board.

Having taken into account principal factors and reasons considered by and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider the terms of the Open Offer and the Bonus Issue are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the Open Offer and the Bonus Issue to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Independent Board Committee
Hung Cho Sing **Ho Wai Chi, Paul** **Leung Hok Man**
Independent non-executive Directors

The following is the full text of a letter of advice from Grand Cathay in relation to the Open Offer and the Bonus Issue, which has been prepared for the purpose of inclusion in this circular:

大華證券(香港)

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

30th December 2008

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

Dear Sirs,

OPEN OFFER OF NOT LESS THAN 888,486,080 OFFER SHARES AND NOT MORE THAN 1,064,486,080 OFFER SHARES ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF THREE BONUS SHARES FOR EVERY ONE OFFER SHARE TAKEN UP UNDER THE OPEN OFFER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer with Bonus Issue, details of which are set out in the section headed "Letter from the Board" (the "Letter") in the Company's circular dated 30th December 2008 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 8th December 2008, the Company announced, among other things, that the Company proposed to raise not less than approximately HK$44.4 million before expenses by issuing not less than 888,486,080 Offer Shares and not more than 1,064,486,080 Offer Shares by way of the Open Offer at the Subscription Price of HK$0.05 per Offer Share and issue not less than 2,665,458,240 Bonus Shares and not more than 3,193,458,240 Bonus Shares to the first registered holders of the Open Offer on the basis of three Bonus Shares for every one Offer Shares taken up under the Open Offer. The Open Offer is fully underwritten pursuant to the terms and conditions of the Underwriting Agreement. As the Open Offer will increase the issued share capital and the market capitalisation of the Company by more than 50% within 12 month period immediately preceding the date of the Announcement, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional upon approval by Independent Shareholders at the SGM and any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the relevant resolutions relating to the Open Offer at the SGM. As at the Latest Practicable Date, there is no controlling Shareholder. Accordingly, Mr. Heung, Ms. Chen, Ms. Li Yuk Sheung, being the executive Directors, and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer and the Bonus Issue at the SGM. Save as disclosed, to the best of the Directors' knowledge, information and belief and having made all reasonable inquiry, no other Directors or chief executive of the Company or their respective associates beneficially hold any Shares as at the date hereof.

Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul, and Mr. Leung Hok Man, being all the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the SGM on the ordinary resolution regarding the Open Offer and the Bonus Issue.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, the Independent Shareholders should be noted that the Open Offer would not proceed if Kingston Securities exercise their termination rights under the Underwriting Agreement. Details of the provisions granting Kingston Securities such termination rights are included in the Letter.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to (i) whether the terms of the Open Offer and the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote in relation to (i) above.

BASIS OF OUR OPINION

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

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information, opinion and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Director. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have performed all applicable steps as required under Rule 13.80 of the Listing Rules including the notes thereto. We have relied on such information, opinions and representations but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or Bonus Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on or liabilities, of any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if any doubt should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Open Offer and the Bonus Issue, we have considered the following principal factors and reasons.

1. Background information and outlook of the Group

The Company is principally engaged in film production, distribution of film and television drama series, the provision of post-production services, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

The table below tabulates the audited financial results of the Group for the two years ended 31 December 2006 and 2007, as extracted from the annual report for the year ended 31st December 2007 (the "Annual Report").

	For the year ended 31st December	
	2007	**2006**
	(audited)	**(audited)**
	HK$'000	*HK$'000*
Turnover from continuing operations	64,305	152,777
(Loss)/Profit for the year from continuing operations	(41,252)	36,851
(Loss)/Profit attributable to the equity holders of the Company during the year from continuing operations	(HK$0.02)	HK$0.06

For each of the two financial years ended 31st December 2006 and 2007, the Group recorded a turnover of approximately HK$152.8 million and HK$64.3 million respectively. Loss attributable to the equity holders of the Company for the financial year ended 31st December 2007 was approximately HK$41.3 million while profit attributable to the equity holders of the Company for the financial year ended 31st December 2006 was approximately HK$36.9 million

According to the Annual Report, the Group recorded an audited net current assets of approximately HK$678.6 million as at 31st December 2007 and net current asset of approximately HK$352.7 million as at 31st December 2006.

2. Reasons for the Open Offer and the Bonus Issue and the use of proceeds

As stated in the Letter, the estimated net proceeds from the Open Offer will be approximately HK$42 million and the Board intends to apply such proceeds from the Open Offer to finance the Subscription. Therefore, we would assess whether the Subscription is justifiable.

Reason for the Subscription

As stated in the Letter, the GC Group is principally engaged in distribution of high-end apparel and accessories. Please refer to the Letter for detailed information of GC Group.

According to the Directors, the Subscription may give the opportunity of the Company to participate indirectly in property investment in the PRC as according to the GC Group's announcement dated 8th December 2008, the GC Group intend to acquire a high-end serviced apartment located in Inner Jianggou Gate of Dongcheng District, Beijing, the PRC (the "Investment Properties") for rental purpose.

Since we are not the experts in property market in the PRC, we are not in position to opine whether the Investment Properties would be profitable to the GC Group or not. We are of the view and concur with the view of the Directors that the Subscription offer an opportunity to the Company to invest indirectly in services apartment in the PRC which may broaden the revenue base of the Group.

In order to give additional information for the Independent Shareholders in relation to the high-end serviced apartment in Beijing, we found some information regarding the aforesaid via internet. According to public information from internet, the rental income of high-end serviced apartment in Beijing, the PRC increased from approximately RMB214.4 square meter per month in third quarter of 2007 to approximately RMB252.4 square meter per month in third quarter of 2008, which represent an increase of approximately 17.7% and the vacancy rate increase from approximately 20.3% to approximately 24.8%. The Independent Shareholders should note that although the rental income of high-end serviced apartment in Beijing increased, the vacancy rate also increased and the Investment Properties may or may not be profitable to the GC Group and in turn to the Company in the future.

Terms of the Subscription

The Directors consider that the Subscription is a way of investment in the GC Group in the form of debt securities. According to the Letter, the Company can terminate the Subscription Agreement in the absolute opinion of the Company and the remaining portion of the GC Convertible Bonds shall not proceed if there is any occurrence which may in the absolute opinion of the Company materially and adversely affect the business or the financial or trading position or prospects of the GC Group. We consider that the aforesaid arrangement can minimise the risk of the Company's investment if there is any adverse change in the condition of the GC Group.

According to the Letter and the Directors, the conversion price of the GC Convertible Bonds represents a discount of (i) approximately 18.03% to the closing price of HK$0.061 per GC Share as quoted on the Stock Exchange on 18th November 2008, being the date immediately prior to the date of suspension of trading in the GC Shares on GEM before the date of the Subscription Agreement; (ii) approximately 43.82% to the average of the closing prices of HK$0.089 per GC Share for the last five trading days ended on 18th November 2008, being the date immediately prior to the date of suspension of trading in the GC Shares on GEM before the date of the Subscription Agreement; and (iii) approximately 53.23% to the average of the closing price of HK$0.1069 per GC Share for the last ten trading days ended on 18th November 2008, being the date immediately prior to the date of suspension of trading in the GC Shares on GEM before the date of the Subscription Agreement. We noted that the conversion price of the GC Convertible Bonds represented a discount to the market price of the GC Shares and with reference to the information of the website of the Stock Exchange, we further noted that the conversion price of the GC Convertible Bonds is substantially below the market price of the GC Shares for an one year period before the date of the Announcement.

Based on the above, we are of the view and concur with the view of the Directors that the Subscription is justifiable.

The Bonus Issue

Regarding the Bonus Issue, as stated in the Letter, the Bonus Issue is an additional incentive for the Shareholders to take part in the Open Offer. We are of the view and concur with the view of the Directors that since the terms of the Open Offer is justifiable and the Bonus Issue is an additional incentive for the Shareholders to take part in the Open Offer, the Bonus Issue is justifiable.

3. Principal terms of the Open Offer and the Bonus Issue

The Company proposed to raise approximately HK$44.4 million before expenses, by way of Open Offer of not less than 888,486,080 Offer Shares and not more than 1,064,486,080 Offer Shares at the Subscription Price of HK$0.05 per Offer Share on the basis of two Offer Shares for every one existing Share held on the Record Date and payable in full on acceptance. The Open Offer will be only available to the Qualifying Shareholders. Qualifying Shareholders are entitled to apply for any Offer Shares which are in excess of their assured entitlements. Please refer to the Letter for the detailed information in relation to the Open Offer and the Bonus Issue.

Subject to the satisfaction of the conditions of the Open Offer (please refer to the section headed "Conditions of the Open Offer and the Bonus Issue" in the Letter), the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of three Bonus Shares for every one Offer Share taken up under the Open Offer.

The Offer Shares and Bonus Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares and the Bonus Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully paid Offer Shares and Bonus Shares. Dealings in fully-paid Offer Shares and Bonus Shares will be subject to the payment of stamp duty in Hong Kong.

The Open Offer is fully underwritten and is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

The Subscription Price was arrived at after arm's length negotiation between the Company and Kingston Securities with reference to, among other things, the prevailing market price of the Shares and the recent financial requirements of the Company in light of the Subscription. As stated in the Letter, after considering the recent financial requirements of the Group as mentioned above and taking into consideration of the theoretical ex-entitlement price per Share, in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (including the independent non-executive Directors) consider that the proposed discount of the Subscription Price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the independent non-executive Directors) consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Subscription Price represents:

(a) a discount of approximately 60% to the closing price of HK$0.125 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 100% over the theoretical ex-entitlement price of approximately HK$0.025 per Share based on the closing price of HK$0.125 per Share after the Bonus Issue as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 60.51% to the average of the closing prices of HK$0.1266 per Share for the last five consecutive trading days including and up to the Last Trading Day; and

(d) a discount of approximately 61.54% to the average of the closing prices of HK$0.13 per Share for the last ten consecutive trading days including and up to the Last Trading Day.

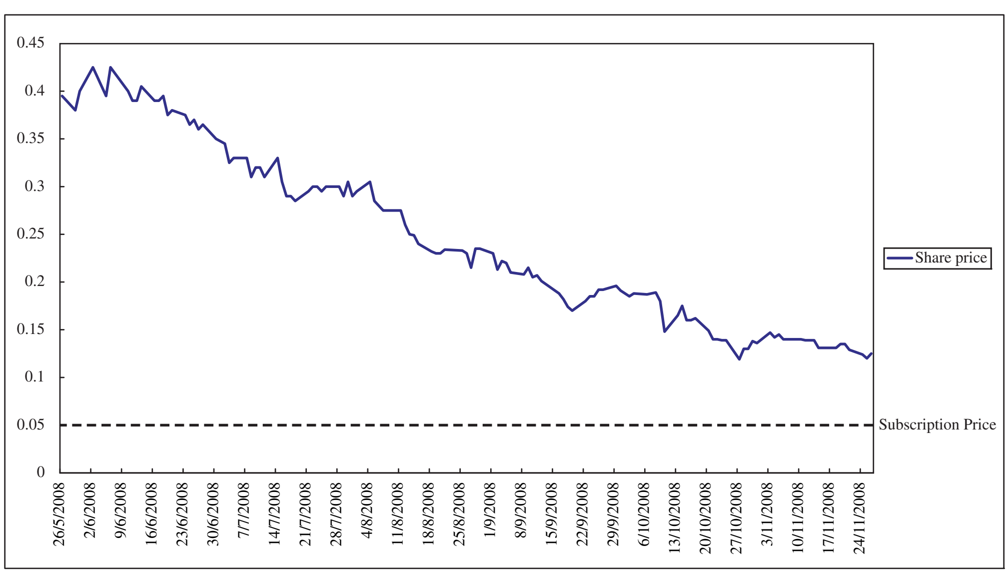
Review on prices of the Shares

In order to assess the fairness of the Subscription Price, we review the trading price and the liquidity of the Shares for the period from 26th May 2008 to the Last Trading Date (the "Review Period"), i.e. a six months period prior to the Last Trading Date. Set out below are the average daily closing price of the Share since during the Review Period:

	Highest closing price *(HK$)*	**Lowest closing price** *(HK$)*	**average daily closing price** *(HK$)*
May (From 26th May 2008 to 30th May 2008)	0.4	0.38	0.39
June	0.425	0.35	0.388
July	0.345	0.285	0.308
August	0.305	0.215	0.252
September	0.23	0.17	0.198
October	0.189	0.119	0.155
November (From 3rd November 2008 to the Last Trading Day)	0.147	0.12	0.135

Source: the website of the Stock Exchange

The chart below illustrates the daily closing price of the Shares versus the Subscription Price during the Review Period:



During the Review Period, the highest closing price and the lowest closing price of the Shares were HK$0.425 on 2th June 2008 and 6th June 2008 and HK$0.119 on 27th October 2008. The Subscription Price is lower than all the monthly lowest closing prices of the Shares and the monthly average daily closing price of the Shares during the Review Period, representing a discount of approximately 88.24% and 57.98% to such the highest and lowest closing price of the Shares during the Review Period.

The Directors advised that, given the financial requirements of the Company in relation to the Subscription; and to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the proposed discount of the Subscription Price as stated above is appropriate.

Review on the trading volume of the Shares

Set out below are the monthly total trading volume of the Shares and the daily average trading volume to the Company's total issued Shares as at the date of the Announcement during the Review Period:

	Total trading volume *(Shares)*	**Daily average trading volume to the Company's total issued Shares as at the date of the Announcement** *(%)*
May (From 26th May 2008 to 30th May 2008)	5,574,570	0.25
June	33,659,297	0.38
July	11,432,428	0.12
August	5,529,372	0.07
September	10,853,820	0.12
October	4,677,575	0.05
November (From 3rd November 2008 to the Last Trading Day)	4,924,030	0.06

Source: the website of the Stock Exchange

We note that the daily trading volume of the Shares within the Review Period is significantly low relative to the Company's total issued Shares as at the date of the Announcement. The highest daily average trading volume of the Shares only represents approximately 0.38% of the Company's issued share capital as at the date of the Announcement.

In view of the extremely low liquidity of the Shares on the Stock Exchange, which make placement of the same amount of Offer Share to be difficult, and based on the fact that the Open Offer would not dilute the shareholding of the existing Shareholders (assume all the Qualifying Shareholders take up their respective assured allotment of the Offer Shares) (discussion of the potential dilution effect on the shareholding interests of the Open Offer is set out in the paragraph headed "Potential dilution effect on the shareholding interests of the Shareholders" below), we consider that the Open Offer is a proper fund raising method.

Based on the above analysis, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Shareholders are concerned. In view of the foregoing and having considered (i) the Subscription Price was determined after arm's length negotiations between the Company and Kingston Securities with reference to, among other things, the prevailing market price of the Shares and the recent financial requirements of the Company in light of the subscription of the GC Convertible Bond; and (ii) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we are of the opinion and concur with the Directors that the discounts of the Subscription Price as compared to the recent market prices would encourage Shareholders to participate in the Open Offer and the future growth of the Company and that the Subscription Price is fair and reasonable insofar as the Independent Shareholders are concerned.

Application for excess Offer Shares

According to the Letter, for application of excess Offer Shares, the Company will determine on a fair and equitable basis on the following principles:

(i) preference will be given to applications for less than a board lot of Offer Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings; and

(ii) subject to availability of excess Offer Shares after allocation under principle (i) above, the excess Offer Shares will be allocated to Qualifying Shareholders who have applied for excess application based on a pro-rata basis to the excess Offer Shares applied by them, with board lots allocations to be made on a best effort basis.

We are of the view that since the trading cost of odd-lot is relatively higher than the whole-lot and the aforesaid principles is for rounding up odd-lot holdings to whole-lot holdings and is also based on a pro-rata basis (subject to availability of excess Offer Shares after allocation under principle (i) above), the aforesaid principles are justifiable.

4. Alternatives to the Open Offer

The Directors advised that they have considered alternative means for the Group to raise funds other than the Open Offer, including but not limited to, debt financing and placing of new shares. Given the current financial condition of the Group, the Directors believe that taking up borrowings or other bank financing would increase the Group's finance costs, and, in turn, may deteriorate the Group's financial position and performance.

The Company has also considered the possibility of fund raising by way of share placements as an alternative to the Open Offer. However, unlike the Open Offer which provides all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and at the same time allow them to maintain their proportionate interests in the Company, a share placement would involve an issue of new shares and result in a dilution of existing shareholders' interest. Accordingly, the Directors do not consider a share placement to be desirable alternative to the Open Offer.

Having considered the existing financial position of the Group and that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Open Offer is an equitable means to raise capital for the Group under the existing circumstances.

5. Potential dilution effect on the shareholding interests of the Shareholders

Upon completion of the Open Offer and the Bonus Issue, not less than 3,553,944,320 new Shares and not more than 4,257,944,320 new Shares will be issued. Qualifying Shareholders who elect to subscribe for in full their assured entitlements under the Open Offer will retain their current shareholding in the Company. Qualifying Shareholders who do not elect to subscribe for in full their assured entitlements under the Open Offer will be diluted after completion of the Open Offer by a maximum of approximately 89%. Please refer to the section headed "Effects on shareholding structure" in the Letter for detail information in relation to the dilution effect of the Open Offer. Despite the dilution effect by the Open Offer of a maximum of approximately 89%, we consider it should be balanced against the facts that (i) the Qualifying Shareholders have an equal opportunity to participate in the Open Offer; and (ii) the Open Offer would provide the fund to the Group for investment. As such, we consider the possible dilution effect on the Shareholders to be acceptable.

6. Expenses in relation to the Open Offer and the Bonus Issue

According to the Directors, the estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses, of approximately HK$2.4 million, which represent approximately 5.4% of the gross proceed of the Open Offer, will be borne by the Company. According to the Directors, the cost of the Open Offer is relatively lower than the cost of borrowing from banks as the borrowing rate of unsecured loan from bank is around 10% per annum. Based on above, we are of the view and concur of the view of the Directors that the expenses in relation to the Open Offer are justifiable.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not proceed if the Underwriter exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter.

7. Financial effects of the Open Offer and the Bonus Issue

(a) Net tangible asset

According to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the "Pro Forma Statement") set out in Appendix III to the Circular, the unaudited pro forma consolidated net tangible assets of the Group attributable to equity holders of the Company was approximately HK$304.3 million as at 30th June 2008. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company would increase to approximately HK$346.3 million (based on the minimum number of Offer Shares and Bonus Shares to be issued) and approximately HK$363.9 million (based on the maximum number of Offer Shares and Bonus Shares to be issued) as a result of the estimated net proceeds of approximately HK$42 million from the Open Offer and approximately HK$59.6 million from the Open Offer and the Placing respectively.

Accordingly, the net tangible assets of the Group will be improved as a result of the Open Offer.

According to the Pro Forma Statement, the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30th June 2008 and prior to the completion of the Placing and the Open Offer was approximately HK$0.685. Upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company will be approximately HK$0.087 (based on minimum number of Offer Shares and Bonus Shares to be issued) or HK$0.076 (based on maximum number of Offer Shares and Bonus Shares to be issued). Assume the Qualified Shareholders accept their entitlements, there will be no substantial effect on the dollar value of their shareholding.

(b) Gearing ratio/Working capital

Upon the completion of the Open Offer and the Bonus Issue, the cash and bank balance of the Group will be increased as a result of the net proceeds from the Open Offer.

RECOMMENDATION

Taking into account the factors and reasons as mentioned above, which include (i) reasons for the Open Offer and the Bonus Issue and the use of proceeds; (ii) principal terms of the Open Offer and the Bonus Issue; (iii) alternatives to the Open Offer; (iv) potential dilution effect on the shareholding interests of the Independent Shareholders; (v) expenses in relation to the Open Offer and the Bonus Issue and (vi) financial effects of the Open Offer and the Bonus Issue, we consider that, on balance, the terms of the Open Offer and the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer and the Bonus Issue is in the interest of the Company and the Independent Shareholders as a whole and would advise the Independent Shareholders and recommend the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer and the Bonus Issue to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Grand Cathay Securities (Hong Kong) Limited

Kim Chan	**Kevin Chan**
Director	*Director*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for each of the three years ended 31st December 2007 as extracted from the relevant published annual financial statements of the Group.

During the three years ended 31st December 2007, there was no extraordinary and exceptional item applicable to the financial statements of the Group and no dividend had been declared or paid.

Results

	For the six months ended 30th June	For the year ended 31st December		
	2008	**2007**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Turnover	95,834	64,305	152,777	92,234
Profit/(loss) before taxation	23,896	(39,659)	38,769	(20,889)
Taxation	235	(1,593)	(1,918)	(124)
Profit/(loss) for the year from continuing operations	24,131	(41,252)	36,851	(21,013)
Discontinued operations				
Profit/(loss) for the year from discontinued operations	(12,531)	(62,555)	–	–
	11,600	(103,807)	36,851	(21,013)
Earnings/(loss) per Share for profit/(loss) attributable to the equity holders				
From continuing and discontinued operations				
Basic	HK$0.05	(HK$0.07)	HK$0.06	(HK$0.04)
Diluted	HK$0.05	(HK$0.07)	HK$0.06	(HK$0.04)
From continuing operations				
Basic	HK$0.06	(HK$0.02)	HK$0.06	(HK$0.04)
Diluted	HK$0.06	(HK$0.02)	HK$0.06	(HK$0.04)

Assets and Liabilities

	As at 30th June 2008 HK$'000	As at 31st December 2007 HK$'000	2006 HK$'000	2005 HK$'000
Non-current assets	1,115,346	508,879	356,333	300,697
Current assets	1,613,323	1,798,724	432,704	442,699
Total assets	2,728,669	2,307,603	789,037	743,396
Non-current liabilities	341,483	11,989	12,836	32,627
Current liabilities	965,095	1,120,153	79,992	111,781
Total liabilities	1,306,578	1,132,142	92,828	144,408
Minority interest	1,197	1,328	1,382	1,432
Net assets	1,420,894	1,174,133	694,827	597,556

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group, and the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 42 to 171 of the annual report of the Company for the year ended 31 December 2007. For avoidance of doubt, capitalised terms used in the extract below shall have the same meaning as ascribed to them and the page numbers referred to in this section are the page numbers in the annual report of the Company for the year ended 31st December 2007.

Consolidated Income Statement
For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations			
Turnover	7	64,305	152,777
Cost of sales		(44,843)	(103,365)
Gross profit		19,462	49,412
Other revenue	8	9,076	9,068
Other income	9	3,807	3,682
Administrative expenses		(39,343)	(38,309)
Marketing and distribution expenses		(5,791)	(9,777)
Share-based payment expenses		(17,660)	(11,340)
Net realised and unrealised gain/(loss) on financial assets classified as held-for-trading		22,866	(16,256)
Impairment loss recognised in respect of film rights	27	(16,850)	–
Impairment loss recognised in respect of goodwill	21	(30,141)	–
Increase in fair value of investment properties	19	10,220	2,880
Loss from operations		(44,354)	(10,640)
Finance costs	11	(2,159)	(2,212)
Share of results of associates		56,648	(9,796)
(Loss)/gain on deemed disposal of interests in associates		(49,744)	62,582
Gain on disposal of an associate		–	21,400
Impairment loss recognised in respect of investments in associates	24	–	(32,565)
Changes in fair value in respect of conversion options embedded in convertible notes receivables from an associate		(50)	–
Impairment loss reversed in respect of convertible notes receivables		–	10,000
(Loss)/profit before taxation	10	(39,659)	38,769
Taxation	12	(1,593)	(1,918)
(Loss)/profit for the year from continuing operations		(41,252)	36,851
Discontinued operations			
Loss for the year from discontinued operations	13	(62,555)	–
		(103,807)	36,851

	Notes	2007 HK$'000	2006 HK$'000
Attributable to:			
Equity holders of the Company		(92,547)	36,880
Minority interests		(11,260)	(29)
		(103,807)	36,851
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
From continuing and discontinued operations			
Basic	14	(HK$0.07)	HK$0.06
Diluted	14	(HK$0.07)	HK$0.06
From continuing operations			
Basic	14	(HK$0.02)	HK$0.06
Diluted	14	(HK$0.02)	HK$0.06

Consolidated Balance Sheet
At 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	7,138	9,630
Interests in leasehold land	18	5,642	5,807
Investment properties	19	51,100	40,880
Goodwill	21	29,062	59,203
Available-for-sale financial assets	22	39,900	42,700
Convertible notes receivable from an associate	23	667	–
Conversion options embedded in convertible notes receivable from an associate	23	222	–
Interests in associates	24	375,148	198,113
		508,879	356,333
Current assets			
Inventories	25	301	364
Convertible notes receivables	26	–	52,000
Film rights	27	50,797	97,427
Films in progress	28	24,948	29,469
Trade receivables	29	51,666	8,016
Deposits, prepayments and other receivables	30	36,790	45,161
Deposits for investments	31	400,000	40,000
Held-for-trading investments	32	16,600	64,560
Amounts due from associates	33	7,359	5,905
Prepaid tax		456	455
Cash and cash equivalents	34	22,735	89,347
		611,652	432,704
Assets classified as held for sale	35	1,187,072	–
		1,798,724	432,704
Total assets		2,307,603	789,037
Capital and reserves			
Share capital	36	140,305	35,232
Reserves		1,033,828	659,595
Equity attributable to equity holders of the Company		1,174,133	694,827
Minority interests		1,328	1,382
Total equity		1,175,461	696,209

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	38	8,523	10,948
Deferred tax liabilities	40	3,466	1,888
		11,989	12,836
Current liabilities			
Trade payables	41	17,621	18,310
Deposits received, accruals and other payables	42	66,018	39,561
Bank borrowings – due within one year	38	2,418	2,254
Unsecured convertible notes	39	–	19,867
		86,057	79,992
Liabilities associated with assets classified as held for sale	35	1,034,096	–
		1,120,153	79,992
Total liabilities		1,132,142	92,828
Total equity and liabilities		2,307,603	789,037
Net current assets		678,571	352,712
Total assets less current liabilities		1,187,450	709,045

Balance Sheet
At 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	20	597,703	488,744
Current assets			
Deposits, prepayments and other receivables	30	1,808	1,437
Deposits for investments	31	400,000	40,000
Amounts due from subsidiaries	20	241,317	137,957
Amounts due from associates	33	700	602
Cash and cash equivalents	34	21,054	87,837
		664,879	267,833
Total assets		1,262,582	756,577
Capital and reserves			
Share capital	36	140,305	35,232
Reserves	37	1,035,535	609,683
Total equity attributable to equity shareholders of the Company		1,175,840	644,915
Non-current liabilities			
Amounts due to subsidiaries	20	67,942	76,875
Current liabilities			
Unsecured convertible notes	39	–	19,867
Deposits received, accruals and other payables	42	14,998	12,813
Amounts due to subsidiaries	20	3,802	2,107
		18,800	34,787
Total liabilities		86,742	111,662
Total equity and liabilities		1,262,582	756,577
Net current assets		646,079	233,046
Total assets less current liabilities		1,243,782	721,790

Consolidated Statement of Changes in Equity

For the year ended 31st December 2007

The Group	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Financial assets revaluation 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*
			(note a)			*(note b)*	*(note c)*		*(note d)*				
At 1st January 2006	26,027	853,810	186,624	388	–	31,898	566	–	316,008	(817,765)	597,556	1,432	598,988
Exchange alignment	–	–	–	856	–	–	–	–	–	–	856	(21)	835
Share of reserves 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

The Group	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Financial assets revaluation 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*
			(note a)			*(note b)*	*(note c)*		*(note d)*				
At 31st December 2006 and 1st January 2007	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	(780,885)	694,827	1,382	696,209
Exchange alignment	–	–	–	571	–	–	–	–	–	–	571	(4)	567
Share of reserves of associates	–	–	–	6,246	–	7,695	1,247	–	–	–	15,188	–	15,188
Disposal of interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	320,471	320,471
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	(2,800)	–	–	(2,800)	–	(2,800)
Net income/(expense) directly recognised in equity	–	–	–	6,817	–	7,695	1,247	(2,800)	–	–	12,959	320,467	333,426
Transfer to liabilities associated with assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	(309,261)	(309,261)
Net loss for the year	–	–	–	–	–	–	–	–	–	(92,547)	(92,547)	(11,260)	(103,807)
Total recognised income and expense for the year	–	–	–	6,817	–	7,695	1,247	(2,800)	–	(92,547)	(79,588)	(54)	(79,642)
Placement of shares	32,335	167,953	–	–	–	–	–	–	–	–	200,288	–	200,288
Issue of ordinary shares upon exercise of share options	3,914	30,761	–	–	–	(13,301)	–	–	–	–	21,374	–	21,374
Share issuing expenses	–	(10,226)	–	–	–	–	–	–	–	–	(10,226)	–	(10,226)
Redemption of convertible bonds	–	–	–	–	–	–	(566)	–	–	566	–	–	–
Issue of convertible bonds	–	–	–	–	–	–	54,307	–	–	–	54,307	–	54,307
Conversion of convertible bonds	26,636	134,409	–	–	–	–	(54,307)	–		–	106,738	–	106,738
Issue of ordinary shares from rights issue	42,188	126,565	–	–	–	–	–	–	–	–	168,753	–	168,753
Share-based payment expenses	–	–	–	–	–	17,660	–	–	–	–	17,660	–	17,660
At 31st December 2007	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	(12,600)	316,008	(872,866)	1,174,133	1,328	1,175,461

Notes:

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

(b) Share-based payment reserve 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 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 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, 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.

Consolidated Cash Flow Statement
For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/ profit before taxation		(101,856)	38,769
Adjustments for:			
Interest expenses		12,827	2,212
Interest income		(3,897)	(3,603)
Dividend income		(79)	(290)
Reversal of impairment loss on trade receivables		–	(5)
Reversal of impairment loss on other receivables		–	(763)
Impairment loss in respect of film rights		16,850	–
Impairment loss in respect of goodwill		30,141	–
Depreciation and amortisation of property, plant and equipment		23,866	6,580
Impairment loss recognised in respect of investments in associates		–	32,565
Increase in fair value of investment properties		(10,220)	(2,880)
Gain on disposal of property, plant and equipment		(107)	(973)
Gain on disposal of investment properties		–	(1,810)
Loss on disposal of interest in a subsidiary	44	45,471	–
Discount on acquisition of a subsidiary	43	(15,498)	–
Gain on disposal of an associate		–	(21,400)
Loss/(gain) on deemed disposal of (gain)/loss on in associates		49,744	(62,582)
Net realised and unrealised (gain)/loss on financial assets classified as held-for-trading		(22,866)	16,256
Impairment loss reversed in respect of convertible notes receivables		–	(10,000)
Gain on conversion of convertible bonds		(2,315)	–
Change in fair value in respect of conversion options		50	–
Share of results of associates		(56,648)	9,796
Share-based payment expenses		17,660	11,340

	Notes	2007 HK$'000	2006 HK$'000
Operating cash flows before movements in working capital		(16,877)	13,212
Decrease /(increase) in inventories		885	(2)
Decrease in film rights		29,780	38,571
Decrease in films in progress		4,521	17,992
(Increase)/decrease in trade receivables		(39,130)	6,586
(Increase)/decrease in deposits, prepayments and other receivables		(3,977)	36,149
Increase in deposit for investment		(400,000)	(40,000)
(Increase)/decrease in amounts due from associates		(1,454)	2,055
Decrease in trade payables		569	(582)
Change in amount due to a minority shareholder		502	–
Increase/(decrease) in deposits received, accruals and other payables		18,647	(41,131)
Cash (used in)/generated from operations		(406,534)	32,850
Tax refund/(paid)		235	(356)
Net cash (used in)/generated from operating activities		(406,299)	32,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,773	3,603
Dividend income		79	290
Acquisition of interests in associates		(130,813)	(19,407)
Acquisition of a subsidiary (net cash and cash equivalents)	43	(668,929)	–
Loan repaid from an associate		–	33,800
Loan to a minority shareholder		(196,000)	–
Proceeds from disposal of financial assets at fair value through profit or loss		94,858	34,727
Proceeds from disposal of property, plant and equipment		20	15,188
Proceeds from disposal of investment properties		–	6,000
Proceeds from disposal of an associate		–	25,000
Proceeds from disposal of interest in a subsidiary	44	315,000	–
Repayment of loan from an investee company		–	25,000
Subscription of convertible notes (including expenses)		(22,630)	–
Purchase of available-for-sale financial assets		–	(52,500)
Purchase of financial assets at fair value through profit or loss		(24,032)	(92,198)
Purchases of property, plant and equipment		(5,899)	(3,401)
Repayment of convertible notes receivables		52,000	–
Net cash used in investing activities		(582,573)	(23,898)

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(11,724)	(1,779)
Proceeds from issue of shares		390,415	63,555
Proceeds from issue of convertible bonds		160,075	–
Redemption of convertible notes		(20,000)	–
Repayment of bank loans		(2,261)	(12,188)
New bank loan acquired		450,000	–
Share issuing expenses		(10,226)	(1,172)
Net cash generated from financing activities		956,279	48,416
Net (decrease)/ increase in cash and cash equivalents		(32,593)	57,012
Cash and cash equivalents at the beginning of the year		89,347	31,500
Effect of foreign exchange rate changes		567	835
Cash and cash equivalents at the end of the year			
Cash and cash equivalents	34	57,321	89,347

Notes to the Financial Statements

For the year ended 31st December 2007

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 addresses of the registered office and head office and principal place of business of the Company are Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activities of the Group are film production, distribution of film and television drama series, provision of post-production services and property and hotel investment. Property and hotel investment will be discontinued in the forthcoming year after the disposal of KHL.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January 2007.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]

[1] Effective for annual periods beginning on or after 1st January 2007
[2] Effective for annual periods beginning on or after 1st March 2006
[3] Effective for annual periods beginning on or after 1st May 2006
[4] Effective for annual periods beginning on or after 1st June 2006
[5] Effective for annual periods beginning on or after 1st November 2006

The adoption of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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 (Revised)	Presentation of Financial Statements[1]
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[5]

[1] Effective for annual periods beginning on or after 1st January 2009
[2] Effective for annual periods beginning on or after 1st March 2007
[3] Effective for annual periods beginning on or after 1st January 2008
[4] Effective for annual periods beginning on or after 1st July 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.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("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.

(a) Basis of preparation

The consolidated financial statements have been prepared under historical cost convention except for certain investment properties and financial assets which are carried at fair values. Certain comparative figures have been reclassified in order to conform with the current year's presentation.

(b) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

(c) Business combinations

The acquisition of business is accounted for using the purchase method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's portion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Investment in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for an a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(e) 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.

(f) Revenue recognition

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

Sales of film rights are recognised when the master 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.

Hotel operation income is recognised when services are provided.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated 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 items of property, plant and equipment (other than construction in progress), 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%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

(h) 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.

(i) Investment properties

Investment properties are completed properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdraw from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

(j) 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 consolidated income statement because it excluded items of income or expense that are taxable or deductible in other years and its further excludes items that are never taxable or deductible. The Group'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 consolidated 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 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 tax profit nor the accounting profit.

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 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(k) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

(m) Inventories

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

(n) 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.

(o) 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.

(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.

(1) 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 as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are not those financial assets acquired principally for the purpose of selling in the short term but designated by management as such at inception. A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

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 profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(2) Loans and receivables

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

(3) Available-for-sale financial assets

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

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

ii. Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets 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.

A financial liability is classified as held-for-trading if:

(i) it has been incurred principally for the purpose of repurchasing in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one of more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as fair value through profit or loss.

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 arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

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 rate of similar non-convertible debts. The difference between the gross 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, representing by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes 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 retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross 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 component 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 a 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, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting derivatives 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

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. 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.

(s) Foreign currencies

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

(t) 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.

(u) Employee benefits

(i) Bonuses

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

(ii) Retirement benefit obligations

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

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

(iii) Share-based payment expenses

The fair value of the employee services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share-based payment reserve).

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits.

(v) Related party transactions

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

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

(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 the Group 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, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(w) Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group 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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(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 note 3(e) and 3(n). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Trade receivables

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

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16 Property, Plant and Equipment, 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) Investment properties

As described in note 19, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Should there are changes in assumptions due to change of market conditions, the fair value of the investment properties will change in future.

(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.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include equity investments, borrowings, trade receivables, trade payables, cash and cash equivalents. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 ("HK$") and Renminbi ("RMB"). Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars are pegged to the United States dollars and the foreign exchange exposure between them are considered limited. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Price risk

The Group's equity investments classified as available-for-sale investments and financial assets at fair value through profit or loss which are measured at fair value at each balance sheet date and expose the Group to equity price risk. The Group's equity price risk is mainly concentrated on equity securities operating in provision for cold storage and related logistic services, manufacturing industry and public transportation business in PRC, which are quoted in the Stock Exchange. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. In addition, the Group will monitor the price risk and will consider hedging the risk exposure should the need rise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 5% higher/lower, the Group's:

- profit before taxation for the year ended 31st December 2007 would increase/decrease by HK$1,995,000 (2006: increase/decrease by HK$2,135,000). This is mainly due to the changes in fair value of available-for-sale investments; and

- securities investment reserve would increase/decrease by HK$830,000 (2006: increase/decrease by HK$3,038,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

The Group's sensitivity to equity prices has increased during the current year mainly due to the increase in equity investments by value.

(iii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its time deposits, borrowings. Bank borrowings at variable rates expose the Group to fair value interest rate risk (see note 38 for details of these borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 31st December 2007 and 2006, a reasonably possible change of 50 basis-points interest rates on borrowings would have no material impact on the Group's results for the year and equity as at the year end.

Credit risk

As at 31st December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Liquidity risk

The Group manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise or refinance bank borrowings whenever necessary.

The table below analysis the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted payments, was as follows:

			At 31st December 2007			
	Less than 1 month	**Between 1 to 3 months**	**Between 3 months to 1 year**	**Between 1 year to 5 years**	**More than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	197	398	1,823	–	–	2,418
– Non-current	–	–	–	8,209	314	8,523
Trade payables	2,980	1,179	13,462	–	–	17,621
Deposits received, accruals and other payables	6,593	5,858	53,567	–	–	66,018
Total	9,770	7,435	68,852	8,209	314	94,580

			At 31st December 2006			
	Less than 1 month	**Between 1 to 3 months**	**Between 3 months to 1 year**	**Between 1 year to 5 years**	**More than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	182	372	1,700	–	–	2,254
– Non-current	–	–	–	10,346	602	10,948
Trade payables	1,523	2,762	14,025	–	–	18,310
Deposits received, accruals and other payables	3,277	626	35,658	–	–	39,561
Unsecured convertible notes						
– Current	–	–	19,867	–	–	19,867
Total	4,982	3,760	71,250	10,346	602	90,940

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair value.

	2007		**2006**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Convertible notes receivable from an associate	667	691	–	–
Convertible notes receivables	–	–	52,000	52,000
Financial liabilities				
Convertible notes	–	–	19,867	19,867

Capital management

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

The capital structure of the Group consists of debts which include bank borrowings and convertible notes, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained profits.

The directors of the Group review the capital structure on an annual basis. As a part of this review, the directors of the Group consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of the Group, the Group will balance its overall capital structure through raising or repayment of borrowings.

The Group aimed at maintaining a gearing ratio of not more than 40%. The gearing ratios as at 31st December 2006 and 2007 are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Total debt *(i)*	10,941	33,069
Less: cash and cash equivalents	(57,321)	(89,347)
Net cash and cash equivalents	(46,380)	(56,278)
Equity *(ii)*	1,174,133	694,827
Net debt to equity ratio	–	–
Total debt to equity ratio	0.9%	4.8%

Note:

(i) Debt comprises current and non-current borrowings and unsecured convertible notes as detailed in notes 38 and 39 respectively.

(ii) Equity includes all capital and reserves of the Group.

6. **SEGMENT INFORMATION**

The directors of the Company report the geographical segments as the Group's primary segment information. The Group's customers are located in four principal geographical areas – Hong Kong and Macau, the People's Republic of China (excluding Hong Kong, Macua and Taiwan) (the "PRC"), America and Europe, and South-East Asia.

Geographical segments

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

Income statement for the year ended 31st December 2007:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	PRC	America and Europe	South-East Asia	Other	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	62,366	–	–	1,892	47	64,305	14,046	78,351
Cost of sales	(42,731)	–	–	(1,996)	(116)	(44,843)	(4,572)	(49,415)
Marketing and distribution expenses	(5,606)	(96)	(15)	(74)	–	(5,791)	–	(5,791)
Segment results	14,029	(96)	(15)	(178)	(69)	13,671	9,474	23,145
Increase in fair value of investment properties	10,220	–	–	–	–	10,220	–	10,220
Net realised and unrealised gains on financial assets classified as held-for-trading	22,866	–	–	–	–	22,866	–	22,866
Share of results of associates						56,648	–	56,648
Discount on acquisition of subsidiaries						–	15,498	15,498
Loss on deemed disposal of interests in associates						(49,744)	–	(49,744)
in subsidiaries						–	(45,471)	(45,471)
Impairment loss recognised in respect of film rights						(16,850)	–	(16,850)
Impairment loss recognised in respect of goodwill						(30,141)	–	(30,141)
Changes in fair value in respect of conversion options embedded in convertible notes receivables from an associate						(50)	–	(50)
Unallocated corporate income						12,883	5,078	17,961
Unallocated corporate expenses						(59,162)	(46,776)	(105,938)
Loss before taxation						(39,659)	(62,197)	(101,856)
Taxation						(1,593)	(358)	(1,951)
Loss for the year						(41,252)	(62,555)	(103,807)

Income statement for the year ended 31st December 2006:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	PRC	America and Europe	South-East Asia	Other	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	129,936	8,783	1,093	11,532	1,433	152,777	–	152,777
Cost of sales	(91,023)	(3,984)	(697)	(6,921)	(740)	(103,365)	–	(103,365)
Marketing and distribution expenses	(9,018)	(396)	(52)	(191)	(120)	(9,777)	–	(9,777)
Segment results	29,895	4,403	344	4,420	573	39,635	–	39,635
Impairment loss reversed in respect of convertible notes receivables	10,000	–	–	–	–	10,000	–	10,000
Increase in fair value of investment properties	2,880	–	–	–	–	2,880	–	2,880
Net realised and unrealised loss on financial assets classified as held-for-trading	(16,256)	–	–	–	–	(16,256)	–	(16,256)
Share of results of associates						(9,796)	–	(9,796)
Gain on deemed disposal of interests in associates						62,582	–	62,582
Gain on disposal of an associate						21,400	–	21,400
Impairment loss recognised in respect of investments in associates						(32,565)	–	(32,565)
Unallocated corporate income						12,750	–	12,750
Unallocated corporate expenses						(51,861)	–	(51,861)
Profit before taxation						38,769	–	38,769
Taxation						(1,918)	–	(1,918)
Profit for the year						36,851	–	36,851

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.

Business segments

The principal products and services of each of these divisions are as follows:

Film distribution – Production and distribution of motion pictures and television drama series

Hotel services – Provision of hotel services in Macau

During the financial year, the board of directors announced a plan to dispose the hotel services business.

Segment information about these businesses are presented as below.

Income statement for the year ended 31st December 2007:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	58,970	5,335	64,305	14,046	78,351
Inter-segment sales	–	–	–	–	–
Total	58,970	5,335	64,305	14,046	78,351
Segment result	8,336	5,335	13,671	9,474	23,145
Unallocated corporate income			45,969	20,576	66,545
Unallocated corporate expenses			(155,947)	(92,247)	(248,194)
Share of profits of associates			56,648	–	56,648
Loss before taxation			(39,659)	(62,197)	(101,856)
Taxation			(1,593)	(358)	(1,951)
Loss for the year			(41,252)	(62,555)	(103,807)

Balance sheet at 31st December 2007:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	742,326	3,057	745,383	1,187,072	1,932,455
Interests in associates			375,148	–	375,148
Consolidated total assets			1,120,531	1,187,072	2,307,603
LIABILITIES					
Segment liabilities/ Consolidated total liabilities	81,977	16,069	98,046	1,034,096	1,132,142

Other information for the year ended 31st December 2007:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	(2,891)	–	(2,891)	(5,551)	(8,442)
Amortisation of interests in leasehold land	(165)	–	(165)	(15,259)	(15,424)
Impairment loss recognised in respect of film right	(16,850)	–	(16,850)	–	(16,850)
Impairment loss recognised in respect of goodwill	(30,141)	–	(30,141)	–	(30,141)

Income statement for the year ended 31st December 2006:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	145,881	6,896	152,777	–	152,777
Inter-segment sales	–	–	–	–	–
Total	145,881	6,896	152,777	–	152,777
Segment result	34,119	5,516	39,635	–	39,635
Unallocated corporate income			109,612	–	109,612
Unallocated corporate expenses			(100,682)	–	(100,682)
Share of losses of associates			(9,796)	–	(9,796)
Profit before taxation			38,769	–	38,769
Taxation			(1,918)	–	(1,918)
Profit for the year			36,851	–	36,851

Balance sheet at 31st December 2006:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	586,491	4,433	590,924	–	590,924
Interests in associates			198,113	–	198,113
Consolidated total assets			789,037	–	789,037
LIABILITIES					
Segment liabilities/ Consolidated total liabilities	75,598	17,230	92,828	–	92,828

Other information for the year ended 31st December 2006

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	(6,294)	–	(6,294)	–	(6,294)
Amortisation of interests in leasehold land	(286)	–	(286)	–	(286)

7. **TURNOVER**

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Distribution fee income	10,285	52,833	–	–	10,285	52,833
Sales of film rights	48,672	92,976	–	–	48,672	92,976
Sales of video products	13	72	–	–	13	72
Service income	300	1,790	–	–	300	1,790
Production fee income	5,035	5,106	–	–	5,035	5,106
Hotel operation income	–	–	14,046	–	14,046	–
	64,305	152,777	14,046	–	78,351	152,777

8. OTHER REVENUE

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank interest income	3,587	2,763	–	–	3,587	2,763
Loan receivable interest income	–	218	–	–	–	218
Convertible notes receivables interest income	228	520	–	–	228	520
Rental income	240	315	–	–	240	315
Management fee income from associates	4,860	4,860	–	–	4,860	4,860
Other interest income	82	102	–	–	82	102
Dividend income	79	290	–	–	79	290
	9,076	9,068	–	–	9,076	9,068

9. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reversal of impairment loss on trade receivables	–	5	–	–	–	5
Reversal of impairment loss on other receivables	–	763	–	–	–	763
Gain on redemption of convertible bonds	2,315	–	–	–	2,315	–
Gain on disposal of property, plant and equipment	20	973	87	–	107	973
Gain on disposal of investment properties	–	1,810	–	–	–	1,810
Other	1,472	131	4,991	–	6,463	131
	3,807	3,682	5,078	–	8,885	3,682

10. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of film rights (included in cost of sales)	43,747	100,850	–	–	43,747	100,850
Auditors' remuneration	605	606	28	–	633	606
Cost of inventories (included in cost of sales)	6	33	–	–	6	33
Depreciation of property, plant and equipment	2,891	6,294	5,551	–	8,442	6,294
Amortisation of interests in leasehold land	165	286	15,259	–	15,424	286
Net foreign exchange losses	1,109	1,095	–	–	1,109	1,095
Operating lease rental in respect of rented premises	1,431	2,286	2,213	–	3,644	2,286
Employee benefit expenses *(note 15)*	33,381	26,285	3,604	–	36,985	26,285

11. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Imputed interest on convertible notes wholly repayable within five years	1,501	1,233	–	–	1,501	1,233
Interest on bank borrowings wholly repayable within five years	560	873	10,668	–	11,228	873
Interest on bank borrowings not wholly repayable within five years	91	106	–	–	91	106
Interest on other loan wholly repayable within five years	7	–	–	–	7	–
	2,159	2,212	10,668	–	12,827	2,212

12. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The taxation charge is as follow:						
Current tax:						
Taxation in other jurisdictions:						
Provision for the year	15	30	–	–	15	30
Under provision in prior years	–	–	358	–	358	–
	15	30	358	–	373	30
Deferred tax:						
Current year	1,578	504	–	–	1,578	504
Under provision in prior years	–	1,384	–	–	–	1,384
	1,578	1,888	–	–	1,578	1,888
	1,593	1,918	358	–	1,951	1,918

No provision for Hong Kong Profits Tax has been made for either year as the Company and its subsidiaries have no assessable profits arising in Hong Kong or taxable 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 (loss)/profit before taxation per the consolidated income statement as follows:

	2007		2006	
	HK$'000	%	*HK$'000*	%
(Loss)/profit before taxation				
Continuing operations	(39,659)		38,769	
Discontinued operations	(62,197)		–	
	(101,856)		38,769	
Taxation at domestic income tax rate of 17.5%	(17,825)	(17.5)	6,785	17.5
Tax effect of share of results of associates	(2,896)	(2.8)	1,714	4.4
Tax effect of expenses not deductible for tax purpose	28,914	28.3	3,179	8.2
Tax effect of income not taxable for tax purpose	(9,772)	(9.6)	(3,506)	(9.0)
Tax effect of estimated tax losses not recognised	15,145	14.9	206	0.5
Tax effect of utilisation of estimated tax losses previously not recognised	(17,254)	(16.9)	(6,460)	(16.7)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,639	5.5	–	–
Tax charge for the year	1,951	1.9	1,918	4.9

13. DISCONTINUED OPERATIONS

On 1st August 2007, the Company entered into an agreement with Riche Multi-Media Holdings Limited ("Riche") and Legend Rich Limited, a wholly owned subsidiary of Riche, whereby the Company has agreed to sell and/or procure the sale of 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a sale loan owned by Exceptional Gain to the Company amounted to approximately HK$409,222,000 as at the date of the agreement for an aggregate consideration of HK$447,000,000 (the "Proposed Disposal"). Exceptional Gain is the investment holding company which holds 50% interest in Kingsway Hotel Limited ("KHL"), a subsidiary of the Group which operates the hotel operation. The directors of the Company believed that the value of KHL will be better realised and reflected in Riche and will enable Riche to build up its own branding in hotel and hospitality industry and a chain of hotels in the Greater China region. It, in turn, will have a positive impact on the Group's return on investment in Riche. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in May 2008. Accordingly, all the results, assets and liabilities of the group headed by Exceptional Gain (i.e. the hotel services operation) are classified as discontinued operations.

The combined results of the discontinued operations included in the consolidated income statement are set out as follow:

	2007	**2006**
	HK$'000	*HK$'000*
Loss for the year from discontinued operations		
Turnover	14,046	–
Cost of sales	(4,572)	–
Gross profit	9,474	–
Other income	5,078	–
Administrative expenses	(36,108)	–
Loss from operations	(21,556)	–
Finance costs	(10,668)	–
Discount on acquisition of subsidiaries	15,498	–
Loss on disposal of subsidiaries	(45,471)	–
Loss before taxation	(62,197)	–
Taxation	(358)	–
Loss for the year from discontinued operations	(62,555)	–

The cash flows of the discontinued operations included in the consolidated cash flow statement are set out as follow:

Cash flows from discontinued operations

Net cash used in operating activities	(219,414)	–
Net cash used in investing activities	(196,000)	–
Net cash generated from financing activities	450,000	–
Net cash inflows	34,586	–

The assets and liabilities attributable to the hotel business have been classified and accounted for at 31st December 2007 as a disposal group held for sale and are presented separately in the balance sheet (see note 35).

14. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

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

	2007	2006
	HK$'000	*HK$'000* (restated)
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	(92,547)	36,880
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	1,391,593,273	606,671,079
Effect of dilutive potential ordinary shares:		
Share options	–	12,203,820
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	1,391,593,273	618,874,899

The weighted average number of ordinary shares for the year ended 31st December 2007 and 31st December 2006 for the purpose of basis and diluted (loss)/earnings per share has been adjusted and restated respectively resulting from the rights issue of 843,769,024 rights shares issued at a price of HK$0.20 each during the year ended 31st December 2007.

From continuing operations

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

	2007	2006
	HK$'000	*HK$'000*
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	(92,547)	36,880
Less: Loss for the year from discontinued operations	62,555	–
(Loss)/earnings for the purpose of basic and diluted (loss)/earning per share from continuing operations	(29,992)	36,880

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK$0.04 per share (2006: nil), based on the loss for the year from the discontinued operations of HK$62,555,000 (2006: nil) and the denominators detailed above for both basic and diluted (loss)/earnings per share.

The computation of the relevant diluted loss per share for the year ended 31st December 2007 did not assume exercise of the Company's outstanding share options existed during the year since their conversion would result in a decrease in loss per share and thus anti-dilutive.

The computation of the relevant diluted earnings per share for the year ended 31st December 2006 did not assume exercise of certain outstanding share options and the conversion of convertible notes existed during the year since their conversion would result in an increase in earnings per share and thus anti-dilutive.

15. EMPLOYEE BENEFIT EXPENSES

	2007	2006
	HK$'000	*HK$'000*
Directors' remuneration	5,414	4,536
Directors' fee	360	360
Salaries and bonuses	9,530	9,585
Share-based payment expenses	17,660	11,340
Mandatory provident fund	372	389
Staff welfare expenses	45	75
	33,381	26,285

(a) Directors' emoluments

The Company's board of directors 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$5,810,000 (2006: HK$4,932,000). The remuneration of every director for the year ended 31st December 2007 and 31st December 2006 is as below:

Name of director	Fee		Salaries and bonuses		Mandatory provident fund		Share-based payment		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	2,500	2,040	12	12	–	–	2,512	2,052
Ms. Chen Ming Yin, Tiffany	–	–	2,280	1,950	12	12	–	–	2,292	1,962
Ms. Li Yuk Sheung	–	–	634	546	12	12	–	–	646	558
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Fung Ho Sum (resigned on 1st March 2007)	20	120	–	–	–	–	–	–	20	120
Mr. Leung Hok Man (appointed on 1st March 2007)	100	–	–	–	–	–	–	–	100	–
	360	360	5,414	4,536	36	36	–	–	5,810	4,932

The emoluments of the directors of the Company fell within the following bands:

	Number of directors 2007	2006
Nil to HK$1,000,000	5	4
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	2	1
	7	6

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors of the Company whose emoluments are reflected in note (a) above and amounted to HK$4,804,000 (2006: HK$4,014,000). The emoluments payable to the remaining three individuals (2006: three) during the year were as follow:

	2007 *HK$'000*	2006 *HK$'000*
Salaries and other allowances	1,328	988
Retirement benefits scheme contributions	24	32
Share-based payment expenses	5,349	3,755
	6,701	4,775

The aggregated emoluments of each of these remaining three (2006: three) highest paid individuals fell within the following bands:

	Number of individuals 2007	2006
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	3	–
	3	3

16. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1st December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' monthly relevant income but limited to the mandatory cap of HK$20,000. The contributions are charged to the income statements as incurred. In respect of those employees who leave the Group prior to completion of qualifying service period, the relevant portion of the employer's voluntary contributions forfeited (represents the assets transferred from the Old Scheme) will be reverted to the Group. The assets of the MPF Scheme are 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 approximately HK$5,000 (2006: HK$22,000) amounted to approximately HK$372,000 (2006: HK$389,000).

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1st January 2006	14,862	5,508	15,341	43,548	2,475	81,734
Additions	–	1,246	246	114	1,795	3,401
Disposals	(7,546)	(5,508)	(4,882)	(6,271)	(428)	(24,635)
At 31st December 2006 and 1st January 2007	7,316	1,246	10,705	37,391	3,842	60,500
Additions	–	5	34	230	130	399
Disposals	–	–	(3)	(20)	(498)	(521)
At 31st December 2007	7,316	1,251	10,736	37,601	3,474	60,378
Accumulated depreciation						
At 1st January 2006	4,354	5,174	12,891	38,575	1,593	62,587
Charge for the year	520	310	1,474	3,329	661	6,294
Eliminated on disposals	(1,404)	(5,358)	(4,759)	(6,262)	(228)	(18,011)
At 31st December 2006 and 1st January 2007	3,470	126	9,606	35,642	2,026	50,870
Charge for the year	365	474	721	754	577	2,891
Eliminated on disposals	–	–	(3)	(20)	(498)	(521)
At 31st December 2007	3,835	600	10,324	36,376	2,105	53,240
Net book value						
At 31st December 2007	3,481	651	412	1,225	1,369	7,138
At 31st December 2006	3,846	1,120	1,099	1,749	1,816	9,630

At 31st December 2007 and 31st December 2006, none of the Group's buildings were pledged to secure banking facilities granted to the Group.

18. INTERESTS IN LEASEHOLD LAND

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cost		
At 1st January	7,294	15,417
Disposals	–	(8,123)
At 31st December	7,294	7,294
Accumulated amortisation At 1st January	1,487	1,733
Charge for the year	165	286
Eliminated on disposals	–	(532)
At 31st December	1,652	1,487
Net book value		
At 31st December	5,642	5,807

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

	2007	**2006**
	HK$'000	*HK$'000*
Land in Hong Kong, held on:		
Long-term leases	–	2,800
Medium-term leases	5,642	3,007
	5,642	5,807

At 31st December 2007 and 31st December 2006, none of the Group's interests in leasehold land were pledged to secure banking facilities granted to the Group.

19. INVESTMENT PROPERTIES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1st January	40,880	42,190
Disposals	–	(4,190)
Increase in fair value recognised	10,220	2,880
At 31st December	51,100	40,880

Investment properties were valued at their open market values at 31st December 2007 by Grant Sherman Appraisal Limited, independent qualified professional valuers not connected with the Group who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation report on the investment properties is signed by a director of Grant Sherman, who is a member of the Hong Kong Institute of Surveyors. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on the market value basis.

All investment properties included building cost held under finance leases with the carrying amount of approximately HK$51,100,000 (2006: HK$40,880,000) have been pledged to secure banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

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

	2007	2006
	HK\$'000	*HK\$'000*
Investment properties in Hong Kong, held under:		
Medium-term leases	51,100	40,880

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	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	1,603,524	1,504,319
Impairment loss recognised in respect of amounts due from subsidiaries	(1,006,230)	(1,015,984)
	597,294	488,335
	597,703	488,744

The amounts due from/to 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/to subsidiaries are therefore shown as non-current. The directors of the Company consider that the carrying amount of the amounts due from/to subsidiaries approximate to their fair values.

The amounts due from/to subsidiaries of the Company classified under current assets/liabilities are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the carrying amounts of the amounts due from/to subsidiaries as at 31st December 2007 approximate to their fair values.

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

Details of the Company's principal subsidiaries as at 31st December 2007 are set out in note 50.

21. GOODWILL

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Film production		
Cost		
At 1st January and 31st December	108,703	108,703
Impairment		
At 1st January	49,500	49,500
Impairment loss recognised	30,141	–
At 31st December	79,641	49,500
Carrying amount		
At 31st December	29,062	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, independent qualified professional valuers and determined that an impairment loss of approximately HK$30,141,000 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 based on a five year projection of the relevant cash-generating unit with a zero growth rate. 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. A discount rate of 19.61% 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. 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 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.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Equity securities, listed in Hong Kong, at fair values	39,900	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	16.79%	16.79%	Cold storage and logistic services, manufacturing and trading of ice and property investment

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Convertible notes receivable from an associate	667	–
Conversion options embedded in convertible notes receivable from an associate	222	–
	889	–

	The Group	
	Convertible notes receivable from an associate	**Conversion options embedded in convertible notes receivable from an associate**
	HK$'000	*HK$'000*
At 1st January 2007	–	–
Subscription of convertible notes	15,693	6,807
Imputed interest income	124	–
Conversion of convertible notes	(15,150)	(6,535)
Changes in fair value in respect of conversion options embedded in convertible notes receivable from an associate	–	(50)
	667	222

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

During the year under review, CSL entered into an agreement to subscribe convertible notes ("Brilliant Arts CN") with principal amount of HK$25,000,000 from Brilliant Arts Multi Media Holding Limited (formerly known as "Milkyway Image Holdings Limited") ("Brilliant Arts") at a price of HK$22,500,000. Brilliant Arts has its shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Brilliant Arts CN carries zero coupon and will mature on 24th May 2012. The initial conversion price is HK$0.33 per share (subject to adjustment). Unless previously converted or lapsed, Brilliant Arts will redeem the Brilliant Arts CN on 24th May 2012 at the redemption amount which is 100% of the principal amount of outstanding Brilliant Arts CN.

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts become an associate of the Company. At 31st December 2007, principal amount of HK$1,000,000 Brilliant Arts CN was receivable from Brilliant Arts.

24. INTERESTS IN ASSOCIATES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets of associates *(Note a)*	329,678	143,346
Goodwill *(Note b)*	45,470	54,767
	375,148	198,113
Market value of listed shares	150,353	317,016

(a) Share of net assets of associates

	2007	**2006**
	HK$'000	*HK$'000*
At 1st January	143,346	79,704
Profit/(loss) attributable to the Group	16,548	(9,796)
Discount on acquisition	40,100	–
Share of results of associates	56,648	(9,796)
Disposal of an associate	–	(3,600)
Aggregate (decrease)/increase in share of net assets on deemed disposal of equity interest in associates	(19,849)	73,708
Initial acquisition of 29.17% equity interest in Brilliant Arts	3,616	–
Further investments in associates	130,729	7,718
Share of changes in reserves of associates	15,188	(4,388)
	129,684	73,438
At 31st December	329,678	143,346

(b) Goodwill

	2007	**2006**
	HK$'000	*HK$'000*
At 1st January	54,767	86,769
Aggregate decrease in goodwill on deemed disposal of equity interest in associates	(29,895)	(11,126)
Initial acquisition of 29.17% equity interest in Brilliant Arts	20,514	–
Impairment loss recognised	–	(32,565)
Further investments in associates	84	11,689
At 31st December	45,470	54,767

Impairment test

The increase in goodwill was attributable to the acquisition of Brilliants Arts. During the year under review, the directors of the Company reassessed the recoverable amount of goodwill and determined that no impairment loss on goodwill associated with Brilliant Arts was identified. The recoverable amount of Brilliant Arts was assessed by reference to value-in-use calculation. A discount rate of 10% 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 and determined that no impairment loss was identified. The recoverable amount of Riche was assessed by reference to value-in-use calculation of its investment properties which is the major cash generating unit of Riche. 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% 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 operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Richie 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) Acquisition of an associate

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 of Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts becomes an associate of the Group. Thereafter, the Group has subscripted its entitlement for an amount of HK$5,455,000 in the open offer of Brilliant Arts on the basis of one offer share for every two existing shares held on the record date. During the year, Brilliant Arts issued 49,863,000 new shares of Brilliant Arts through placing and exercise of options. As a result, the Group's interest in Brilliant Arts was diluted by 3.43% to 25.74% as at 31st December 2007.

(d) Interests in Riche

During the year, Riche issued approximately 1,303,426,000 new shares of Riche (after considering the effect of consolidation of 10 shares into 1 new share of Riche) through open offer, placings and exercise of options. As a result, the Group's interest in Riche was diluted. Moreover, the Group acquired further equity interest in Riche in the open market at a total consideration of approximately HK$33,181,000. The Group has also subscripted its entitlement and applied for excess subscription for an aggregate amount of HK$92,177,000 in the open offer of Riche on the basis of one offer share for every two existing shares held on the record date. The aggregate effect of the above decreased the Group's interest in Riche from 34.4% to 29.9% as at 31st December 2007.

Details of the principal associates at 31st December 2007 are set out in note 51.

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

	2007	**2006**
	HK$'000	*HK$'000*
Turnover	61,552	25,900
Profit/(loss) before taxation	29,677	(27,125)
Profit/(loss) after taxation attributable to the Group	16,548	(9,796)
Non-current assets	933,816	758,222
Current assets	700,329	195,344
Non-current liabilities	(366,949)	(408,274)
Current liabilities	(181,981)	(132,760)
Net assets	1,085,215	412,532
Net assets attributable to the Group	329,678	143,346

25. INVENTORIES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Finished goods	301	364

Included above are finished goods of approximately HK$197,000 (2006: HK$188,000) which are carried at net realisable values.

26. CONVERTIBLE NOTES RECEIVABLES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1st January	52,000	42,000
Redemption of the convertible notes	(52,000)	–
Impairment loss reversed in respect of convertible notes receivables	–	10,000
At 31st December	–	52,000

Notes:

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

On 14th March 2007, the Note Issuers redeemed all of the Convertible Notes and the whole amount of principal of HK$52,000,000 was repaid to the Group by the Note Issuers.

27. FILM RIGHTS

The Group

	HK$'000
Cost	
At 1st January 2006	1,111,522
Additions	62,279
Disposals	(535,943)
At 31st December 2006 and 1st January 2007	637,858
Additions	13,967
Disposals	(348,249)
At 31st December 2007	303,576
Amortisation and impairment	
At 1st January 2006	975,524
Amortised for the year	100,850
Eliminated on disposals	(535,943)
At 31st December 2006 and 1st January 2007	540,431
Amortised for the year	43,747
Impairment loss recognised	16,850
Eliminated on disposals	(348,249)
At 31st December 2007	252,779
Carrying amount	
At 31st December 2007	50,797
At 31st December 2006	97,427

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, independent qualified professional valuers and determined that impairment loss of approximately HK$16,850,000 on the film rights was identified.

The recoverable amount of film rights was assessed by reference to value-in-use calculation. A discount rate of 21.61% 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 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. 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.

28. FILMS IN PROGRESS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Films in progress	24,948	29,469

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

29. TRADE RECEIVABLES

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Brilliant Arts and its subsidiaries ("Brilliant Arts Group")		
0 to 30 days	12	–
	12	–
Others		
0 to 30 days	885	683
31 to 60 days	2,784	575
61 to 90 days	224	826
91 to 180 days	151	373
Over 180 days	51,644	9,595
	55,688	12,052
Less: Impairment loss on trade receivables	(4,034)	(4,036)
	51,654	8,016
Total	51,666	8,016

Aging of trade receivables which are past due but not impaired:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
61 – 90 days	224	826
Over 90 days	47,761	5,932
	47,985	6,758

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$47,985,000 (2006: HK$6,758,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of the Company considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors of the Company considered provision for impairment in values be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the allowance for doubtful debts.

30. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	32,237	39,573	1,426	1,086
Prepayments	579	623	382	351
Other receivables	3,974	4,965	–	–
	36,790	45,161	1,808	1,437

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

Aging of other receivables which are past due but not impaired:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Over 90 days	780	780

Management believes that no impairment allowance is necessary in respect of these balances as the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

31. DEPOSITS FOR INVESTMENTS

On 16th August 2007 and 10th October 2007, the Company entered into agreements in respect of acquisitions of an aggregate 100% equity interest of Best Mind International Inc. ("Best Mind") with total considerations of HK$1,054,900,000. Total deposits of HK$400,000,000 was paid to the vendor at 31st December 2007. Details of the acquisitions of Best Mind were set out in the Company's circulars dated 6th December 2007 and 7th December 2007. Balance as at 31st December 2006 represented the deposit paid for the acquisition of KHL.

32. HELD-FOR-TRADING INVESTMENTS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong, at fair value	16,600	64,560

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

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

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

34. CASH AND CASH EQUIVALENTS

(a) Balance Sheet

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	2,049	1,597	368	187
Time deposits	20,686	87,750	20,686	87,650
Cash and cash equivalents	22,735	89,347	21,054	87,837

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.

(b) For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at 31st December 2007 as shown in the cash flow statement can be reconciled to the related items in the consolidated balance sheet as follow:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cash and cash equivalents	22,735	89,347
Cash and cash equivalents included in non-current assets held for sale *(note 35)*		
Bank balances and cash	181,102	–
Bank overdraft	(146,516)	–
	34,586	–
	57,321	89,347

35. NON-CURRENT ASSETS HELD FOR SALE

As described in note 13 to the financial statements, the major classes of assets and liabilities comprising the hotel operation classified as held for sale at the balance sheet date are as follow:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Property, plant and equipment	3,758	–
Interests in leasehold land	517,568	–
Construction in progress	274,196	–
Inventories	213	-
Trade receivables	1,462	–
Deposits, prepayment and other receivables	12,773	–
Loan to a minority shareholder	196,000	–
Cash and cash equivalents	181,102	–
Assets of hotel business classified as held for sale	1,187,072	–
Bank overdraft	146,516	–
Trade payables	2,150	–
Accruals and other payables	4,170	–
Amounts due to minority shareholders	40,502	–
Tax payables	609	–
Deferred taxation	80,888	
Bank borrowings	450,000	–
Minority interests	309,261	–
Liabilities of hotel business associated with assets classified as held for sale	1,034,096	–
Net assets of hotel business classified as held for sale	152,976	–

36. SHARE CAPITAL

	Number of shares		Amount	
	2007	**2006**	**2007**	**2006**
	'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	704,646	520,541	35,232	26,027
Conversion of convertible bonds *(Note 39)*	532,702	–	26,636	–
Rights issue *(Note a)*	843,769	–	42,188	–
Exercise of share options *(Note b)*	78,285	–	3,914	–
Placement of shares *(Note c, d & e)*	646,695	184,105	32,335	9,205
At end of year	2,806,097	704,646	140,305	35,232

Notes:

(a) On 17th October 2007, the Company issued 843,769,024 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 15th October 2007 at a subscription price of HK$0.20 per share. The net proceeds of approximately HK$164,800,000 were used for the acquisition of Best Mind.

(b) For the year ended 31st December 2007, 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, an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per share and an aggregate of 12,600,000 shares at an exercise price of HK$0.277 per share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

(c) On 17th April 2007 and 30th May 2007, the Company allotted and issued 124,900,000 shares and 81,100,000 shares respectively by way of placing to independent investors at a price of HK$0.37 per share. The net proceeds of approximately HK$74,000,000 were intended to be used for general working capital of the Group

(d) On 25th June 2007, the Company alloted and issued an aggregate of 165,905,000 shares by way of placings to independent investors at a price of HK$0.40 per share. The net proceeds of approximately HK$64,600,000 were intended to be used for general working capital of the Group.

(e) On 28th September 2007, the Company alloted and issued an aggregate of 274,790,000 shares by way of placings to independent investors at a price of HK$0.21 per share. The net proceeds of approximately HK$56,200,000 were intended to be used for the acquisition of Best Mind.

37. RESERVES

	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Convertible 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
The Company							
At 1st January 2006	853,810	207,548	566	31,898	316,008	(859,499)	550,331
Loss for the year	–	–	–	–	–	(5,166)	(5,166)
Share-based payment expenses	–	–	–	11,340	–	–	11,340
Placement of shares	54,350	–	–	–	–	–	54,350
Share issuing expenses	(1,172)	–	–	–	–	–	(1,172)
At 31st December 2006 and at 1st January 2007	906,988	207,548	566	43,238	316,008	(864,665)	609,683
Loss for the year	–	–	–	–	–	(27,969)	(27,969)
Share-based payment expenses	–	–	–	17,660	–	–	17,660
Placement of shares	167,953	–	–	–	–	–	167,953
Share issuing expenses	(10,226)	–	–	–	–	–	(10,226)
Issue of convertible bonds	–	–	54,307	–	–	–	54,307
Redemption of convertible bonds	–	–	(566)	–	–	566	–
Conversion of convertible bonds	134,409	–	(54,307)	–	–	–	80,102
Rights issue	126,565	–	–	–	–	–	126,565
Exercise of share options	30,761	–	–	(13,301)	–	–	17,460
At 31st December 2007	1,356,450	207,548	–	47,597	316,008	(892,068)	1,035,535

The loss attributable to equity holders of the Company for the year ended 31st December 2007 which has been dealt with in the financial statements of the Company amounted to approximately HK$27,969,000 (2006: HK$5,166,000).

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

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

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

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

(c) Under HKAS 32, convertible 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 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 represents 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.

38. BANK BORROWINGS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Secured bank loans	10,941	13,202

The maturity of the above borrowings is as follows:

Within one year	2,418	2,254
Between one and two years	2,528	2,380
Between two and five years	5,681	7,966
Over five years	314	602
	10,941	13,202
Less: Amount due within one year shown under current liabilities	(2,418)	(2,254)
Amount due after one year	8,523	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$51,100,000 (2006: HK$40,880,000). The mortgage loan is repayable in installments over a period of ten years. All interest-bearing borrowings are denominated in Hong Kong dollar.

The directors of the Company consider that the carrying amounts of the Group's borrowings approximates to their fair values.

39. UNSECURED CONVERTIBLE NOTES

As at 31st December 2006, there was an unsecured convertible notes ("the Convertible Notes I") of principal value HK$20,000,000 bearing interest at 4 per cent per annum and was matured on 30th June 2007.

The Convertible Notes I carry the right to convert the principal amount of the Convertible Notes I into shares of HK$0.05 each in the share capital of the Company at a conversion price of HK$5.83 per share (after adjustments), subject to adjustment. From 14th June 2004 to the 14 business day immediately preceding 30th June 2007, the noteholder can convert the outstanding principal amount of the Convertible Notes I into shares of the Company and may request early repayment of the outstanding principal amount of the Convertible Notes I together with accrued interest. The Convertible Notes I was repaid on 30th June 2007.

On 18th May 2007, the Company issued convertible notes in the principal amount of HK$168,500,000 at an issue price of 95% of fair value ("Convertible Notes II"). The Convertible notes II were zero coupon, unsecured and will be matured on 17th May 2012. The Convertible Notes II 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. The Convertible Notes II were fully converted into ordinary shares of the Company during the year ended 31st December 2007.

The fair value of the liability component 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 notes reserve.

	The Group and the Company	
	Liability component of the convertible notes	**Equity component of the convertible notes**
	HK$'000	*HK$'000*
At 1st January 2006	19,434	566
Imputed interest expenses	1,233	–
Interest paid	(800)	–
At 31st December 2006 and at 1st January 2007	19,867	566
Issue of convertible notes	105,768	54,307
Converted into ordinary shares	(106,738)	(54,307)
Imputed interest expenses	1,501	–
Interest paid	(398)	–
Redemption of convertible notes	(20,000)	(566)
At 31st December 2007	–	–

The maturity of the unsecured convertible notes is as follow:

	The Group and the Company	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	–	19,867

40. DEFERRED TAX LIABILITIES

The Group

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

	Fair value changes of investment properties
	HK$'000
At 1st January 2006	–
Charge to income statement	1,888
At 31st December 2006 and 1st January 2007	1,888
Charge to income statement	1,578
At 31st December 2007	3,466

At 31st December 2007, the Group had unused estimated tax losses of approximately HK$417,320,000 (2006: HK$414,331,000) 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$81,870,000 (2006: HK$79,316,000) due to the unpredictability of future profit streams.

41. TRADE PAYABLES

The aged analysis of the trade creditors is as follow:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 to 30 days	2,980	1,523
31 to 60 days	1,174	839
61 to 90 days	5	1,923
91 to 180 days	167	2,450
Over 180 days	13,295	11,575
	17,621	18,310

42. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	55,123	32,949	10,000	10,000
Accruals	3,635	4,009	2,387	2,558
Other payables	7,260	2,603	2,611	255
	66,018	39,561	14,998	12,813

43. ACQUISITION OF SUBSIDIARIES

On 30th March 2007, the Group acquired 38.5% equity interest in KHL ("First Acquisition") at a consideration of approximately HK$231,777,000. On 30th May 2007, the Group further acquired 61.5% interest in KHL through acquisition of the entire interest in Triumph Up Investment Limited and its subsidiaries and Great Chain Limited and its subsidiaries ("Second Acquisition"), at a consideration of approximately HK$490,000,000.

Following the completion of the First Acquisition and Second Acquisition, the Group had 100% interest in KHL. The net assets acquired in the First Acquisition and Second Acquisition are as follows:

	Carrying amount before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	48,881	221,865	270,746
Interest in leasehold land	87,796	452,203	539,999
Inventories	1,035	–	1,035
Trade receivables	5,982	–	5,982
Prepayments, deposits and other receivables	425	–	425
Cash and cash equivalents	12,848	–	12,848
Amounts due to immediate holding companies	(81,004)	–	(81,004)
Trade payables	(892)	–	(892)
Accruals, deposits received and other payables	(11,980)	–	(11,980)
Deferred tax	–	(80,888)	(80,888)
Net assets acquired	63,091	593,180	656,271
Discount on acquisition			(15,498)
			640,773
Total consideration satisfied by:			
Cash			721,777
Shareholder's loan			(81,004)
			640,773
Net cash outflow arising on acquisition:			
Cash consideration paid			721,777
Bank balances and cash acquired			(12,848)
			708,929
Deposit paid			(40,000)
			668,929

Details of the First Acquisition and Second Acquisition were set out in the Company's circulars dated 10th March 2007 and 8th September 2006 respectively.

44. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 22nd June 2007, the Group had disposed of 50% interest in a subsidiary, KHL and the relevant sale loan at a consideration of approximately HK$315,000,000, resulting in a loss on disposal of approximately HK$45,471,000. Accordingly, the Group's shareholding in KHL has decreased from 100% to 50%.

The net assets of a subsidiary at the date of disposal were as follows:

	2007
	HK$'000
The Group's share of net assets before disposal	645,468
Expenses incurred by the Group	(4,526)
Share of net assets disposed	(320,471)
Share of net assets owned by the Group after disposal	320,471
Share of net assets disposed	320,471
Loss on disposal of interest in a subsidiary	(45,471)
	275,000
Total consideration satisfied by:	
Cash consideration received	315,000
Shareholder's loan disposed	(40,000)
	275,000
Net cash inflow arising on disposal:	
Cash consideration	315,000

Details of disposal of KHL were set out in the Company's circular dated 31st May 2007.

45. FINANCIAL INSTRUMENTS

Categories of financial instruments:

	2007	**2006**
	HK$'000	*HK$'000*
Financial assets		
Held-for-trading Investments	16,822	64,560
Loans and receivables	62,999	145,178
Available-for-sale financial assets	40,567	94,700
Financial liabilities		
Amortised cost	94,580	90,940

46. LEASE COMMITMENTS

At 31st December 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	1,566	940
In the second to fifth year inclusive	1,016	1,089
	2,582	2,029

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.

47. COMMITMENTS

The Group had the following outstanding commitments in respect of acquisitions of equity interests in certain entities at the balance sheet date:

	2007	**2006**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for	654,900	450,000

48. EQUITY SETTLED SHARE-BASED TRANSACTION

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

The Old Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

The New Option Scheme

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

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

(ii) The participants include:

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

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

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

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

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

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

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

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

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

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of share options available for issue under the New Option Scheme (after refreshment) as at the date of this annual report was 24,698,263, which represented approximately 0.56% 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 fro the 5 trading days immediately preceding the date of grant; and

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

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

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

Category of Participants	Name of scheme	Date of grant	Exercisable period	Exercise price per share HK$	Number of Share Options: Outstanding as at 01.01.2006	Granted during 2006 (Note i)	Expired during 2006	Outstanding as at 31.12.2006 and 01.01.2007	Granted during 2007 (Note ii)	Exercised during 2007 (Note iii)	Transfer between category	Adjustment during 2007*	Outstanding as 31.12.2007
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)	–	–	–	–	–	–
		28.03.2000	28.03.2000 – 27.03.2010	15.459*	922,123	–	–	922,123	–	–	–	78,965	1,001,088
		02.06.2000	02.06.2000 – 01.06 2010	7.492*	417,506	–	–	417,506	–	–	–	35,752	453,258
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.581*	221,446	–	–	221,446	–	–	–	18,964	240,410
		17.07.2003	17.07.2003 – 16.07.2013	0.520*	457,000	–	–	457,000	–	–	–	39,136	496,136
					2,692,344	–	(674,269)	2,018,075	–	–	–	172,817	2,190,892
Director of the Company***	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.581*	1,109,557	–	–	1,109,557	–	–	–	95,017	1,204,574
		17.07.2003	17.07.2003 – 16.07.2013	0.520*	2,285,000	–	–	2,285,000	–	–		195,677	2,480,677
					3,394,557	–	–	3,394,557	–	–	–	290,694	3,685,251
Employees of the Group	Old Option Scheme	05.01.1999	05.01.1999 – 04.01.2009	4.616*	44	–	–	44	–	–	–	3	47
		28.03.2000	28.03.2000 – 27.03.2010	15.459*	240,099	–	–	240,099	–	–	–	20,562	260,661
		02.06.2000	02.06.2000 – 01.06.2010	7.492*	417,508	–	–	417,508	–	–	–	35,754	453,262
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.581*	2,219,114	–	–	2,219,114	–	–	–	190,035	2,409,149
		17.07.2003	17.07.2003 – 16.07.2013	0.520*	2,285,000	–	–	2,285,000	–	–	–	195,677	2,480,677
		13.12.2004	13.12.2004 – 12.12.2014	0.479*	6,000,000	–	–	6,000,000	–	–	–	513,812	6,513,812
		04.02.2005	04.02.2005 – 03.02.2015	0.496*	28,110,000	–	–	28,110,000	–	–	(4,200,000)	2,047,542	25,957,542
		30.12.2005	30.12.2005 – 29.12.2015	0.223*	18,005,000	–	–	18,005,000	–	(11,390,000)	–	566,477	7,181,477
		21.11.2006	21.11.2006 – 20.11.2016	0.255*	–	40,000,000	–	40,000,000	–	(22,000,000)	(6,000,000)	1,027,624	13,027,624
		25.05.2007	25.05.2007 – 24.05.2017	0.387*	–	–	–	–	27,585,000	(5,900,000)	–	1,857,003	23,542,003
		27.06.2007	27.06.2007 – 26.06.2017	0.385*	–	–	–	–	14,440,000	–	–	1,236,575	15,676,575
		23.10.2007	23.10.2007 – 22.10.2017	0.183	–	–	–	–	66,170,000	–	–	–	66,170,000
					57,276,765	40,000,000	–	97,276,765	108,195,000	(39,290,000)	(10,200,000)	7,691,064	163,672,829
Other participants	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.581*	4,438,228	–	–	4,438,228	–	–	–	380,068	4,818,296
		17.07.2003	17.07.2003 – 16.07.2013	0.520*	7,055,000	–	–	7,055,000	–	–	–	604,156	7,659,156
		13.12.2004	13.12.2004 –12.12.2014	0.479*	11,820,000	–	–	11,820,000	–	–	–	1,012,210	12,832,210
		04.02.2005	04.02.2005 – 03.02.2015	0.496*	10,205,000	–	–	10,205,000	–	–	4,200,000	1,233,576	15,638,576
		30.12.2005	30.12.2005 – 29.12.2015	0.223*	33,995,000	–	–	33,995,000	–	(21,595,000)	–	1,061,879	13,461,879
		21.11.2006	21.11.2006 – 20.11.2016	0.255*	–	20,400,000	–	20,400,000	–	(17,400,000)	6,000,000	770,718	9,770,718
		25.05.2007	25.05.2007 – 24.05.2017	0.387*	–	–	–	–	30,675,000	–	–	2,626,864	33,301,864
		27.06.2007	27.06.2007 – 26.06.2017	0.385*	–	–	–	–	10,250,000	–	–	877,762	11,127,762
		23.10.2007	23.10.2007 – 22.10.2017	0.183	–	–	–	–	46,530,000	–	–	–	46,530,000
					67,513,228	20,400,000	–	87,913,228	87,455,000	(38,995,000)	10,200,000	8,567,233	155,140,461
					130,876,894	60,400,000	(674,269)	190,602,625	195,650,000	(78,285,000)	–	16,721,808	324,689,433

* The exercise prices and numbers of options which remained outstanding during the year have been adjusted due to completion of rights issue during the year.

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

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

Notes:

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

(ii) The closing prices of the Company's shares immediately before the dates of grant of share options in 2007 were HK$0.343 per share (after adjustment); HK$0.333 per share (after adjustment) and HK$0.186 per share.

(iii) The closing prices of the Company's shares immediately before the dates on which the share options were exercised in 2007 were HK$0.343 per share (after adjustment) in respect of 59,785,000 shares; HK$0.360 per share (after adjustment) in respect of 5,900,000 shares and HK$0.303 per share (after adjustment) in respect of 12,600,000 shares.

(iv) No share option was lapsed or cancelled during the year 2007.

Share-based payment expenses

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

The estimated fair value of the options is measured based on Binomial Option Pricing Model. The variables input into the model are as follows:

	2007	**2006**
Weighted average share price at measurement date *(HK$)*	0.28	0.28
Weighted average exercise price *(HK$)*	0.280	0.277
Expected volatility (expressed as weighted average volatility)	55.77%	70.51%
No. of years for option life (expressed as weighted average life)	10	6
Expected dividends	–	–
Risk-free interest rate	4.38%	5.0%
Weighted average fair value at measurement date *(HK$)*	0.09	0.19

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.

49. MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2007 *HK$'000*	2006 *HK$'000*
Nature of transactions			
Interest income – Loan interest	(i)	–	100
Term loan repayment	(i)	–	33,800
Post-production fee received	(ii)	–	90
Royalty paid	(ii)	–	200

Notes:

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

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

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

	Note	2007 *HK$'000*	2006 *HK$'000*
Nature of transactions			
Convertible notes interest receivable from Brilliant Arts Group	(i)	124	–
Production service income received and receivable from Brilliant Arts Group	(ii)	58	–
Film production expense paid or payable to Brilliant Arts Group	(ii)	1,733	–
Film distribution income	(ii)	21	–

Notes:

(i) During the year, CSL subscribed HK$25,000,000 convertible notes issued from Brilliant Arts. An aggregate principal amount of HK$24,000,000 of convertible notes were converted into 72,727,272 shares of Brilliant Arts, which represented 29.17% issued share capital of Brilliant Arts. The effective interest rate on the liability component of the convertible notes was approximately 9.75%.

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

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

	Note	2007 HK$'000	2006 HK$'000
Nature of transactions			
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
Artists promotion charges paid and payable to the TAL Group	(i) & (ii)	1,720	4,193

Notes:

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

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

(d) On 23rd October 2007, KHL, a non wholly owned subsidiary of the Company, entered into a loan agreement to grant a loan facility ("Loan Facility") of up to HK$196,000,000 to Most Famous Enterprises Limited, a substantial shareholder of KHL. The transaction is regarded as a connected transaction pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Loan Facility is unsecured, interest free and for a term not exceeding three years commencing from the drawdown date.

The directors of the Company confirmed that the Loan Facility is not on normal commercial terms as it is interest free, not in the ordinary course of the Company's business but in the interests of the Company and the independent shareholders of the Company as a whole.

The Loan Facility amounted to HK$196,000,000 was drawn on 3rd December 2007 and is classified as non-current assets held for sale in the consolidated balance sheet as at 31st December 2007.

(e) During the year, the Company issued 72,727,272 ordinary shares to the directors and their associates (2006: 104,105,000). Details of these subscriptions are set out in note 36.

(f) For the year ended 31st December 2007 and 2006, 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.

(g) Details of the amounts due from associates are set out in notes 33.

(h) Key management personnel

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in note 15, is as follow:

	2007 HK$'000	2006 HK$'000
Salaries and other short-term benefits	6,742	5,732
Pension scheme contributions	60	60
Share-based payment	5,229	2,253
	12,031	8,045

50. 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 *(Note d)*	Incorporated	British Virgin Islands	Ordinary	100	200 shares of US$1 each	Investment holding
China Star Entertainment Holding Company	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each and 1,000,000 deferred non-voting shares of HK$1 each *(Note b)*	Investment holding
China Star HK Distribution Limited	Incorporated	Hong Kong	Ordinary	100	100,000 ordinary shares of HK$1 each	Distribution of motion pictures and television drama series
China Star HK Entertainment Company Limited	Incorporated	Hong Kong	Ordinary	100	1,000,000 ordinary shares of HK$1 each	Distribution of video rights and investment holding
China Star International Distribution Limited *(Note a)*	Incorporated	British Virgin Islands	Ordinary	100	8,001 shares of US$1 each	Distribution of motion pictures and television drama series
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of management services and investment holding
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/ registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
China Star Production Services Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Provision of post-production services
China Star Trademark Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of trademark and copyrights
China Star Worldwide Distribution B.V. *(Note a & d)*	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
Kingsway Hotel Limited *(Note c)*	Incorporated	Macau	Ordinary	50	250,000 ordinary shares of MOP 1 each	Provision of hotel services in Macau
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.

(c) One of the shareholder of KHL holding 49% voting power in KHL has agreed to follow the voting and management decision of the Company. Therefore, KHL is considered as a subsidiary of the Company. Moreover, the disposal of all the Group's equity interest in KHL is expected to be completed in May 2008. Accordingly, all the results, assets and liabilities are classified as discontinued operations and non-current assets held for sale. Details are set out in notes 15 and 35 to the financial statements.

(d) 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.

51. 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 Group %	Issued and fully paid share capital/ registered capital	Principal activities
Riche Multi-Media Holdings Limited *	Incorporated	Bermuda	29.90	1,951,860,000 ordinary shares of HK$0.1 each	Investment holding in Hong Kong
Together Again Limited	Incorporated	British Virgin Islands	49.00	48,080 shares of US$1 each	Investment holding and provision of artists management services
Brilliant Arts Multi-Media Holding Limited (Formerly known as Milkyway Image Holdings Limited) **	Incorporated	Cayman Islands	25.74	423,853,908 ordinary shares of HK$0.1 each	Investment holding in Hong Kong

* The shares of Riche are listed on The Stock Exchange.

** The shares of Brilliant Arts are listed on The Growth Enterprises Market of The Stock Exchange.

52. SUBSEQUENT EVENTS

(a) On 26th March 2008, the directors of the Company announced that the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every 10 issued and unissued shares be consolidated into one share (the "Consolidated Share");

(ii) Capital reduction: (i) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK$0.45 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Share will be reduced from HK$0.50 to HK$0.05 each; and (ii) the nominal value of all the Consolidated Share in the authorized share capital of the Company be reduced from HK$0.50 each to HK$0.05 each; and

(iii) Share premium cancellation: the entire amount of HK$1,356,449,856.32 standing to the credit of the share premium account of the Company as at 31st December 2007 be cancelled, such credit amount arising from the share premium cancellation be transferred to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus account of the Company be applied to set off against the accumulated losses of the Company, which amounted to approximately HK$864,665,000 as at 31st December 2006, and the remaining credit balance in the contributed surplus account of the Company will be utilized by the board of directors of the Company in accordance with the bye-laws of the Company and all applicable laws.

Details of the Capital Reorganisation were set out in the Company's circular dated 15th April 2008.

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

(c) On 16th August 2007, the Company had entered into an acquisition agreement with Lucky State Group Limited ("Lucky State") in relation to the acquisition (the "Initial Acquisition") of 51% issued share capital of 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.

On 5th October 2007, the Company has entered into an agreement with Lucky State relating to the acquisition of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 (together with the Initial Acquisition, the "Acquisitions") 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.

The Acquisitions were completed on 18th March 2008. After the completion of the Acquisitions, 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 of the Company believe that the Acquisitions will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's circulars dated 6th December 2007 and 7th December 2007 for details of the Acquisitions.

Details of net assets acquired and goodwill are as follows:

	Carrying amount before the Acquisitions	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Cash at bank and in hand	1	–	1
Trade receivables	5	–	5
Other payables	(6)	–	(6)
Net assets acquired	–	–	–
Total consideration			(1,054,900)
Discount on acquisition			1,054,900
Total consideration satisfied by:			
Cash consideration paid			600,000
Issue of shares			70,900
Issue of convertible notes			384,000
			1,054,900
Net cash outflow arising on Acquisitions:			
Cash consideration paid			600,000
Bank balances and cash acquired			(1)
Net cash outflow on Acquisitions			599,999

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th April 2008.

3. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2008

Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of change in equity and condensed consolidated cash flow statement of the Group together with the notes to the condensed consolidated financial statements of the Group as extracted from page 1 to page 27 of the interim report of the Company for the six months ended 30th June 2008. For avoidance of doubt, capitalised terms used in the extract below shall have the same meaning as ascribed to them and the page numbers referred to in this section are the page numbers in the interim report of the Company for the six months ended 30th June 2008.

Condensed Consolidated Income Statement
For the six months ended 30th June 2008

		Six months ended 30th June	
		2008	**2007**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover	4	95,834	56,157
Cost of sales		(15,844)	(38,561)
Gross profit		79,990	17,596
Other revenue	5	3,154	4,302
Other income	6	155	2,710
Administrative expenses		(32,975)	(16,233)
Marketing and distribution expenses		(247)	(561)
Share-based payment expenses		–	(14,631)
Net realised and unrealised gain on financial assets classified as held-for-trading		1,293	17,290
Profit from operations	7	51,370	10,473
Finance costs	8	(7,096)	(1,855)
Share of results of associates		(3,303)	33,227
Discount on acquisition of interest in associates		–	2,659
Gain on disposal of subsidiaries		476	–
Loss on deemed disposal of interest in an associate		(17,551)	(35,873)
Profit before taxation		23,896	8,631
Taxation	9	235	(15)
Profit for the period from continuing operations		24,131	8,616
Discontinued operations	10		
Loss for the period from discontinued operations		(12,531)	(33,379)
		11,600	(24,763)
Attributable to:			
Equity holders of the Company		17,865	(24,754)
Minority interests		(6,265)	(9)
		11,600	(24,763)

	Notes	Six months ended 30th June 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period			
From continuing and discontinued operations			
Basic	11	HK$0.05	(HK$0.30)
Diluted	11	HK$0.05	(HK$0.30)
From continuing operations			
Basic	11	HK$0.06	HK$0.11
Diluted	11	HK$0.06	HK$0.10

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

Condensed Consolidated Balance Sheet

As at 30th June 2008

	Notes	30th June 2008 HK$'000 (Unaudited)	31st December 2007 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	13	6,244	7,138
Interests in leasehold land		5,560	5,642
Investment properties	14	51,100	51,100
Intangible asset	22	989,205	–
Goodwill		38,037	29,062
Available-for-sale financial assets		25,200	39,900
Convertible note receivable from an associate		–	667
Conversion option embedded in convertible notes receivable from an associate		–	222
Interests in associates	15	–	375,148
		1,115,346	508,879
Current assets			
Inventories		301	301
Film rights		40,269	50,797
Films in progress		21,828	24,948
Trade receivables	16	74,723	51,666
Deposits, prepayments and other receivables		30,121	36,790
Deposits for investments		–	400,000
Held-for-trading investments		24,300	16,600
Amounts due from associates		663	7,359
Prepaid tax		485	456
Cash and cash equivalents		23,967	22,735
		216,657	611,652
Assets classified as held for sale	21	1,396,666	1,187,072
		1,613,323	1,798,724
Total assets		2,728,669	2,307,603

	Notes	30th June 2008 HK$'000 (Unaudited)	31st December 2007 HK$'000 (Audited)
Capital and reserves			
Share capital	17	22,212	140,305
Reserves		1,398,682	1,033,828
Equity attributable to equity holders of the Company		1,420,894	1,174,133
Minority interests		1,197	1,328
Total equity		1,422,091	1,175,461
Non-current liabilities			
Bank borrowings – due after one year	19	7,199	8,523
Deferred tax liabilities		15,059	3,466
Unsecured convertible notes	20	319,225	–
		341,483	11,989
Current liabilities			
Trade payables	18	14,946	17,621
Deposits received, accruals and other payables		58,805	66,018
Bank borrowings – due within one year	19	2,517	2,418
		76,268	86,057
Liabilities associated with assets classified as held for sale	21	888,827	1,034,096
		965,095	1,120,153
Total liabilities		1,306,578	1,132,142
Total equity and liabilities		2,728,669	2,307,603
Net current assets		648,228	678,571
Total assets less current liabilities		1,763,574	1,187,450

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2008

	Attributable to the equity holders of the Company												
	Share capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Contributed surplus HK$'000 (Unaudited)	Exchange reserve HK$'000 (Unaudited)	Special reserve HK$'000 (Unaudited)	Share-based payment reserve HK$'000 (Unaudited)	Convertible notes reserve HK$'000 (Unaudited)	Financial assets revaluation reserve HK$'000 (Unaudited)	Capital reduction reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Sub-total HK$'000 (Unaudited)	Minority interests HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1st January 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
Exchange alignment	–	–	–	1,969	–	–	–	–	–	–	1,969	–	1,969
Share of reserves of an associate	–	–	–	(105)	–	3,915	–	–	–	–	3,810	–	3,810
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	45,500	–	–	45,500	–	45,500
Loss for the period	–	–	–	–	–	–	–	–	–	(24,754)	(24,754)	(9)	(24,763)
Total recognised income and expenses for the period	–	–	–	1,864	–	3,915	–	45,500	–	(24,754)	26,525	(9)	26,516
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
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)
Disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	320,471	320,471
At 30th June 2007	68,699	1,114,050	186,624	5,587	(6,867)	48,483	25,127	35,700	316,008	(805,073)	988,338	321,844	1,310,182

	Attributable to the equity holders of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Financial assets revaluation reserve	Capital reduction reserve	Retained earnings/ (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 1st January 2008	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	(12,600)	316,008	(872,866)	1,174,133	1,328	1,175,461
Exchange alignment	–	–	–	390	–	–	–	–	–	–	390	–	390
Share of reserves of an associate	–	–	–	10,982	–	1,079	–	–	–	–	12,061	–	12,061
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	(18,751)	–	–	(18,751)	–	(18,751)
Transfer to liabilities associated with assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	6,262	6,262
Profit for the period	–	–	–	–	–	–	–	–	–	17,865	17,865	(6,265)	11,600
Total recognised income and expenses for the period	–	–	–	11,372	–	1,079	–	(18,751)	–	17,865	11,565	(3)	11,562
Disposal of subsidiaries	–	–	–	(348)	–	–	–	–	–	–	(348)	(128)	(476)
Capital reduction	(199,910)	–	199,910	–	–	–	–	–	–	–	–	–	–
Share premium cancellation *(note)*	–	(1,356,450)	1,356,450	–	–	–	–	–	–	–	–	–	–
Set off against accumulated losses *(note)*	–	–	(864,665)	–	–	–	–	–	–	864,665	–	–	–
Released on deemed disposal of an associate	–	–	–	–	–	(930)	(1,247)	–	–	–	(2,177)	–	(2,177)
Issue of convertible notes	–	–	–	–	–	–	71,691	–	–	–	71,691	–	71,691
Deferred tax	–	–	–	–	–	–	(11,829)	–	–	–	(11,829)	–	(11,829)
Share options lapsed	–	–	–	–	–	(1,394)	–	–	–	1,394	–	–	–
Issue of shares for acquisition of a subsidiary	11,817	2,363	–	–	–	–	–	–	–	–	14,180	–	14,180
Placing of new shares	70,000	98,000	–	–	–	–	–	–	–	–	168,000	–	168,000
Share issuing expenses	–	(4,321)	–	–	–	–	–	–	–	–	(4,321)	–	(4,321)
At 30th June 2008	22,212	96,042	878,319	21,564	(6,867)	54,047	59,862	(31,351)	316,008	11,058	1,420,894	1,197	1,422,091

Note: At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the entire amount of approximately HK$1,356,450,000 standing to the credit of the share premium account of the Company as at 31st December 2007 be cancelled and such credit amount arising from the share premium cancellation be transferred to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus account of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006 and the remaining credit balance in the contributed surplus account of the Company will be utilised by the board of directors of the Company in accordance with the bye-laws of the Company and all applicable laws.

Condensed Consolidated Cash Flow Statement
For the six months ended 30th June 2008

	Six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	3,398	12,702
Net cash used in investing activities	(206,469)	(289,878)
Net cash generated from financing activities	137,454	292,891
Net (decrease)/increase in cash and cash equivalents	(65,617)	15,715
Cash and cash equivalents at beginning of the period	57,321	89,347
Effect of foreign exchange rate changes	390	1,969
Cash and cash equivalents at the end of the period	(7,906)	107,031
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	23,967	107,031
Cash and cash equivalents included in non-current assets held for sale (note 21)		
– Cash and cash equivalents	947	–
– Bank overdraft	(32,820)	–
	(7,906)	107,031

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June 2008

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 34 "Interim Financial Reporting" issued by the 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 Hong Kong Limited.

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2007.

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 preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("HK(IFRIC) – Int") issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's accounting period beginning 1st January 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[2]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

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

The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised Hong Kong Accounting Standards ("HKAS"s) and Hong Kong Financial Reporting Standards ("HKFRS"s) or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (revised)	Borrowing Costs[1]
HKAS 27 (revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation[1]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]

[1] Effective for financial period commencing on or after 1st January 2009
[2] Effective for financial period commencing on or after 1st July 2009
[3] Effective for financial period commencing on or after 1st July 2008
[4] Effective for financial period commencing on or after 1st October 2008

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

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

For the six months ended 30th June 2008:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC")	American and Europe	South-east Asia	Others	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	91,405	1,120	–	3,192	117	95,834	–	95,834
Segment result	80,764	(1,215)	(62)	308	(52)	79,743	–	79,743
Unallocated revenue and income						4,602	248	4,850
Unallocated corporate expenses						(32,975)	(4,609)	(37,584)
Profit/(loss) from operations						51,370	(4,361)	47,009

For the six months ended 30th June 2007:

	Continuing operations					Discontinued operations	
	Hong Kong and Macau	The PRC	South-east Asia	Others	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	6,553	–	922	48,682	56,157	13,873	70,030
Segment result	5,198	–	(283)	12,120	17,035	9,391	26,426
Unallocated revenue and income					24,302	–	24,302
Unallocated corporate expenses					(30,864)	(10,834)	(41,698)
Profit/(loss) from operations					10,473	(1,443)	9,030

Business segments

For the six months ended 30th June 2008:

	Continuing operations				Discontinued operations	
	Film distribution	**Others**	**Gaming and entertainment**	**Total**	**Hotel services**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	14,575	2,495	78,764	95,834	–	95,834
Segment result	(1,297)	2,276	78,764	79,743	–	79,743
Unallocated revenue and income				4,602	248	4,850
Unallocated corporate expenses				(32,975)	(4,609)	(37,584)
Profit/(loss) from operations				51,370	(4,361)	47,009

For the six months ended 30th June 2007:

	Continuing operations			Discontinued operations	
	Film distribution	**Others**	**Total**	**Hotel services**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	53,367	2,790	56,157	13,873	70,030
Segment result	14,463	2,572	17,035	9,391	26,426
Unallocated revenue and income			24,302	–	24,302
Unallocated corporate expenses			(30,864)	(10,834)	(41,698)
Profit/(loss) from operations			10,473	(1,443)	9,030

4. TURNOVER

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Distribution fee income	14,575	4,695	–	–	14,575	4,695
Sales of film rights	–	48,672	–	–	–	48,672
Service income	150	150	–	–	150	150
Production fee income	2,345	2,640	–	–	2,345	2,640
Gaming and entertainment	78,764	–	–	–	78,764	–
Hotel operation income	–	–	–	13,873	–	13,873
	95,834	56,157	–	13,873	95,834	70,030

5. OTHER REVENUE

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Dividend income	–	79	–	–	–	79
Interest income	304	1,673	190	–	494	1,673
Rental income	120	120	–	–	120	120
Management fee income received from associates	2,430	2,430	–	–	2,430	2,430
Others	300	–	58	–	358	–
	3,154	4,302	248	–	3,402	4,302

6. OTHER INCOME

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	1	20	–	–	1	20
Gain on redemption of convertible notes	–	2,315	–	–	–	2,315
Gain on fair value change of convertible option	–	373	–	–	–	373
Others	154	2	–	–	154	2
	155	2,710	–	–	155	2,710

7. PROFIT FROM OPERATIONS

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging:						
Amortisation of film rights (included in cost of sales)	15,622	37,735	–	–	15,622	37,735
Amortisation of interests in leasehold land	82	82	–	3,033	82	3,115
Depreciation of property, plant and equipment	1,160	1,627	–	1,493	1,160	3,120
Net foreign exchange losses	377	78	–	–	377	78
Employee benefit expenses	7,919	7,027	1,675	2,990	9,594	10,017
Impairment loss on amount due from associates	14,975	–	–	–	14,975	–
Share-based payment expenses	–	14,631	–	–	–	14,631

8. FINANCE COSTS

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Effective interest expense on unsecured convertible notes	6,916	1,501	–	–	6,916	1,501
Interest on bank borrowings wholly repayable within five years	154	299	8,170	1,963	8,324	2,262
Interest on bank borrowings not wholly repayable within five years	26	48	–	–	26	48
Interest on other loan wholly repayable within five years	–	7	–	–	–	7
	7,096	1,855	8,170	1,963	15,266	3,818

9. TAXATION

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The taxation (credit)/charge comprises:						
Current tax charge in other jurisdictions	1	15	–	–	1	15
Deferred tax	(236)	–	–	–	(236)	–
	(235)	15	–	–	(235)	15

No provision for 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. DISCONTINUED OPERATIONS

On 1st August 2007, the Company entered into an agreement with China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) ("China Star Investment") and Legend Rich Limited, a wholly owned subsidiary of China Star Investment, whereby the Company has agreed to sell and/or procure the sale of 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a sale loan owed by Exceptional Gain to the Company amounted to approximately HK$409,222,000 as at the date of the agreement for an aggregate consideration of HK$447,000,000 (the "Proposed Disposal"). Exceptional Gain is an investment holding company which holds 50% interest in Kingsway Hotel Limited ("KHL"), a subsidiary of the Group which operates the hotel business. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to be completed in October 2008. Accordingly, all the results of the group headed by Exceptional Gain (i.e. the hotel services operation) are classified as discontinued operations and its corresponding results for the six months ended 30th June 2007 has been reclassified to conform with the current period's presentation.

The combined results of the discontinued operations included in the condensed consolidated income statement are set out as follows:

	Six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period from discontinued operations		
Turnover	–	13,873
Cost of sales	–	(4,482)
Gross profit	–	9,391
Other revenue	248	–
Administrative expenses	(4,609)	(10,834)
Loss from operations	(4,361)	(1,443)
Finance costs	(8,170)	(1,963)
Discount on acquisition of subsidiaries	–	15,498
Loss on disposal of subsidiaries	–	(45,471)
Loss before taxation	(12,531)	(33,379)
Taxation	–	–
Loss for the period from discontinued operations	(12,531)	(33,379)
Attributable to:		
Equity holders of Exceptional Gain	(6,269)	(33,379)
Minority interests	(6,262)	–
	(12,531)	(33,379)

The cash flows of the discontinued operations included in the condensed consolidated cash flow statement are set out as follows:

Cash flows from discontinued operations

	Six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(33,288)	87,659
Net cash used in investing activities	(7)	(72,873)
Net cash used in financing activities	(33,170)	–
Net cash (outflows)/inflows	(66,465)	14,786

The assets and liabilities attributable to the hotel business have been classified and accounted for at 30th June 2008 as a disposal group held for sale and are presented separately in the condensed consolidated balance sheet (see note 21).

11. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	17,865	(24,754)
	2008	**2007**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	388,860	81,650

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 2007 for the purpose of basic and diluted earnings/(loss) per share has been adjusted to take into the effect of the share consolidation that became effective on 8th May 2008. Details of the share consolidation are set out in note 17(b) to the Interim Financial Statements.

The computation of diluted earnings/(loss) per share for the six months ended 30th June 2008 and 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 earnings/(loss) per share.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to equity holders of the Company is based on the following data:

	Six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit/(loss) attributable to equity holders of the Company for the purpose of basic earnings/(loss) per share	17,865	(24,754)
Less: Loss for the period from discontinued operations	(6,269)	(33,379)
Earnings for the purpose of basic earnings per share from continuing operations	24,134	8,625
Effect of dilutive potential ordinary shares:		
– interest expense on unsecured convertible notes	6,916	970
– tax effect relating to interest expense on unsecured convertible notes	(905)	–
	30,145	9,595

	2008	2007
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	388,860	81,650
Adjustment for assumed exercise of share options	–	2,743
Adjustment for assumed exercise of unsecured convertible notes	128,000	10,117
	516,860	94,510

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 2007 for the purpose of basic and diluted earning per share has been adjusted to take into the effect of the share consolidation that became effective on 8th May 2008. Details of the share consolidation are set out in note 17(b) to the Interim Financial Statements.

The computation of diluted earnings per share for the six months ended 30th June 2008 and 2007 did not assume the exercise of certain outstanding share options during the period since their exercise would have an anti-dilutive effect on earnings per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK$0.02 per share for the six months ended 30th June 2008 (Six months ended 30th June 2007: HK$0.41), based on the loss for the period from the discontinued operations of HK$6,269,000 (Six months ended 30th June 2007: HK$33,379,000) and the denominators detailed as continuing and discontinued operations for basic earnings/(loss) per share.

12. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2008 (Six months ended 30th June 2007: Nil)

13. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group spent approximately HK$274,000 on the acquisition of property, plant and equipment.

14. INVESTMENT PROPERTIES

As at 30th June 2008, investment properties with carrying amount of approximately HK$51,100,000 (31st December 2007: approximately HK$51,100,000) have been pledged to secure bank facilities granted to the Group.

15. INTERESTS IN ASSOCIATES

	As at 30th June 2008 HK$'000 (Unaudited)	As at 31st December 2007 HK$'000 (Unaudited)
Share of net assets of associates *(note a)*	322,313	329,678
Goodwill *(note b)*	27,294	45,470
	349,607	375,148
Reclassification to non-current assets classified as held for sale *(note 21)*	(349,607)	–
	–	375,148
Market value of listed shares	–	150,353

Notes:

(a) Share of net assets of associates

	HK$'000
At 1st January 2008	329,678
Share of result of associates	(3,303)
Deemed disposal of an associate *(note c)*	(16,123)
Share of changes in reserves of an associate	12,061
At 30th June 2008	322,313

(b) Goodwill

	HK$'000
At 1st January 2008	45,470
Deemed disposal of an associate *(note c)*	(18,176)
At 30th June 2008	27,294

(c) Interest in Brilliant Arts

As at 28th January 2008, Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts") had issued 180,000,000 shares to an independent third party which increased the issued share capital of Brilliant Arts from 423,853,908 shares to 603,853,908 shares. As a result, the Group's interest in Brilliant Arts was diluted from 25.74% to 18.07%. Such dilution of interest resulted Brilliant Arts ceased to be an associate of the Group.

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:

	As at 30th June 2008 HK$'000 (Unaudited)	As at 31st December 2007 HK$'000 (Unaudited)
Brilliant Arts and its subsidiaries (the "Brilliant Arts Group")		
0 to 30 days	–	12
Others		
0 to 30 days	25,001	885
31 to 60 days	1,509	2,784
61 to 90 days	102	224
91 to 180 days	1,547	151
Over 180 days	50,598	51,644
	78,757	55,688
Less: Impairment loss on trade receivables	(4,034)	(4,034)
	74,723	51,654
	74,723	51,666

17. SHARE CAPITAL

	Number of shares		Amount	
	As at 30th June 2008	As at 31st December 2007	As at 30th June 2008	As at 31st December 2007
	'000	*'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Ordinary shares of HK$0.05 each				
Authorised:				
At beginning of period	20,000,000	20,000,000	1,000,000	1,000,000
Share consolidation *(note b)*	(18,000,000)	–	–	–
Capital reduction *(note b)*	–	–	(900,000)	–
At end of period	2,000,000	20,000,000	100,000	1,000,000
Issued and fully paid:				
At beginning of period	2,806,097	704,646	140,305	35,232
Share consolidation *(note b)*	(3,998,187)	–	–	–
Capital reduction *(note b)*	–	–	(199,910)	–
Issue of shares for acquisition of an subsidiary *(note 22(b))*	236,333	–	11,817	–
Placing of shares *(notes a, c & d)*	1,400,000	646,695	70,000	32,335
Rights issue *(note e)*	–	843,769	–	42,188
Exercise of share options *(note f)*	–	78,285	–	3,914
Conversion of convertible bonds *(note g)*	–	532,702	–	26,636
At end of period	444,243	2,806,097	22,212	140,305

Notes:

(a) On 24th January 2008, the Company allotted and issued 1,400,000,000 shares of the Company by way of placing to independent investors at a price of HK$0.12 per share. The net proceeds of approximately HK$163,679,000 were used for the acquisition of Best Mind International Inc. ("Best Mind").

(b) At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every ten existing shares of HK$0.05 each in the issued and unissued share capital of the Company be consolidated into one share of HK$0.50 each (the "Consolidated Share");

(ii) Capital reduction: the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK$0.45 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Shares will be reduced from HK$0.50 to HK$0.05 each; and

(iii) the nominal value of all the Consolidated Shares in the authorised share capital of the Company be reduced from HK$0.50 each to HK$0.05 each, resulting in the reduction of the authorised share capital from HK$1,000,000,000 divided into 2,000,000,000 Consolidated Shares to HK$100,000,000 divided into 2,000,000,000 share of HK$0.05 each,

the Capital Reorganisation was effected on 9th May 2008.

(c) On 17th April 2007 and 30th May 2007, the Company allotted and issued 124,900,000 shares and 81,100,000 shares respectively by way of placing to independent investors at a price of HK$0.37 per share. The net proceeds of approximately HK$74,000,000 were used for general working capital of the Group.

(d) On 25th June 2007, the Company allotted and issued an aggregate of 165,905,000 shares by way of placing to independent investors at a price of HK$0.40 per share. The net proceeds of approximately HK$64,600,000 were used for general working capital of the Group.

(e) On 17th October 2007, the Company issued 843,769,024 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 15th October 2007 at a subscription price of HK$0.20 per share. The net proceeds of approximately HK$164,800,000 were used for the acquisition of Best Mind.

(f) For the year ended 31st December 2007, 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, an aggregate of 5,900,000 shares at an exercise price of HK$0.42 per share and an aggregate of 12,600,000 shares at an exercise price of HK$0.277 per share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

(g) On 18th May 2007, the Company issued zero coupon convertible bonds in the principle amount of HK$168,500,000 at an initial conversion price of HK$0.32 per share. These convertible bonds were fully converted into ordinary shares during the year ended 31st December 2007.

18. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	As at 30th June 2008	**As at 31st December 2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	368	2,980
31 to 60 days	519	1,174
61 to 90 days	105	5
91 to 180 days	1,999	167
Over 180 days	11,955	13,295
	14,946	17,621

19. BANK BORROWINGS

	As at 30th June 2008 HK$'000 (Unaudited)	As at 31st December 2007 HK$'000 (Audited)
Secured bank loans	9,716	10,941

The maturity of the above borrowings is as follows:

Within one year	2,517	2,418
Between one and two years	2,592	2,528
Between two and five years	4,443	5,681
After five years	164	314
	9,716	10,941
Less: Amount due within one year shown under current liabilities	(2,517)	(2,418)
Amount due after one year	7,199	8,523

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$51,100,000 (31st December 2007: HK$51,100,000). The mortgage loan is repayable in instalments over a period of ten years.

20. UNSECURED CONVERTIBLE NOTES

On 18th March 2008, the Company issued unsecured convertible notes in the principal amount of HK$384,000,000 ("Convertible Notes") to Lucky State Group Limited ("Noteholder") as part of consideration for the acquisition of the entire equity interest in Best Mind. The Convertible Notes are interest bearing at 5% per annum and will be matured on 17th March 2018. The Noteholder may convert the whole or part (in multiples of HK$1,000,000) of the Convertible Notes into shares of the Company at an initial conversion price of HK$0.30 per share (subject to adjustment) from the date either the guarantee profit from Mr. Ng Cheuk Fai, the guarantor and beneficial owner of the Noteholder, is achieved or the shortfall is received from the Noteholder to 17th March 2018.

The Convertible Notes contain two components, liability and equity elements. The fair value of the liability component, included in long-term borrowings, was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible notes reserve.

	HK$'000
Proceeds of issue	384,000
Equity component	(71,691)
Liability component at date of issue	312,309
Interest charged	6,916
Liability component at 30th June 2008	319,225

The effective interest rate on the liability component of the Convertible Notes is approximately 7.75%.

21. NON-CURRENT ASSETS HELD FOR SALE

On 13th May 2008, China Star Entertainment (BVI) Limited, a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Glenstone Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is a substantial shareholder of the Company. Pursuant to the agreement, the Group conditional agreed to dispose the entire issued share capital of Classical Statue Limited ("CSL") with a total consideration of HK$330,567,000 in cash (the "Disposal"). CSL's major assets are the 58,310,612 shares of China Star Investment, representing 29.9% of the issued share capital of China Star Investment, 109,090,908 shares of Brilliant Arts, representing 8.68% of the issued share capital of Brilliant Arts and a convertible note receivable from Brilliant Arts with principal face value of HK$1,000,000 as at the balance sheet date. Details of which were set out in the Company's announcements and circular dated 15th May 2008 and 24th June 2008 respectively. The Disposal was completed on 18th August 2008.

The major classes of assets and liabilities classified as held for sale comprising CSL and the hotel operations as described in note 10 to the Interim Financial Statements at the balance sheet date are as follows:

	As at 30th June 2008	As at 31st December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Property, plant and equipment	3,766	3,758
Interests in leasehold land	517,568	517,568
Construction in progress	274,196	274,196
Interest in an associate	349,607	–
Available-for-sale financial assets	10,582	–
Convertible note receivable from an associate	698	–
Conversion option embedded in convertible notes receivable from an associate	222	–
Inventories	213	213
Trade receivables	1,473	1,462
Deposits, prepayments and other receivables	41,394	12,773
Loan to a minority shareholder	196,000	196,000
Cash and cash equivalents	947	181,102
Assets classified as held for sale	1,396,666	1,187,072
Bank overdraft	32,820	146,516
Trade payables	2,147	2,150
Accruals and other payables	3,717	4,170
Amounts due to minority shareholders	40,502	40,502
Tax payables	754	609
Deferred taxation	80,888	80,888
Bank borrowings	425,000	450,000
Minority interests	302,999	309,261
Liabilities associated with assets classified as held for sale	888,827	1,034,096
Net assets classified as held for sale	507,839	152,976

22. ACQUISITION OF SUBSIDIARIES

On 18th March 2008, the Group acquired entire equity interest in Best Mind at a total consideration of HK$1,054,900,000 (the "Acquisition"), which were satisfied by HK$600,000,000 in cash, HK$384,000,000 by the issue of the Convertible Notes and HK$70,900,000 by the allotment and issue of 236,333,333 shares credited as fully paid.

Best Mind entered into a profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to share 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.

Details of net assets acquired and goodwill are as follows:

	Carrying amount before the Acquisition	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Intangible asset *(note a)*	–	989,205	989,205
Cash at bank and in hand	1	–	1
Trade receivables	5	–	5
Other payables	(6)	–	(6)
Net assets acquired	–	989,205	989,205
Goodwill			8,975
Total consideration at fair value			998,180
Total consideration at fair value satisfied by:			
Cash consideration paid			200,000
Deposits for investments			400,000
Issue of shares at fair value *(note b)*			14,180
Issue of the Convertible Notes			384,000
			998,180
Net cash outflow arising from the Acquisition:			
Cash consideration paid			200,000
Cash at bank and in hand acquired			(1)
Net cash outflow on the Acquisition			199,999

Notes:

a) The intangible asset represents the right in sharing of profit streams from junket business at one of the casino's VIP room in Macau for an indefinite period of time. The fair value of the intangible asset of approximately HK$989,205,000 has been arrived at with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers, by using discounted cash flow method.

b) As part of the consideration for the Acquisition, 236,333,333 ordinary shares of the Company with par value of HK$0.05 each were issued. The fair value of the ordinary shares of the Company, determined by using the published price of HK$0.06 per share available at the date of the Acquisition, amounted to approximately HK$14,180,000.

During the six months ended 30th June 2008, Best Mind contributed profit of approximately HK$78,764,000 to the Group since the Acquisition.

If the Acquisition had been completed on 1st January 2008, total restated group turnover for the current interim period would have been approximately HK$149,118,000 and restated profit for the current interim period would have been approximately HK$68,190,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the Acquisition been completed on 1st January 2008, nor is it intended to be a projection of future results.

23. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period under review, the Group entered into the following transactions with Together Again Limited and its subsidiaries:

	For the six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Management fee income received or receivable	2,430	2,430

The amounts were determined at prices agreed between parties.

(b) During the period, the Group entered into the following transactions with the Brilliant Arts Group:

	For the six months ended 30th June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Production fee income	–	2
Distribution fee	–	205

The amounts were determined at prices agreed between parties.

24. LEASE COMMITMENTS

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

As at 30th June 2008, the Group had commitments for total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30th June 2008 *HK$'000* (unaudited)	As at 31st December 2007 *HK$'000* (audited)
Within one year	1,423	1,566
In the second to fifth years, inclusive	421	1,016
	1,844	2,582

25. APPROVAL OF INTERIM FINANCIAL STATEMENT

The Interim Financial Statements were approved and authorised for issue by the board of directors of the Company on 23rd September 2008.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 December 2005

FINANCIAL PERFORMANCE

For the year ended 31st 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 do 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 31st 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 31st 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 31st 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. This year, the Group had released eight films including popular films like "The Shopaholic" and "Election" 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 5th 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 31st December, 2005.

To stay competitive in the market, the Group has regularly review its costs structure. During the year ended 31st 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 last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st 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 31st 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 30th 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 31st 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 hedge activity were considered necessary. As at 31st December, 2005, the Group had no contingent liability.

On 15th 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 21st January, 2005. The placing was completed on 27th 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 24th 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 7th 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 21st January, 2005.

ASSOCIATES

Riche Multi-Media Holdings Limited

As at 31st December, 2005, the Group held approximately 41.07% equity interest in Riche Group. Riche Group is principally engaged in distribution of films, sub-licensing of film rights, and investments in securities. As at 31st December, 2005, Riche Group had net assets of approximately HK$167.6 million. Turnover and loss of Riche Group for the year ended 31st December, 2005 were approximately HK$38.3 million and HK$29.7 million respectively. Accordingly, the Group had shared a loss of approximately HK$12.2 million for the year ended 31st December, 2005. The Group had also recorded a gain of deemed disposal of an associate of HK$45.0 million from Riche Multi-Media upon the completion of the placing and subscription transactions on September 2005 as stated below.

On 31st March, 2006, Riche Multi-Media announced that it would not complete the conditional agreement with Leadfirst Limited and Mr. Benny Ki, pursuant to which the Riche Group would acquire 100% of the issued share capital of Best Winning Group Limited for a consideration of HK$600 million because the Riche Group did not satisfy with the results of the due diligence review.

On 7th September, 2005, Classical Statue Limited (“Classical”), a wholly owned subsidiary of the Company, entered into a placing and subscription agreement with a placing agent and Riche Multi-Media. Pursuant to the placing and subscription agreement, Classical has agreed to place 400,000,000 existing shares of Riche Multi-Media(“Riche Shares”) to not less than six independent investors at a price of HK$0.34 per Riche Share and conditionally agreed to subscribe for 400,000,000 new Riche Shares at a price of HK$0.34 per Riche Share. Immediately after the completion of the placing and subscription agreement, the Group interested in approximately 39.24% of the enlarged issued share capital of Riche Multi- Media.

On 17th February, 2006, the Riche Group entered into a conditional sale and purchase agreement with Northbay Investments Holdings Limited ("Northbay"), pursuant to which the Riche Group would acquire (i) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and (ii) the debts owned by Shinhan-Golden to Northbay, at an aggregate consideration of HK$266,064,350 (the "Acquisition"). The consideration shall be satisfied by the allotment and issue of 1,330,321,745 Riche Shares at HK$0.20 per share. Shinhan-Golden's major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property (the "Property") located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Property is currently under renovation and being transformed from an apartment complex into serviced apartments. The renovation project is expected to be completed by the end of June 2006. Subject to the fulfillment of the conditions set out under the agreement, the Acquisition is expected to be completed in May 2006. Upon completion of the Acquisition, the equity interest in the Riche Group held by the Group will decrease from 41.07% to 32.64%.

Together Again Limited

As at 31st December, 2005, 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. (formerly known as China Artists Agency 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 31st December, 2005, TAL Group had net assets of HK$9.2 million. Turnover and profit of TAL Group for the year ended 31st December, 2005 were HK$23.5 million and HK$1.4 million respectively. Accordingly, the Group shared a profit of HK$0.7 million for the year ended 31st December, 2005.

ACQUISITION OF LEASEHOLD LAND AND BUILDINGS

On 7th July, 2005, the Group completed the acquisition of the leasehold land and buildings from Riche Group at a total consideration of HK$9,000,000.The consideration has been agreed between the parties based on arms' length negotiations with reference to a property valuation done by an independent firm of professional chartered surveyors appointed by the Group. The acquisition permitted the Group to expand its postproduction premises and business on film. The consideration was satisfied by internal resources of the Group.

SIGNING OF A NON-BINDING LETTER OF INTENT

On 15th September, 2005, the Company entered into a nonbinding letter of intent with Mr. Phua Wei Seng, an independent third party, for the acquisition by the Company of an equity interest in a company involved in Macau gaming business. Pursuant to the non-binding letter of intent, a refundable deposit of HK$20,000,000 was placed by the Company with Mr. Phua Wei Seng. If the proposed transaction does not materialise or fails to complete by 14th December, 2005, the deposit will be returned to the Company. The parties to the letter of intent had agreed to extend the longstop date to 12th June, 2006. If the proposed transaction does not materialise or fails to complete by 12th June, 2006, the deposit will be returned to the Company.

EMPLOYEES

As at 31st December 2005, the Group employed 51 staffs (2004: 76 staffs) of which 2 staffs (2004: 3 staffs) 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 staffs 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 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 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.

For the year ended 31 December 2006

FINANCIAL REVIEW

For the year ended 31st 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 do 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

This year, the Group had released 8 new films in the market including popular films like "The Shopaholic" and "Election II" which were 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

13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Venders"), all wholly owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). The transaction was approved by the Company's shareholders at a special general meeting held on 31st October 2006. During the year ended 31st 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 31st 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 31st 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 this year.

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 year ended 31st 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 31st 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 31st 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 will mature on 30th 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 31st 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 hedge activity were considered necessary. As at 31st December 2006, the Group had no contingent liability.

On 17th May 2006, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany ("Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate 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 30th 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 6th 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 5th July 2006. The placing was completed on 7th 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 19th 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 12th 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 28th March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK$55 million (the "Loan") for the period from 28th March 2007 to 18th April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Banking Corporation Limited to finance the completion of the Second Acquisition (as defined herein). The Loan was repaid on 18th April 2007.

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

ASSOCIATES

Riche Multi-Media Holdings Limited

As at 31st December 2006, the Group had approximately 34.43% equity interest in Riche Multi-Media and its subsidiaries (the "Riche Group"). Riche Group is principally engaged in film distribution, sub-licensing of film rights, property investment and investments in securities. As at 31st December 2006, Riche Group had net assets of approximately HK$403.5 million. Turnover and loss of Riche Group for the year ended 31st December, 2006 were approximately HK$17.5 million and HK$21.3 million respectively. Accordingly, the Group had shared a loss of approximately HK$7.3 million for the year ended 31st December 2006.

On 21st June 2006, 1,330,321,745 new shares of Riche Multi- Media ("Riche Shares") were issued to Northbay Investments Holdings Limited ("Northbay") at a price of HK$0.20 per Riche Share to settle the consideration of HK$266,064,350 in respect of the acquisition of 100% interest in the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and the debts owed by Shinhan-Golden to Northbay. Shinhan-Golden's major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. which is the registered and beneficial owner of a property located in the PRC. The equity interest held by the Group in the Riche Multi-Media was diluted from 41.07% to 32.64% and a gain on deemed disposal was recognised. Thereafter, the Group acquired a further 1.79% equity interest in Riche Multi-Media in the open market with a total consideration of approximately HK$19.4 million. As a result, the Group's equity interest in Riche Multi-Media increased to 34.43% as at 31st December 2006.

On 19th March 2007, Classical entered into a placing and subscription agreement with a placing agent and Riche Multi- Media. Pursuant to the placing and subscription agreement, Classical has agreed to place 1,296,860,000 existing 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. Immediately after the completion of the placing and subscription agreement and up to the date of this report, the Group interested in approximately 28.69% of the enlarged issued share capital of Riche Multi-Media.

On 4th April 2007, Riche Multi-Media proposed that every ten Riche Shares of HK$0.01 each in the issued and unissued share capital of Riche Multi-Media be consolidated (the "Share Consolidation") into one new share of HK$0.10 each (the "Consolidated Shares"). On the same date, Riche Multi-Media has conditionally agreed to place (the "Riche Placing"), through a placing agent on a fully underwritten basis, 155,620,000 Consolidated Shares to independent investors at a price of HK$0.55 per Consolidation Share. The Share Consolidation and the Riche Placing are conditional and subject to the approval of its shareholders at a special general meeting to be held by Riche Multi-Media. Upon completion of the Share Consolidation and the Riche Placing, the Group's interest in Riche Multi-Media will be further diluted to approximately 23.91%.

As at 31st December 2006, 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 31st December 2006, TAL Group had net assets of HK$9.0 million. Turnover and loss of TAL Group for the year ended 31st December 2006 were HK$8.4 million and HK$5.8 million respectively. Accordingly, the Group shared a loss of HK$2.9 million for the year ended 31st December 2006 and an impairment loss of HK$32.6 million was recognised.

ACQUISITION OF KINGSWAY HOTEL

On 13th June 2006, the Company had entered into agreements 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 61.5% interest in the issued quota of Kingsway Hotel Limited ("KHL") for an aggregate consideration of HK$490,000,000. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. As at the date of this report, the Initial Acquisition has not yet been completed and the longstop date of the Initial Acquisition has been extended to 31st May 2007. Of the total consideration, total deposits of HK$40 million have been paid by the Company. The balance of the consideration will be financed by the Disposals (as defined herein) and the internal resources of the Group.

On 3rd January 2007, the Company entered into agreement in relation to the acquisition (the "Second Acquisition") of the remaining indirect 38.5% interest in the issued quota of KHL and the relevant sale loans with Great Trust - Gestao E Participacoes, Limitada for an aggregate consideration of HK$240 million. The Second Acquisition has been completed on 30th March 2007 and was financed by the internal resources of the Group.

On 19th March 2007, the Company entered into agreements to dispose (the "Disposals") an aggregate 50% of the issued quota of KHL and the relevant sale loans with SJMInvestimentos Limitada ("SJM") and Most Famous Enterprises Limited for an aggregate consideration of HK$315 million. The Disposals constitute a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the shareholders of the Company at a special general meeting to be held by the Company. The completion of the Disposals is conditional upon the completions of the Initial Acquisition and the Second Acquisition and the Disposals will provide immediate cash flow for the Initial Acquisition.

After the completion of the Initial Acquisition, the Second Acquisition and the Disposals, the Company will be interested in 50% of the issued quota of KHL and will shared the result of KHL using equity method. The investment in KHL can diversified the Company' business in the hotel operation in Macau and the Disposals represents good opportunity for strengthening the management of KHL, particularly in its casino operations, through partnership with a reputable and experienced Macau Conglomerate, thus beneficing the future development of the Kingsway Hotel as upon completion of the Disposals:

(1) Dr. Stanley Ho Hung Sun, the management director of the holding company of SJM will be appointed as the chairman of KHL and Mr. Heung will be appointed as the vice-chairman of KHL;

(2) the two directors of KHL to be appointed by Most Famous Enterprises Limited will manage the matters relating to the casino and gaming marketing & promotion functions in KHL;

(3) SJM undertakes to the Company to lease part of the Kingsway Hotel (being not more than a gross floor area of 100,000 square feet) for casino with not less than 50 mass market gaming tables and a slot machine entertainment centre at a monthly rental and marketing & promotion fee to KHL of around (i) 40% of net win attributable from such mass market gaming tables per month; and (ii) 31% of net win attributable from slot machines per month; and

(4) SJM negotiates with KHL to build a casino extension on the piece of land, which is currently used as a parking lot, outside the front of the Kingsway Hotel.

ACQUISITION OF DAIDO GROUP LIMITED ("DAIDO")

On 3rd August 2006, Classical entered into a sale and purchase agreement with Vision Harvest Limited and the guarantor, Mr. To Shu Fai for the purchase of 700,000,000 Daido shares for a total consideration of HK$52,500,000.

The transaction was completed on 11th August 2006. The Group become interested in 20.11% equity interest in Daido as at 31st December 2006 and was intentionally to treat this as a long-term investment. After discussion, the Board decided not to intervene the management of Daido and thus do not exercise influence on the composition of its board. The investment was then classified as available-for-sale financial assets in the financial statements of the Group as at 31st December 2006.

Daido and its subsidiaries carry on the business of provision of cold storage warehousing including relevant logistic services, manufacturing and trading of ice and property investment. A wholly owned subsidiary of Daido had entered into an agreement with Ever Apollo Limited for the acquisition of an indirect 12% interest in Grand Waldo Complex, a five star resort complex in Macau. In light of this, the acquisition of Daido shares represents a good opportunity for the Company to participate in the growing hospitality business in Macau. The Board will closely monitor the development of this investment.

EMPLOYEES

As at 31st December 2006, the Group employed 47 staffs (2005: 51 staffs). 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. 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 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. 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 Initial Acquisition, Second Acquisition and the Disposals, Kingsway Hotel becomes an associate 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.

For the year ended 31 December 2007

FINANCIAL REVIEW

For the year ended 31st December 2007, the Group's turnover decreased by 58% to approximately HK$64,305,000 (2006: HK$152,777,000). Of the total turnover amount, HK$58,970,000 or 92% was generated from film distribution and sale of film rights, HK$5,335,000 or 8% was generated from post-production services and other service income.

Loss from operations and loss for the year from continuing operations amounted to approximately HK$44,354,000 and HK$41,252,000 respectively as compared to profit from operations and profit for the year of HK$10,640,000 and HK$36,851,000 respectively for last year. The increase in current year's loss position was mainly attributable to the impairment losses recognised in respect of film rights and goodwill.

Loss for the year from discontinued operations amounted to approximately HK$62,555,000. Kingsway Hotel Limited ("KHL") become a subsidiary of the Group and the results being consolidated into the results of the Group with effect from 30th March 2007. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. Kingsway Hotel ceased its operation from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel. On 1st August 2007, the Company entered into an agreement ("Proposed Disposal") to dispose all its interest in Exceptional Gain Profits Limited ("Exception Gain") to Riche Multi-Media Holdings Limited ("Riche"). The principal assets in Exception Gain is its interest in KHL. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in May 2008. Accordingly, the results, assets and liabilities of Exceptional Gain which comprised the hotel operations had been classified as discontinued operations. The Group had shared an aggregate loss of approximately HK$62,555,000 from the hotel operations which consisted of share of loss of approximately HK$32,583,000 during the year and loss on disposal of interest in KHL of HK$45,471,000 and a gain recognised from discount on acquisition of subsidiaries of HK$15,498,000. In the opinion of the directors, the loss from discontinued operations is expected to recover from the forthcoming year upon completion of the Proposed Disposal. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK$71,992,000 if assuming the Proposed Disposal would completed on 30th June 2007. This gain will differ upon actual completion of the Proposed Disposal.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 2007 (2006: nil).

BUSINESS REVIEW

This year, the Group had released 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Venders"), all whollyowned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). Part of the income had recorded in the income statement for the year ended 31st December 2006 and the balance recorded in the income statement during the year.

In year 2007, turnover and profit segment for continuing operations from Hong Kong and Macau amounted to HK$62,366,000 (2006: HK$129,936,000) and HK$14,029,000 (2006: HK$29,895,000) respectively. The turnover mainly comprised film distribution, post production fees income of films and sales of film rights to Fortune Star. The marketing and distribution expenses for the year ended 31st December 2007 was HK$5,791,000, representing a 41% decrease from HK$9,777,000 for the last corresponding year.

Turnover and profit segment for the discontinued operation from Hong Kong and Macau amounted to HK$14,046,000 and HK$9,474,000 respectively, mainly comprised the hotel operations in Macau.

To stay competitive in the market, the Group has regularly review its costs structure in these years by exercised prudence measures on cost policies. As a result, administrative expenses keep at a reasonable basis. For the year ended 31st December 2007, administrative expenses increased to HK$39,343,000, a slight 3% increase from HK$38,309,000 of the last corresponding year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2007, the Group had total assets of approximately HK$2,307,603,000 and net current assets of HK$678,571,000, representing a current ratio of 1.6 (2006: 5.4). The Group had total cash and cash equivalents of approximately HK$22,735,000 (2006: HK$89,347,000). As at 31st December 2007, the Group had total borrowings of HK$10,941,000 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 73 monthly instalments. As at 31st December 2007, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK$650,000,000 which were utilised to the extent of HK$596,516,000, comprising a bank loan of HK$450,000,000 and a bank overdraft of HK$146,516,000. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet. The Group's gearing remained low during the year with total debts of HK$10,941,000 against shareholders' funds of HK$1,174,133,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 1%.

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 hedge activity were considered necessary. As at 31st December 2007, the Group had no contingent liability.

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

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

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

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

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share. The issue of 81,100,000 new

Shares was approved by the shareholders of the Company at a special general meeting held on 18th May 2007. The net proceeds of approximately HK$29,200,000 was intended to be used for general working capital of the Group.

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

On 20th July 2007, a licensed bank in Macau had agreed to grant a term loan of HK$450,000,000 and an 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 had been drawdown at the end of July 2007 of which HK$200,000,000 had been used by the Group to finance the acquisition of Best Mind International Inc.

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

On 5th September 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 274,790,000 new Shares to independent investors at a price of HK$0.21 per Share. 274,790,000 new Shares was issued on 28th September 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2007. The net proceeds of approximately HK$56,200,000 was intended to be used for partial payment of the acquisition of Best Mind International Inc.

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 ("Tranche II Placing"). The Tranche II Placing was approved by the shareholders of the Company at the special general meeting held on 22nd October 2007. On 11th December 2007, the parties to the Tranche II Placing entered into a deed of variation to extent the long stop date to three months from the date of the special general meeting to approve the deed of variation (i.e. 24th April 2008) and to change the placing price of the Tranche II Placing from HK$0.21 per Share to HK$0.12 per Share. 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. The Tranche II Placing has been terminated on the long stop date (i.e. 24th April 2008).

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new Shares to independent investors at a price of HK$0.12 per Share. 1,400,000,000 new Shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK$163,500,000 was intended to be used for the acquisition of Best Mind International Inc.

During the year ended 31st December 2007, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 Shares at exercise price of HK$0.242 per Share, an aggregate 26,800,000 Shares at an exercise price of HK$0.277 per Share, an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per Share and an aggregate 12,600,000 Shares at the exercise price of HK$0.277 respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

Subsequent to the balance sheet date, the board of directors of the Company announced on 26th March 2008 that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation of the Company comprising (i) share consolidation that every 10 issued and unissued Shares be consolidated into 1 consolidated share of the Company ("Consolidated Shares"); (ii) capital reduction that the nominal value of all issued and unissued Consolidated Shares be reduced from HK$0.50 each to HK$0.05 each; and (iii) share premium cancellation that the entire amount of HK$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

ASSOCIATES

Riche Multi-Media Holdings Limited

As at 31st December 2007, the Group had approximately 29.90% equity interest in Riche and its subsidiaries (the "Riche Group"). Riche Group is principally engaged in film distribution, sub-licensing of film rights, investments in securities and property investment. As at 31st December 2007, Riche Group had net assets of approximately HK$1,046,080,000. Turnover and net profit of Riche Group for the year ended 31st December 2007 were approximately HK$38,739,000 and HK$25,694,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$14,543,000 for the year ended 31st December 2007. The Group had recorded an aggregate result of profit of approximately HK$4,899,000 from Riche Group after taking into account the loss on deemed disposal of interest in associates of HK$49,744,000 and discount on acquisition of interest in associates of HK$40,100,000.

Brilliant Arts Multi-Media Holding Limited

As at 31st December 2007, the Group had approximately 25.74% equity interest in Brilliant Arts. Brilliant Arts and its subsidiaries ("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 31st December 2007, Brilliant Arts Group had net assets of approximately HK$65,658,000. Turnover and net profit of Brilliant Arts Group for the year ended 31st December 2007 were approximately HK$22,813,000 and HK$7,121,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$6,415,000 for the year ended 31st December 2007.

Together Again Limited

As at 31st December 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 31st December 2007, TAL Group had net liabilities of HK$7,945,000. Turnover and loss of TAL Group for the year ended 31st December 2007 were HK$17,403,000 and HK$16,954,000, respectively. Accordingly, the Group shared a loss of HK$4,410,000 for the year ended 31st December 2007.

DISPOSAL OF EXCEPTIONAL GAIN PROFITS LIMITED AND KINGSWAY HOTEL LIMITED

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of Riche, an associate of the Group, and Riche relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK$447,000,000. Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Group. The directors of the Company believe that the Proposed Disposal will provide an opportunity to the Group and Riche to allocate their resources effectively and to avoid duplication of resources as Riche already possessed appropriate expertise and resources in hotel and property management and the value of Kingsway Hotel will be better realized and reflected in Riche as the Proposed Disposal will enable Riche to build up its own branding in hotel and hospitality industry and in turn will have a positive impact on the Group's return on investment in Riche. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK$71,992,000 if assuming the Proposed Disposal would completed on 30th June 2007.

ACQUISITION OF BEST MIND INTERNATIONAL INC.

On 16th August 2007, the Company had entered into an acquisition agreement in relation to the acquisition of 51% issued Share capital of Best Mind International Inc. ("Best Mind") at a total consideration of HK$538,000,000 ("Initial Acquisition") satisfied as to HK$300,000,000 in cash, HK$196,000,000 by the issue of 5% unsecured convertible note of the Company at an initial conversion price of HK$0.30 per Share and the balance of HK$42,000,000 by the allotment and issue of 140,000,000 Shares credited as fully paid. On 5th October 2007, the Company had entered into a sale and purchase agreement in relation to the acquisition of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 (together with the Initial Acquisition, "Acquisitions") satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of 5% unsecured convertible note of the Company at an 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 had 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. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner in Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK$264,000,000 and HK$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. In view of the recent booming economy of Macau and the prospects of Macau's gaming business, the directors of the Company believe that this acquisition will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's announcement dated 30th August 2007 and dated 10th October 2007 respectively for details of the Acquisitions.

The Acquisitions have been completed on 18th March 2008. Best Mind becomes a subsidiary of the Group and starts to contribute cash profit in April 2008.

EMPLOYEES

As at 31st December 2007, the Group employed 48 staffs (2006: 51 staffs). 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

Looking ahead, the Group will continue its strength in the production of high quality films with stringent control on capital investment and efficient management. Besides, the Group has strong confident on Macau's economy. The Acquisitions of Best Mind was completed in March 2008 and the Group will receive not less than HK$364,000,000 guarantee profit for the first two years according to the terms of Acquisitions. This new operation will broaden the Group's revenue sources and provide a stable cash income to the Group. The cash profit received by the Group in April 2008 has solid our confident on the contribution of Best Mind. During the year, the Group has increased its long term investments in Riche and Brilliant Art and these long term investments are expected to provide positive contribution to the Group in the near future.

For the six months ended 30th June 2008

FINANCIAL REVIEW

For the six months ended 30th June 2008, the Group's turnover from continuing operations increased by 71% to approximately HK$95,834,000 as compared to HK$56,157,000 for the same period in the previous year. Of the total turnover amount, HK$14,575,000 or 15% was generated from film distribution and sale of film rights, HK$78,764,000 or 82% was generated from gaming and entertainment business and HK$2,495,000 or 3% was generated from film post-production services and other service income.

Profit from operations and profit for the six months ended 30th June 2008 from continuing operations amounted to approximately HK$51,370,000 and HK$24,131,000 respectively as compared to HK$10,473,000 and HK$8,616,000 respectively for the same period in the previous year. The significant improvement in overall results was mainly due to increase in turnover derived from sharing of profit streams from investments in gaming and entertainment business in Macau. The effect on net profit was partially offset by loss on deemed disposal of interest in an associate of HK$17,551,000 and an impairment loss on amount due from associates of HK$14,975,000 included in administrative expenses.

Loss for the period from discontinued operations amounted to approximately HK$12,531,000 as compared to HK$33,379,000 for the same period in the previous year. Kingsway Hotel Limited ("KHL") became a subsidiary of the Group and the results being consolidated into the results of the Group with effect from 30th March 2007. The principal asset of KHL is Kingsway Hotel, a three star hotel located in Macau. Kingsway Hotel ceased its operation from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel. On 1st August 2007, the Company entered into an agreement ("Proposed Disposal") to dispose all its interest in Exceptional Gain Profits Limited ("Exceptional Gain") to China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited)("China Star Investment"). The principal asset in Exceptional Gain is its interest in KHL. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in October 2008. Accordingly, all the results of the group headed by Exceptional Gain which comprised the hotel operations were classified as discontinued operations and all its corresponding results for the six months ended 30th June 2007 were reclassified to conform with the current period's presentation.

The profit attributable to equity holders of the Company for the six months ended 30th June 2008 was HK$17,865,000, representing a 172% improvement over loss of HK$24,754,000 in the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2008.

BUSINESS REVIEW

This period, the Group has successfully completed the acquisition of 100% equity interest in Best Mind International Inc. ("Best Mind"), the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. The sound performance of Best Mind has exceeded our expectation as the Group had shared approximately HK$78,764,000 from the gaming and entertainment business, a 42% higher than the guarantee profit of approximately HK$55,385,000 for the same period as provided by Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho.

For the film distribution business, the Group had released only 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. During the six months ended 30th June 2008, turnover for film distribution division amounted to HK$14,575,000 (2007: HK$53,367,000) and its segment result amounted to loss of HK$1,297,000 (2007: profit of HK$14,463,000) respectively. The decrease in turnover was mainly attributable to partial income from sale of film rights of 100 titles in our film library was recorded in the last corresponding period. The segment loss was attributable to sales of certain old titles at lower prices during the period.

For the geographical segment, turnover for Hong Kong and Macau segment amounted to HK$91,405,000 or 95% of the total turnover as compared to HK$6,553,000 or 12% of total turnover for the last corresponding period. Segment result amounted to HK$80,764,000 as compared to HK$5,198,000 for the last corresponding period. The huge increase in turnover and segment profit in the current period for Hong Kong and Macau segment was a result of revenue derived from sharing of profit streams from investments in gaming and entertainment business in Macau during the period.

For the six months ended 30th June 2008, administrative expenses (net of amortisation and depreciation on property, plant and equipment) amounted to HK$31,733,000, a 118% increase from HK$14,524,000 as compared to the corresponding period in last year. The increase was mainly attributable to a 13% increase in employee benefit expenses from HK$7,027,000 to HK$7,919,000 with response to the inflation in the period and an impairment loss on amount due from associates of HK$14,975,000 was recorded during the period under review.

Finance costs for the six months ended 30th June 2008 amounted to HK$7,096,000, an 283% increase from HK$1,855,000 as compared to the last corresponding period. The substantial increase in finance costs was attributable to the issue of an aggregate principal amount of HK$384,000,000 unsecured convertible notes ("Convertible Notes") as part of the consideration for the acquisition of Best Mind. In accordance with Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants, interest expenses of HK$6,916,000 for the Convertible Notes were calculated using the prevailing market interest rate of similar instruments of 7.75% per annum, instead of the actual coupon rate of 5% per annum.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2008, the Group had total assets of approximately HK$2,728,669,000 and a net current assets of HK$648,228,000, representing a current ratio of 1.7 (31st December 2007: 1.6). The Group had a total cash and bank balances of approximately HK$23,967,000 (31st December 2007: HK$22,735,000). As at 30th June 2008, the Group had total borrowings of HK$328,941,000 comprising a bank mortgage loan of HK$9,716,000 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 67 monthly instalments; and the Convertible Notes of HK$319,225,000 (liabilities component of principal amount of HK$384,000,000). The Group's gearing remained reasonable during the period with total debts of HK$328,941,000 against shareholders' funds of HK$1,420,894,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 0.23. As at 30th June 2008, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK$625,000,000 which were utilised to the extent of HK$457,820,000, comprising a bank loan of HK$425,000,000 and a bank overdraft of HK$32,820,000. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet.

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 hedge activity were considered necessary. As at 30th June 2008, the Group had no contingent liability.

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new Shares to independent investors at a price of HK$0.12 per Share. 1,400,000,000 new Shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK$163,679,000 were intended to be used for the acquisition of Best Mind.

On 18th March 2008, the Company had issued 236,333,333 new Shares at a price of HK$0.3 per Share as part of the consideration upon completion for the acquisition of Best Mind.

On 9th May 2008, the Company completed a capital reorganisation comprising (i) share consolidation that every 10 issued and unissued Shares be consolidated into 1 consolidated share of the Company ("Consolidated Shares"); (ii) capital reduction that the nominal value of all issued and unissued Consolidated Shares be reduced from HK$0.50 each to HK$0.05 each; and (iii) share premium cancellation that the entire amount of HK$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

ASSOCIATES

China Star Investment Holdings Limited

As at 30th June 2008, the Group had approximately 29.9% equity interest in China Star Investment. China Star Investment and its subsidiaries ("China Star Investment Group") are principally engaged in the distribution of films, sub-licensing of film rights and sale of financial assets and property investment. As at 30th June 2008, China Star Investment Group had net assets of approximately HK$1,077,973,000. Turnover and net loss of China Star Investment Group for the six months ended 30th June 2008 were approximately HK$2,000,000 and HK$8,446,000 respectively. Accordingly, the Group had shared a net loss of approximately HK$2,525,000 for the six months ended 30th June 2008.

Brilliant Arts Multi-Media Holding Limited

The Group had approximately 25.74% equity interest in Brilliant Arts and its subsidiaries ("Brilliant Arts Group") as at 31st December 2007. Brilliant Arts Group is principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. On 28th January 2008, Brilliant Arts issued 180,000,000 shares as consideration for the acquisition of Grandeur Concord Limited and the equity interest held by the Company was diluted to approximately 18.07% and thus ceased to become an associate of the Group. As at 30th June 2008, the Group interested in approximately 8.68% equity interest in Brilliant Arts.

Together Again Limited

As at 30th June 2008, the Group held 49% equity interest in the group headed by Together Again Limited ("TAL Group"), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 30th June 2008, TAL Group had net liabilities of HK$2,634,000. Turnover and loss of TAL Group for the six month ended 30th June 2008 were HK$1,435,000 and HK$4,627,000, respectively. Accordingly, the Group shared a loss of HK$nil for the six months ended 30th June 2008.

On 3rd July 2008, China Entertainment Group, Inc. was disposed to its ex-shareholder with zero assets and liabilities.

MATERIAL ACQUISITION

Best Mind International Inc.

On 18th March 2008, the Company had completed the acquisition of 100% issued share capital of Best Mind at an aggregate consideration of HK$1,054,900,000 satisfied as to HK$600,000,000 in cash, HK$384,000,000 by the issue of the Convertible Notes at an initial conversion price of HK$0.30 per Share and the balance of HK$70,900,000 by the allotment and issue of 236,333,333 Shares credited as fully paid. Best Mind became a subsidiary of the Group and started to contribute cash profit to the Group.

Best Mind had entered into a profit agreement with 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. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK$264,000,000 and HK$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. During the period under review, the Group had recorded revenue of HK$78,764,000 from the gaming and entertainment related business.

MATERIAL DISPOSALS

Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of China Star Investment, and China Star Investment relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK$447,000,000. Exceptional Gain is an investment holding vehicle which holds 50% interest in KHL. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Group. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK$71,992,000 if assuming the Proposed Disposal would completed on 30th June 2007. This gain will differ upon actual completion of the Proposed Disposal. The Proposed Disposal is expected to complete in October 2008. As such, the results of Exceptional Gain and KHL were recorded under discontinued operations and all the assets and liabilities of them were classified as assets classified as held for sale and the liabilities associated with assets were classified as held for sale.

Classical Statue Limited ("CSL"), China Star Investment Holdings Limited and Brilliant Arts Multi-Media Holding Limited

On 13th May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of CSL for a cash consideration of HK$330,567,000. CSL's major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement; 109,090,908 shares in Brilliant Arts, representing approximately 8.68% of the issued share capital of Brilliant Arts at date of agreement; and a convertible bond receivable from Brilliant Arts with principal face value of HK$1,000,000.

Assuming the disposal had been completed on 31st December 2007, the Group would estimate to recognise a loss on disposal of approximately HK$78,670,000. This loss will differ upon actual completion of the disposal.

As such, all the assets and liabilities of CSL, China Star Investment and Brilliant Arts were classified as assets classified as held for sale and the liabilities associated with these assets were classified as held for sale.

The disposal has completed on 18th August 2008.

EMPLOYEES

As at 30th June 2008, the Group employed 78 staffs (2007: 248 staffs), including 30 staffs (2007: 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

During the period under review, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group's revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging. Despite the recent tightening of travel restrictions for Mainland Chinese travelers to visit Macau may have impact on Macau's gaming revenue growth over the next few months, the Group remains optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured.

Besides, the Group will continue its strength in the production of high quality films with stringent control and cautious measure on capital investment and efficient management.

Looking ahead, the Group will streamline its business operations which can enable the Group to operate in a much cost effective manner, such as the disposal of CSL and concentrate its resources on investment opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

5. INDEBTEDNESS

Borrowings

As at the close of business on 30th November 2008, being the latest practicable date for the purpose of the indebtedness, the Group had outstanding borrowings of approximately HK$711,997,000 which comprised of (i) bank borrowings and overdrafts of approximately HK$567,884,000, which were secured by the leasehold land and building and investment properties of the Group; and (ii) liability component of the convertible notes of approximately HK$144,113,000 with principal amount of HK$168,000,000.

Contingent liabilities

As at 30th November 2008, save as the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Group to the extent of HK$375,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30th November 2008, 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 or other material contingent liabilities.

6. WORKING CAPITAL

The Board, after due and careful enquiry, is of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's present available internal resources, the Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

7. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date of which the latest published audited financial statements of the Company were made up.

1. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the year ended 31 December 2007. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for the year ended 31 December 2007

Independent Auditor's Report

Cheung & Siu **Certified Public Accountants *(Practising)***
張、蕭會計師事務所

Room A,15th Floor
Fortis Bank Tower
77-79 Gloucester Road
Wanchai
Hong Kong

To the members of
GOLIFE CONCEPTS HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Golife Concepts Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 99, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on

Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheung & Siu
Certified Public Accountants (Practising)

Hong Kong, 20 March 2008

Consolidated Income Statement
Year ended 31 December 2007

	Notes	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
TURNOVER	7		
Continuing operations		60,536	18,342
Discontinued operation		62	543
		60,598	18,885
Cost of sales		(22,830)	(7,385)
Gross profit		37,768	11,500
Other revenues and gains	7	6,212	5,357
Selling and distribution costs		(3,600)	(994)
Administrative expenses		(55,264)	(12,240)
Finance costs	8	(1,800)	(1,799)
Share of loss of jointly controlled entities		(4)	—
Impairment of goodwill		(75,552)	—
PROFIT/(LOSS) BEFORE TAX	9		
Continuing operations		(92,580)	486
Discontinued operation	13	340	1,338
		(92,240)	1,824
Tax	11		
Continuing operations		—	(676)
Discontinued operation		—	—
		—	(676)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS			
Continuing operations		(92,580)	(190)
Discontinued operation	13	340	1,338
		(92,240)	1,148
Earnings/(loss) per share	15		
From continuing and discontinued operations			
— basic (cents)		(8.69)	0.32
— diluted (cents)		N/A	N/A
From continuing operation			
— basic (cents)		(8.72)	(0.05)
— diluted (cents)		N/A	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	6,712	2,955
Goodwill	17		75,552
Intangible assets	18	—	4,720
Investments in jointly controlled entities	20	—	—
Investment in an associate	21	—	—
Total non-current assets		6,712	83,227
CURRENT ASSETS			
Inventories	22	8,992	2,643
Trade receivables	23	4,195	2,209
Deposits, prepayments and other receivables		13,914	4,598
Financial assets at fair value through profit or loss	24	966	6,190
Derivative financial instruments	25	840	92
Amounts due from jointly controlled entities	20	562	—
Pledged deposits		5,949	—
Cash and bank balances		3,587	3,426
Total current assets		39,005	19,158
CURRENT LIABILITIES			
Trade and bills payables	26	2,593	3,116
Other payables and accruals		15,114	3,212
Derivative financial instruments	25	459	—
Interest-bearing bank and other borrowings	27	13,563	12,460
Amount due to a jointly controlled entity	20	675	—
Tax payable		755	1,076
Total current liabilities		33,159	19,864
Net current assets/(liabilities)		5,846	(706)
Total assets less current liabilities		12,558	82,521
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	805	2,785
Convertible notes	29	—	48,188
Total non-current liabilities		805	50,973
Net assets		11,753	31,548
EQUITY			
Issued capital	31	12,470	5,268
Equity component of convertible notes	29	—	11,316
Reserves		(717)	14,964
Total equity		11,753	31,548

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

	Issued capital *HK$'000*	Share premium *HK$'000*	Equity component of convertible notes *HK$'000*	Exchange reserve *HK$'000*	Share-based payments reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2006	65,850	34,698	—	(15)	—	(106,359)	(5,826)
Capital reorganisation	(64,533)	—	—	—	—	64,533	—
Issue of shares on open offer	3,951	21,730	—	—	—	—	25,681
Share issuance costs	—	(786)	—	—	—	—	(786)
Issue of convertible notes	—	—	11,999	—	—	—	11,999
Redemption of convertible notes	—	—	(683)	—	—	—	(683)
Reserve realized upon disposal of subsidiaries	—	—	—	15	—	—	15
Net profit for the period	—	—	—	—	—	1,148	1,148
At 31 December 2006 and 1 January 2007	5,268	55,642	11,316	—	—	(40,678)	31,548
Redemption of convertible notes — *note 29*	—	—	(195)	—	—	—	(195)
Conversion of convertible notes — *note 29*	5,702	53,546	(11,121)	—	—	—	48,127
Placing of new shares — *note 31*	1,500	23,250	—	—	—	—	24,750
Cost of placing of new shares	—	(335)	—	—	—	—	(335)
Recognition of equity-settled share-based payments — *note 32*	—	—	—	—	98	—	98
Net loss for the year	—	—	—	—	—	(92,240)	(92,240)
At 31 December 2007	12,470	132,103	—	—	98	(132,918)	11,753

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax:		
Continuing operations	(92,580)	486
Discontinued operation	340	1,338
Adjustments for:		
Finance costs	1,800	1,799
Interest income	(247)	(9)
Depreciation	2,991	732
Impairment of investment in an associate	—	4
Impairment of goodwill	75,552	—
Impairment of intangible assets	4,047	—
Impairment of trade receivables	490	—
Amortisation of intangible assets	673	280
Equity-settled share option expenses	98	—
Share of loss of jointly controlled entities	4	—
Loss on disposal of property, plant and equipment	501	—
Gain on disposal of subsidiaries	(385)	(1,698)
Waiver of other loan	—	(1,000)
Fair value gain on financial assets at fair value through profit or loss	(4)	(2,014)
Fair value gain on derivative financial instruments	(381)	(92)
Reversal of impairment of trade receivables	—	(3)
Operating cash flow before movements in working capital	(7,101)	(177)
Decrease/(increase) in inventories	(6,349)	2,837
Increase in trade receivables	(2,476)	(409)
Decrease/(increase) in deposits, prepayments and other receivables	(9,316)	5,677
Decrease/(increase) in financial assets at fair value through profit or loss	5,228	(4,176)
Decrease in derivative financial instruments	92	—
Increase/(decrease) in trade and bills payables	(523)	1,342
Increase/(decrease) in other payables and accruals	12,237	(400)
Increase in amount due to a jointly controlled entity	675	—
Cash generated from/(used in) operations	(7,533)	4,694
Interest received	247	9
Hong Kong profits tax paid	(321)	(2,718)
Overseas tax paid	—	(47)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(7,607)	1,938

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Year ended 31/12/2007 *HK$'000*	Period from 1/4/2006 to 31/12/2006 *HK$'000*
INVESTING ACTIVITIES		
Acquisition of a subsidiary	—	(21,362)
Disposal of subsidiaries	50	—
Purchases of shareholding in jointly controlled entities	(4)	—
Advances to jointly controlled entities	(562)	—
Purchases of items of property, plant and equipment	(7,249)	(125)
Increase in pledged time deposits	(5,949)	—
NET CASH USED IN INVESTING ACTIVITIES	(13,714)	(21,487)
FINANCING ACTIVITIES		
Interest paid	(1,056)	(315)
Proceeds from issue of shares	24,415	24,895
Redemption of convertible notes	(1,000)	(3,500)
Repayment of other loan	—	(3,775)
New bank loans	3,807	7,300
Repayment of bank loans	(7,202)	(873)
Increase/(decrease) in trust receipt loans	4,577	(3,157)
Repayments of capital element of finance leases	(395)	(183)
NET CASH FROM FINANCING ACTIVITIES	23,146	20,392
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,825	843
Cash and cash equivalents at beginning of year/period	955	112
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	2,780	955
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,587	3,426
Bank overdrafts	(807)	(2,471)
	2,780	955

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	1	81,180
Total non-current assets		1	81,180
CURRENT ASSETS			
Deposits, prepayments and other receivables		7,098	—
Amounts due from subsidiaries	19	13,353	—
Cash and bank balances		1	1
Total current assets		20,452	1
CURRENT LIABILITIES			
Other payables and accruals		5,654	685
Amounts due to subsidiaries	19	3,107	3,915
Total current liabilities		8,761	4,600
Net current assets/(liabilities)		11,691	(4,599)
Total assets less current liabilities		11,692	76,581
NON-CURRENT LIABILITIES			
Convertible notes	29	—	48,188
Net assets		11,692	28,393
EQUITY			
Issued capital	31	12,470	5,268
Equity components of convertible notes	29	—	11,316
Reserves	34	(778)	11,809
Total equity		11,692	28,393

Notes to the Financial Statements

31 December 2007

1. General Information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite A, 15 Floor, Wyndham Place, 40-44 Wyndham Street, Central, Hong Kong, respectively.

The Company's principal activity has not changed during the year and consisted of investment holding. The principal activity of its subsidiaries is distribution of high-end apparel and accessories. The Group was also engaged in design, development and sales of location-based technology devices and application, which were discontinued upon the disposal of subsidiaries in current year, further details of which are set out in note 13 to the financial statements.

2. Basis of Preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. Impact of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The adoption of the new HKFRSs has given rise to additional disclosures as follows:

HKAS 1 (Amendment) — Capital Disclosures

In accordance with the HKAS 1 (Amendment) — Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 42.

HKFRS 7 — Financial Instruments: Disclosures

HKFRS 7 — Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's consolidated financial statements now feature:

— a sensitive analysis explained the Group's market risk exposure in regard to its financial instruments, and

— a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

3.1 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
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]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

4. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the period has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Company and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Company and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realized upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS39, if the Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the income statement and reserves, respectively. The Group's interests in associates are stated in the balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups or units. Each unit or group of units to which the goodwill is so allocated:

— represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

— is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cashgenerating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Furniture and equipment	20% – 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Franchise rights

Franchise rights are stated at cost less any impairment losses, and are amortised on the straightline basis over their estimated useful lives of 4 to 10 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, its transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

— the rights to receive cash flows from the asset have expired;

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

— the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability components is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes on fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as:

— fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

— cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follow:

Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining terms to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised on profit or loss.

The Company discontinues fair value hedge accounting of the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Company's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profits or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost if a non-financial asset or liability, the accounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, except:

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 carryforward of unused tax credits and unused tax losses can be utilised except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(b) from the rendering of services, when services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Equity-settled share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group ("market conditions"), if applicable.

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognized in profit or loss.

Pension scheme

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the period. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

5. Significant Accounting Judgements And Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date 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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was nil (2006: approximately HK$75,552,000). More details are given in note 17.

Impairment for trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

For management purposes, the Group is organized into two operating divisions — design, development and sales of location-based technology devices and applications, and distribution of high-end apparel and accessories. These divisions are the basis on which the Group reports its primary segment information. In September 2007, the Group ceased the business of design, development and sales of location-based technology devices and application.

Segment information about these businesses is presented below.

	Continuing operation		Discontinued operation			
	Distribution of high-end apparel and accessories		Design, development and sales of location-based technology devices and applications		Consolidated	
	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:						
External turnover	60,536	18,342	62	543	60,598	18,885
Results:						
Segment results	(91,264)	363	340	1,338	(90,924)	1,701
Unallocated revenue					5,014	3,412
Unallocated expenses					(4,530)	(1,490)
Finance costs					(1,800)	(1,799)
Profit/(loss) before tax					(92,240)	1,824
Tax					—	(676)
Profit/(loss) for the year/period					(92,240)	1,148

	Continuing operation		Discontinued operation			
	Distribution of high-end apparel and accessories		Design, development and sales of location-based technology devices and applications		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets:						
Segment assets	35,262	94,395	—	1	35,262	94,396
Unallocated corporate assets					10,455	7,989
Total assets					45,717	102,385
Liabilities:						
Segment liabilities	27,456	21,547	—	417	27,456	21,964
Unallocated corporate liabilities					6,508	48,873
Total liabilities					33,964	70,837

	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
Other segment information:						
Capital expenditure	7,249	1,741	—	—	7,249	1,741
Depreciation	2,991	732	—	—	2,991	732
Amortisation	673	280	—	—	673	280
Impairment loss	80,089	—	—	4	80,089	4

(ii) ***Geographical segments***

The following tables present revenue, assets and capital expenditures for the Group's geographical segments for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

	Hong Kong		Taiwan		Consolidated	
	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
Turnover:						
Continuing operations	47,108	13,255	13,428	5,087	60,536	18,342
Discontinued operation	62	543	—	—	62	543
External turnover	47,170	13,798	13,428	5,087	60,598	18,885
Assets:						
Segment assets	38,407	19,392	7,310	2,721	45,717	22,113
Unallocated corporate assets					—	80,272
Total assets					45,717	102,385
Other segment information:						
Capital expenditure	4,475	1,741	2,774	—	7,249	1,741

7. Turnover, Other Revenues and Gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

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

	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*
TURNOVER		
CONTINUING OPERATIONS		
Distribution of high-end apparel and accessories	60,536	18,342
DISCONTINUED OPERATION		
Design, development and sales of location-based technology devices and applications	62	543
	60,598	18,885
OTHER REVENUES AND GAINS		
Bank interest income	247	9
Consultancy fee income	—	72
Fair value gain on financial assets at fair value through profit or loss	4	2,014
Fair value gain on derivative financial instruments	381	92
Gain on disposal of subsidiaries	385	1,698
Gain on disposal of financial assets at fair value through profit or loss	4,813	398
Management services income	340	—
Reversal of impairment of trade receivables	—	3
Sundry income	42	71
Waiver of other loan	—	1,000
	6,212	5,357

8. Finance Costs

	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*
Interest on convertible notes	744	1,484
Interest on bank loans and overdrafts wholly repayable within five years	1,004	289
Interest on finance leases	52	26
	1,800	1,799

9. Profit/(Loss) before Tax

Profit/(loss) before tax is arrived at after charging:

	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
Cost of inventories sold	22,830	7,323
Cost of services rendered	—	62
Auditor's remuneration	360	295
Amortisation of intangible assets	673	280
Depreciation of property, plant and equipment	2,991	732
Loss on disposal of property, plant and equipment	501	—
Exchange losses, net	378	76
Minimum lease payments under operating leases on land and buildings	15,202	3,962
Impairment of investment in an associate	—	4
Impairment of trade receivables	490	—
Impairment of intangible assets	4,047	—
Staff costs (excluding directors' remuneration — *note 10*)		
Salaries and allowances	11,778	3,119
Equity-settled share option expenses	32	—
Pension scheme contributions	364	128
	12,174	3,247

10. Directors' Remuneration and Five Highest Paid Employees

The remuneration of each director for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006 are set out below:

Year ended 31 December 2007:

	Fees	**Salaries and allowances**	**Retirement scheme contribution**	**Share option benefit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lo Mun Lam, Raymond	380	—	—	—	380
Gouw San Bo, Elizabeth *(note 1)*	—	1,227	6	—	1,233
Richard Yen *(note 2)*	500	944	33	631	
Leung Tak Wah *(note 3)*	—	246	7	—	253
Non-executive directors					
Duncan Chiu	—	—	—	33	33
Yu Wai Yin, Vicky *(note 4)*	33	—	—	—	33
Independent non-executive directors					
Lum Pak Sum	221	—	—	—	221
Sum Chun Ho, Sam	60	—	—	—	60
Wan Kwok Pan	49	—	—	—	49
Total	1,243	1,567	17	66	2,893

Period from 1 April 2006 to 31 December 2006

	Fees	Salaries and allowances	Retirement scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lo Mun Lam, Raymond	200	—	—	—	200
Leung Tak Wah	—	190	9	—	199
Yu Wai Yin, Vicky *(note 4)*	40	—	—	—	40
Non-executive directors					
Duncan Chiu *(note 5)*	—	—	—	—	—
Richard Yen *(note 2)*	—	—	—	—	—
Independent non-executive directors					
Lum Pak Sum	—	—	—	—	—
Sum Chun Ho, Sam	19	—	—	—	19
Wan Kwok Pan	14	—	—	—	14
Total	273	190	9	—	472

Notes:

1. Ms. Gouw San Bo, Elizabeth was appointed as an executive director on 11 July 2007.

2. Mr. Richard Yen was appointed as a non-executive director and redesignated as an executive director on 27 September 2006 and 28 August 2007, respectively.

3. Mr. Leung Tak Wah resigned as an executive director on 11 July 2007.

4. Ms. Yu Wai Yin Vicky, was redesignated as a non-executive director on 3 April 2007.

5. Mr. Duncan Chiu was appointed as a non-executive director on 27 September 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year/period.

Of the five highest paid individuals, three (period ended 31 December 2006: two) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above and the disclosure below. Details of the emoluments of the remaining two (period ended 31 December 2006: three) non-directors, highest paid employees of the Group for the year/period are as follows:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	3,868	600
Share option benefit	32	—
Retirement benefits scheme contributions	18	30
	3,918	630

Included in the above, the remuneration of Ms. Gouw San Bo, Elizabeth, an executive director, who was one of the five highest paid individuals for the period from 1 April 2006 to 31 December 2006 before appointed as an executive director in current year is as follows:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	953	460
Share option benefit	—	—
Retirement benefits scheme contributions	6	4
	959	464

The number of non-director, highest paid individuals whose remuneration fell within the following bands (excluding Ms. Gouw San Bo), is as follows:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Nil to HK$1,000,000	1	3
HK$2,000,001 to HK$2,500,000	1	—
	2	3

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (period ended 31 December 2006: nil).

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. 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, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

11. Tax

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In prior year, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year/period at the rates of tax prevailing in the countries in which the Group operates.

	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*
Current provision:		
— Hong Kong	—	575
— Overseas	—	101
	—	676
Attributable to:		
Continuing operations	—	676
Discontinued operation *(note 13)*	—	—
	—	676

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	Year ended 31/12/2007		**Period from 1/4/2006 to 31/12/2006**	
	HK$'000	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(92,240)		1,824	
Tax at the domestic income tax rate	(16,142)	(17.5)	319	17.5
Effect of different tax rates in other jurisdictions	(74)	(0.1)	(24)	(1.3)
Income not subject to tax	(70)	(0.1)	(471)	(25.8)
Expenses not deductible for tax	15,708	17.0	336	18.4
Deductible temporary differences not recognized	30	0.1	—	—
Tax losses not recognized	548	0.6	516	28.3
Tax charge at effective rate	—	—	676	37.1

12. Net Loss Attributable to Shareholders

The net loss attributable to shareholders for the year ended 31 December 2007 dealt with in the financial statements of the Company is approximately HK$89,146,000 (period ended 31 December 2006: loss of approximately HK$7,511,000).

13. Discontinued Operation

On 20 September 2007, the Group decided to cease its business of design, development and sales of location-based technology devices and application. On 27 September 2007, the Company disposed of Satellite Devices (BVI) Limited, which held a subsidiary called Satellite Devices Limited. Satellite Devices (BVI) Limited engaged in investment holding and Satellite Devices Limited engaged in design, development and sales of location-based technology devices and application and was a separate business segment that was part of Hong Kong operations.

The operating result associated with the business of design, development and sales of location-based technology devices and application for the year/period and gain on disposal of subsidiaries related to the discontinued operation are presented below:

		Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	Notes	*HK$'000*	*HK$'000*
Turnover	*7*	62	543
Cost of sales		—	(62)
Other revenues and gains		—	74
Selling and distribution costs		—	(5)
A dministrative expenses		(107)	(910)
Loss before tax and gain on disposal of subsidiaries		(45)	(360)
Gain on disposal of subsidiaries	*35*	385	1,698
Profit before tax from the discontinued operation		340	1,338
Tax	*11*	—	—
Profit attributable to shareholders from the discontinued operation		340	1,338

The net cash flows incurred by the disposed group are as follows:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Operating activities	(1)	(89)
Investing activities	50	—
Financing activities	—	—
Net cash inflow/(outflow)	49	(89)

14. Dividend

The directors of the Company do not recommend the payment of a dividend for the year (period ended 31 December 2006: nil).

15. Earnings/(Loss) Per Share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year/period.

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
For continuing and discontinued operations Profit/(loss) attributable to shareholders	(92,240)	1,148
For continuing operations Loss attributable to shareholders	(92,580)	(190)
	Number of shares	
Weighted average number of ordinary shares in issue during the year/period	1,061,242,585	361,577,386

Diluted earnings/(loss) per share is not presented as the convertible notes and share options had anti-dilutive effects on the basic earnings/(loss) per share.

16. Property, Plant and Equipment

Group

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 April 2006	—	—	—	—
Acquired on acquisition of a subsidiary	3,805	544	—	4,349
Additions	52	73	1,616	1,741
At 31 December 2006 and 1 January 2007	3,857	617	1,616	6,090
Additions	6,298	951	—	7,249
Disposals	(1,493)	—	—	(1,493)
At 31 December 2007	8,662	1,568	1,616	11,846
Accumulated depreciation:				
At 1 April 2006	—	—	—	—
Acquired on acquisition of a subsidiary	2,050	353	—	2,403
Charge for the period	347	62	323	732
At 31 December 2006 and 1 January 2007	2,397	415	323	3,135
Charge for the year	2,469	198	324	2,991
Disposals	(992)	—	—	(992)
At 31 December 2007	3,874	613	647	5,134
Net book value:				
At 31 December 2007	4,788	955	969	6,712
At 31 December 2006	1,460	202	1,293	2,955

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2007, approximately amounted to HK$969,000 (2006: HK$1,293,000).

17. Goodwill

Group

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	HK$'000
At 1 April 2006	—
Arising from acquisition of a subsidiary	75,552
Impairment during the period	—
At 31 December 2006 and 1 January 2007	75,552
Impairment during the year	(75,552)
At 31 December 2007	—

Impairment test for cash-generating units containing goodwill and intangible assets (note 18).

Goodwill acquired has been allocated to the cash generating unit ("CGU") of Golife (Hong Kong) Limited, a wholly owned subsidiary of the Company.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	2007
Gross profit margin	61.5%
Growth rate	5.0%
Discount rate	10.8%

Management determined the budgeted gross profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant the CGU.

The recoverable amounts of the CGU are lower than their carrying amounts based on value-in-use calculations.

Accordingly, the goodwill was fully impaired during the year. Impairment loss of approximately HK$75,552,000 (period ended 31 December 2006: nil) is recognised in the consolidated income statement.

18. Intangible Assets

Group

	Franchise rights
	HK$'000
Cost:	
At 1 April 2006	—
Arising from acquisition of a subsidiary	5,000
At 31 December 2006, 1 January 2007 and 31 December 2007	5,000
Accumulated amortisation and impairment:	
At 1 April 2006	—
Amortised for the period	280
At 31 December 2006 and 1 January 2007	280
Amortised for the year	673
Impairment for the year	4,047
At 31 December 2007	5,000
Net book value:	
At 31 December 2007	—
At 31 December 2006	4,720

Intangible assets acquired has been allocated to the cash generating unit ("CGU") of Golife (Hong Kong) Limited, a wholly owned subsidiary of the Company. The Group tests intangible assets annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Accordingly, the intangible assets were fully impaired during the year. Impairment less of approximately HK$4,047,000 (period ended 31 December 2006: nil) is recognised in the consolidated income statement. Further details of the impairment test are also set out in note 17.

19. Interests in Subsidiaries

	Company	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	81,181	81,180
Impairment in value	(81,180)	—
	1	81,180
Amounts due from subsidiaries	17,853	102,193
Amounts due to subsidiaries	(3,107)	(3,915)
Impairment in value	(4,500)	(102,193)
	10,246	(3,915)
	10,247	77,265

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid up capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Golife (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Distribution of high-end apparel and accessories
Golife (Trading) Limited	Hong Kong	HK$300,000	—	100%	Distribution of high-end jewellery and accessories
Golife (Management) Limited (Formerly known as On Winner Enterprises Limited)	Hong Kong	HK$10,000	—	100%	Dormant
GOL (International) Limited	British Virgin Islands	US$1	—	100%	Dormant
Peak Choice Limited	British Virgin Islands	US$1	100%	—	Investment in securities
Sunfame Limited	British Virgin Islands	US$100	100%	—	Dormant
Profit First Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Better Point Limited	British Virgin Islands	US$1	100%	—	Investment holding
CR Hong Kong (Trading) Limited	Hong Kong	HK$1	—	100%	Dormant

20. Interests in Jointly Controlled Entities

	Group 2007 *HK$'000*	2006 *HK$'000*
Unlisted shares, at cost	4	—
Share of post acquisition loss	(4)	—
	—	—
Amounts due from jointly controlled entities	562	—
Amount due to a jointly controlled entity	(675)	—
	(113)	—

The share of post acquisition loss is limited to the cost of investments. The unrecognized share of post acquisition loss for the year is amounted to approximately HK$725,000.

The amounts due from/(to) the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) the jointly controlled entities approximate to their fair value.

Particulars of the jointly controlled entities as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
LOC Limited	British Virgin Islands	50	50	50	Investment holding
Life of Circle Limited	Hong Kong	50	50	50	Wholesales of high-end jewellery and accessories
CR Hong Kong Limited	Hong Kong	50	50	50	Dormant

All of the above investments in jointly controlled entities are indirectly held by the Company.

The following table illustrates the summarized financial information of the Group's jointly controlled entities:

	2007	2006
	HK$'000	*HK$'000*
The jointly controlled entities' assets and liabilities:		
Current assets	1,400	—
Non-current assets	12	—
Current liabilities	(2,862)	—
Non-current liabilities	—	—
Net liabilities	(1,450)	—
Group's share of net assets of jointly controlled entities	—	—
The jointly controlled entities' results:		
Turnover	3,606	—
Cost of sales	(2,511)	—
Gross profit	1,095	—
Total expenses	(2,553)	—
Tax	—	—
Loss after tax	(1,458)	—
Group's share of loss of jointly controlled entities for the year	(4)	—
Unrecognized and accumulated unrecognized share of loss of jointly controlled entities	(725)	—

21. Investment in an Associate

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets	—	4
Impairment	—	(4)
	—	—

The investment in an associate was disposed during the year.

22. Inventories

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Merchandise	8,992	2,643

At 31 December 2007, no inventories were carried at net realisable value (2006: Nil).

23. Trade Receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 — 30 days	2,430	1,710
31 — 60 days	1,503	499
61 — 90 days	24	—
Over 90 days	728	—
	4,685	2,209
Less: impairment	(490)	—
	4,195	2,209

24. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Equity investments listed in Hong Kong, at fair value	238	1,493
Derivative financial assets, at fair value	728	4,697
	966	6,190

At 31 December 2007, the carrying amount of the Group's financial assets at fair value through profit or loss amounted to approximately HK$728,000 was pledged as security for the Group's bank loans amounted to approximately HK$787,000 (2006: nil), as further detailed in note 27 to the financial statements.

The above equity investments were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

25. Derivative Financial Instruments

	Group			
	2007		2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Foreign currency contracts	840	459	92	—

The carrying amount of forward currency contracts are the same as their fair values.

The Group has eight forward currency contracts outstanding at 31 December 2007 (2006: two) to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to approximately HK$381,000 was credited to the income statement during the year (period ended 31 December 2006: approximately HK$92,000).

26. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 — 30 days	1,707	2,433
31 — 60 days	178	367
61 — 90 days	13	16
Over 90 days	695	300
	2,593	3,116

27. Interest-bearing Bank and Other Borrowings

	Group					
	2007			2006		
	Effective interest rate *(%)*	**Maturity or interest reprice date, whichever is earlier**	*HK$'000*	**Effective interest rate** *(%)*	**Maturity or interest reprice date, whichever is earlier**	*HK$'000*
Current						
Finance lease payables — *note 28*	3.35%	2008	395	3.35%	2007	395
Bank overdrafts — secured	best lending rate	on demand	807	best lending rate + 1%	on demand	2,471
Bank loans — secured	5.81% or prime rate +2%	2008	5,021	prime rate +2%	2007	6,831
Trust receipt loans — secured	best lending rate	2008	7,340	best lending rate	2007	2,763
			13,563			12,460
Non-current						
Finance lease payables — *note 28*	3.35%	2009 – 2011	643	3.25%	2008 – 2011	1,038
Bank loans — secured	prime rate +2%	2009 – 2010	162	prime rate + 2%	2008 – 2009	1,747
			805			2,785
			14,368			15,245

	Group 2007 HK$'000	Group 2006 HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	13,168	12,065
In the second year	162	1,584
In the third to fifth years, inclusive	—	163
	13,330	13,812
Other borrowings payable:		
Within one year or on demand	395	395
In the second year	395	395
In the third to fifth years, inclusive	248	643
	1,038	1,433
	14,368	15,245

The Group's banking facilities are secured by:

(i) the pledge of certain of the Group's fixed deposits amounted to approximately HK$5,949,000;

(ii) the pledge of certain of the Group's financial assets at fair value through profit or loss with carrying amount of approximately HK$728,000;

(iii) corporate guarantee provided by the Company; and

(iv) personal guarantees provided by directors of a subsidiary of the Group.

28. Finance Lease Payables

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms ranging from three to four years.

At the balance sheet date, the total future minimum lease payments under finance lease and the present value, were as follows:

	Group			
	Minimum lease payments 2007 *HK$'000*	**Minimum lease payments 2006** *HK$'000*	**Present value of minimum lease payments 2007** *HK$'000*	**Present value of minimum lease payments 2006** *HK$'000*
Amount payable:				
Within one year	447	447	395	395
In the second year	447	447	395	395
In the third year to fifth years, inclusive	280	727	248	643
Total minimum finance lease payments	1,174	1,621	1,038	1,433
Future finance charges	(136)	(188)		
Total net finance lease payables	1,038	1,433		
Portion classified as current liabilities — *note 27*	(395)	(395)		
Long term portion — *note 27*	643	1,038		

29. Convertible Notes

On 31 July 2006, the Company issued interest-free convertible notes with a nominal value of HK$61.52 million to an independent noteholder. The noteholder has the right to convert the whole or any part of the principal amount of the convertible note into shares at any time and from time to time after six months from the date of issue of the convertible notes up to the date immediately prior to the maturity date.

The fair value of the liability component and the equity conversion component were determined at issurance of the convertible notes. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

The convertible notes recognized in the balance sheets of the Group and the Company are calculated as follows:

	Group and Company
	HK$'000
Nominal value of convertible notes issued on 31 July 2006	61,520
Equity component	(11,999)
Liability component at the issuance date	49,521
Redemption during the period	(2,817)
Interest expenses	1,484
Liability component at 31 December 2006 and 1 January 2007	48,188
Redemption during the year	(805)
Conversion during the year	(48,127)
Interest expenses	744
Liability component at 31 December 2007	—
Equity component at the issuance date	11,999
Redemption during the period	(683)
Equity component at 31 December 2006 and 1 January 2007	11,316
Redemption during the year	(195)
Conversion during the year	(11,121)
Equity component at 31 December 2007	—

During the year, the convertible notes of the Company were redeemed and converted into ordinary shares.

30. Deferred Tax

Group

The movements in deferred tax liabilities and assets during the year/period are as follows:

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 April 2006	(7)	7	—
Charged/(credited) to consolidated income statement	1	(1)	—
At 31 December 2006 and 1 January 2007	(6)	6	—
Charged/(credited) to consolidated income statement	(15)	15	—
At 31 December 2007	(21)	21	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 December 2007, the Group had estimated unused tax losses of approximately HK$1,937,000 (2006: approximately HK$97,340,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset was recognized during the year (2006: nil) due to the unpredictability of future profit streams. The unrecognized tax losses may be carried forward indefinitely.

31. Share Capital

	2007 *HK$'000*	2006 *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	100,000	100,000
Issued and fully paid:		
1,247,001,488 (2006: 526,801,488) ordinary share of HK$0.01 each	12,470	5,268

A summary of the movements of the Company's issued capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Shares premium HK$'000	Total HK$'000
At 1 April 2006, ordinary shares of HK$0.1 each		658,501,863	65,850	34,698	100,548
Capital reorganisation	*(i)*	(526,801,491)	(64,533)	—	(64,533)
Open offer, net	*(ii)*	395,101,116	3,951	20,944	24,895
At 1 January 2007, ordinary shares of HK$0.01 each		526,801,488	5,268	55,642	60,910
Conversion of convertible notes	*(iii)*	570,200,000	5,702	53,546	59,248
Placing, net	*(iv)*	150,000,000	1,500	22,915	24,415
At 31 December 2007, ordinary shares of HK$0.01 each		1,247,001,488	12,470	132,103	144,573

Notes:

(i) Pursuant to the capital reorganization completed on 22 June 2006, 658,501,863 issued shares were consolidated into 131,700,372 shares on the basis of every 5 shares consolidated into 1 share. The nominal value of each issued consolidated share was then reduced from HK$0.1 each to HK$0.01 each by way of a reduction of capital. Accordingly, an amount of HK$64,533,183 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

(ii) 395,101,116 new ordinary shares of the Company were issued under the Open Offer on 25 July 2006, proceed of approximately HK$23.05 million was being raised as working capital.

(iii) During the year, convertible notes with principal amount of HK$57,020,000 were converted into 570,200,000 ordinary shares at a conversion price of HK$0.10 per share.

(iv) 150,000,000 new ordinary shares of the Company had been issued at a placing price of HK$0.165 per share on 18 June 2007, proceed of approximately HK$24,415,000 was being raised as working capital.

32. Share Option Scheme

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

On 3 July 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1.00 for each lot of share option to subscribe for an aggregate of 2,970,000 shares under the Scheme at an exercise price of HK$0.219 per share.

(a) Details of share options granted during the year and remain outstanding as at year end

Name and categories of grantees	**Date of grant**	**Exercise period**	**Exercise price per share**	**Number of options**	
				2007	**2006**
			HK$		
Non-executive directors					
Duncan Chiu	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Richard Yen	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Sub-total				1,980,000	—
Employee					
In aggregate	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Total				2,970,000	—

(b) The fair value of options granted under the Scheme measured at the date of grant on 3 July 2007 was approximately HK$98,000. The following significant assumptions were used to derive the fair values using the Binomial Option Pricing Model:

Date of grant	3 July 2007
Time to maturity *(year)*	4.7
Expected volatility *(%)*	35.0
Risk-free interest rate *(%)*	4.5
Up movement probability *(%)*	49.9
Sub-optimal factor	1.5

Taken into consideration of early exercise behavior of the option holders, sub-optimal factor of 1.5 was used. Due to the recent business transformation of the Company, the historical volatility of the Company cannot fully reflect the stock price movement of new business of the Company. The calculation of expected volatility used the historical volatility of two comparable companies with similar business.

33. Employee Award Plan

The Company's employee award plan (the "Plan") was adopted by the Board of Directors on 24 July 2007 for the primary purpose of recruiting and motivating employees and directors to achieve superior performance. The Plan is valid and effective for 10 years commencing 24 July 2007. Under the Plan, the Remuneration Committee of the Company may conditionally grant an award to any directors or employee of the Company and its subsidiaries. Upon vesting of the award, the grantee shall be entitled to cash payment under the award if the vesting price exceeds award price, subject to an overall limit as stated in the award letter.

The amount of award payment shall be determined in accordance with the following formula:

(Vesting Price — Award price) x Award Number

Vesting price means the average closing price of the Company's shares as stated in the daily quotation sheets issued by the stock exchange for five business days immediately preceding the vesting date.

The following tables set out the movement in the Plan:

Year ended 31 December 2007

Name and categories of grantees	**Date of grant**	**Date of expiry**	**Award number**	**Award Price** *HK$*	**Overall limit of cash payment** *HK$'000*	**Award granted during the year** *HK$*
Director						
Gouw San Bo, Elizabeth	25 July 2007	31 December 2007	30,000,000	0.236	3,000	—
Lo Mun Lam, Raymond	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Richard Yen	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Sub-total			40,000,000		4,000	—
Employee						
In aggregate	25 July 2007	31 December 2007	85,000,000	0.236	8,500	—
Total			125,000,000		12,500	—

No grantee was entitled to any payment under the award during the year.

34. Reserves

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

Company

	Share premium *HK$'000*	Share-based payments reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2006	34,698	—	(100,855)	(66,157)
Capital reorganization	—	—	64,533	64,533
Issue of shares on open offer	21,730	—	—	21,730
Share issuance costs	(786)	—	—	(786)
Net loss for the period	—	—	(7,511)	(7,511)
At 31 December 2006 and 1 January 2007	55,642	—	(43,833)	11,809
Conversion of convertible notes	53,546	—	—	53,546
Placing of new shares — *note 31*	23,250	—	—	23,250
Cost of placing of new shares	(335)	—	—	(335)
Recognition of equity-settled share-based payments — *note 32*	—	98	—	98
Net loss for the year	—	—	(89,146)	(89,146)
At 31 December 2007	132,103	98	(132,979)	(778)

Note: The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business.

At 31 December 2007, in the opinion of the directors, there is no Company's reserves available for distributions to shareholders (2006: HK$11,809,000).

35. Disposal of Subsidiaries

	Year ended 31/12/2007 *HK$'000*	Period from 1/4/2006 to 31/12/2006 *HK$'000*
Net liabilities disposal of:		
Amounts due to group companies	(100,521)	(3,193)
Accrued liabilities	(335)	—
	(100,856)	(3,193)
Realisation of reserves	—	15
Gain on disposal of subsidiaries	385	1,698
A mounts waived by group companies	100,521	1,480
	50	—
Satisfied by:		
Cash	50	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	Year ended 31/12/2007 *HK$'000*	Period from 1/4/2006 to 31/12/2006 *HK$'000*
Cash consideration	50	—
Cash and bank balances disposed of	—	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	50	—

36. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following material transactions with related parties during the year/period:

		Group	
		Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**
	Notes	*HK$'000*	*HK$'000*
Management fee charged by a related company	*(i)*	984	495
Sales to a jointly controlled entity	*(ii)*	11	—
Purchases from a jointly controlled entity	*(iii)*	3,446	—
Management fee income charged to a jointly controlled entity	*(iv)*	340	—
Subsidy received from a jointly controlled entity and deducted the cost of leasehold improvements	*(v)*	100	—
		Company	
Management fee income charged to subsidiaries	*(vi)*	780	—

Notes:

(i) Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests, by reference to sharing of office premises and supplies, and manpower in provision of administrative services to the Group.

(ii) Sales to a jointly controlled entity were carried out at cost.

(iii) Purchases from a jointly controlled entity were carried out in accordance with the negotiated prices with reference to market price.

(iv) Management fee income was charged at a rate mutually agreed between the Group and a jointly controlled entity and based on the cost of the administrative services provided by the Group.

(v) Subsidy received from a jointly controlled entity was based on a pre-agreed fixed amount.

(vi) Management fee income was charged by the Company based on the cost of manpower in provision of human resource services to the subsidiaries.

(b) On 15 August 2007, Better Point Limited ("Better Point"), a wholly-owned subsidiary of the Company, entered into an agreement with Austen Limited ("Austen") in which Mr. Richard Yen, a director of the Company, has interest, to establish CR Hong Kong Limited ("CR Hong Kong") which will principally engage in the holding of licensing rights including without limitation the investment in design, manufacturing and distribution of fashion and life style product of the brand called Cynthia Rowley.

(c) The Group's related company has guaranteed the trust receipt loans and bank overdrafts made to the Group's subsidiary up to HK$4,000,000 and HK$1,000,000 respectively at nil consideration. At the balance sheet date, such guarantee has been released by the related company.

37. Contingent Liabilities

At the balance sheet date, the Company has given unlimited corporate guarantees (2006: unlimited) to banks to secure the banking facilities granted to its subsidiaries. Facilities amounting to HK$12,490,038 (2006: HK$5,429,000) were utilized at the balance sheet date.

38. Operating Lease Arrangements

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	14,783	6,301
In the second to fifth years, inclusive	13,581	4,618
	28,364	10,919

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rents have not been included above and only the minimum lease commitments have been included in the above table.

The operating lease rentals of certain retail shops in Taiwan are based solely on the sales of the outlets. In the opinion of the directors of the Group, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitments have not been included above table.

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group and the Company had the following commitments at the balance sheet date:

(a) Commitments under license agreements in respect of several brand name products:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Minimum purchases:		
Within one year	26,451	19,072
In the second to fifth years, inclusive	92,017	86,151
Beyond five years	—	6,649
	118,468	111,872

(b) Capital commitments

	Company	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of a subsidiary *(note i)*	89,086	—
Legal and professional fee related to the acquisition	981	—
	90,067	—

Note (i): On 8 November 2007, the Company entered into an acquisition agreement in relation to the acquisition of 96.57% of the issued shares in Financière Solola and EUR1,400,000 convertible bonds issued by Financière Solola for an initial consideration of EUR7,717,766 and an Earn Out payment with a maximum amount of EUR2,894,162 which is subject to the audited consolidated EBITDA of the Financière Solola Group for the year ending 31 December 2008 based on the French GAAP. The above amount only represents the initial consideration of EUR7,717,766, which is equivalent to approximately HK$89,086,000.

In addition, the Company agreed that if the acquisition is not completed on or before a final cut-off date which defined in the acquisition agreement, the Company shall pay to the sellers, a break-up fee of EUR1,000,000 on or before 7 May 2008 or, the date falling 5 days after final cut-off date, provided that no such break up fee shall be payable in the event of fraud, negligence or willful default on the part of the sellers or where the sellers fail to comply with any of their material obligations with the acquisition agreement.

The transaction is yet to be approved by the shareholders.

(c) Pursuant to a shareholders agreement dated 21 February 2007 and a supplemental agreement dated 23 February 2007 entered into between Profit First Investments Limited ("Profit First"), a wholly owned subsidiary of the Company, and Zion Worldwide Limited ("Zion Worldwide"), a venturer of jointly controlled entity namely LOC Limited ("LOC"), Profit First has agreed to pay an earn-out payment to Zion Worldwide. The earn-out payment is based on the consolidated and audited net profit of LOC during the period from 1 March 2007 to 31 December 2010 with a minimum payment of HK$3,000,000 but in any event not exceeding HK$7,500,000. At 31 December 2007, the commitment on the earn-out payment is with minimum of HK$2,348,000.

(d) Pursuant to a shareholders agreement dated 15 August 2007 entered into between Better Point Limited ("Better Point"), a wholly owned subsidiary of the Company, and Austen Limited ("Austen"), a venturer of jointly controlled entity namely CR Hong Kong Limited ("CR Hong Kong"), Better Point and Austen have agreed to inject capital by equity and by way of shareholders' loans to CR Hong Kong in equal share in the total sum of HK$12,000,000. The proportion of the equity and shareholders' loans shall be agreed between Better Point and Austen. At 31 December 2007, Better Point has the outstanding commitment of HK$5,532,000 for the capital inject into CR Hong Kong.

40. Post Balance Sheet Events

The following events have occurred subsequent to 31 December 2007:

(a) On 4 February 2008, the Board announced that the Company proposes to raise funds ranging from approximately HK$56.86 million to approximately HK$57.00 million, before expenses, by way of the Rights Issue of not less than 997,601,190 Rights Shares and not more than 999,977,190 Rights Shares at the Subscription Price of HK$0.057 per Rights Share. The basis of the Rights Issue is four Rights Shares for every five existing ordinary shares of the Company held on 12 March 2008. Further details of the transaction are also set out in a prospectus, circular and an announcement of the Company dated 14 March 2008, 25 February 2008 and 4 February 2008, respectively.

(b) On 18 February 2008, Better Point Limited ("Better Point"), a directly wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Austen Limited to purchase its entire interests in CR Hong Kong Limited ("CR Hong Kong") which is a jointly controlled entity of Better Point. Upon the completion of the acquisition, CR Hong Kong becomes an indirectly wholly owned subsidiary of the Company.

(c) On 18 February 2008, the Company entered into a subscription agreement (as amended by a supplemental agreement dated 7 March 2008) with Chung Chiu Limited ("Chung Chiu") whereby Chung Chiu agreed to subscribe for the convertible bonds in the principal amount of HK$40,000,000 to be issued by the Company for a term of 3 years with a coupon rate of 2% per annum. Further details of the transaction are also set out in a circular and an announcement of the Company dated 12 March 2008 and 20 February 2008, respectively.

41. Financial Risk Management Objectives and Policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans, finance leases, and trade and bill payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as deposits, prepayments and other receivables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of the risks which are summarized below. The Group's accounting policies in relation to derivatives are set out in note 4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax** *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
2007			
Hong Kong dollar	50	67	(67)
Hong Kong dollar	(50)	(67)	67
2006			
Hong Kong dollar	50	69	(69)
Hong Kong dollar	(50)	(69)	69

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currency. Approximately 87% (period ended 31 December 2006: 100%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units. The Group manages the foreign exchange exposure arising from its normal course of business activities through forward currency contracts. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at the balance sheet date, all balances in foreign currencies other than the functional currency of the operating units have been substantially hedged by foreign exchange forward contracts. Thus, no sensitivity analysis on the foreign currency risk is presented.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2007					
Interest-bearing loans and borrowings	806	9,361	3,396	805	14,368
Trade and bills payables	—	2,593	—	—	2,593
Other payables and accruals	—	15,114	—	—	15,114
	806	27,068	3,396	805	32,075

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006					
Interest-bearing loans and borrowings	2,471	4,867	5,122	2,785	15,245
Trade and bills payables	—	3,116	—	—	3,116
Other payables and accruals	—	3,212	—	—	3,212
	2,471	11,195	5,122	2,785	21,573

Credit risk

The Group has no significant concentration of credit risk. The Group deals mainly with retail customers who pay with cash and credit cards. The Group's trade receivables mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping malls that collected sales proceeds in Taiwan on behalf of the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

42. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue net shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

The Group monitors capital using a gearing ratio, which is borrowings divided by the total of borrowings and equity. Borrowings includes interest-bearing borrowings and convertible notes. Equity includes total equity less equity components of convertible notes. The gearing ratios as at the balance sheet dates were as follows:

	2007	2006
	HK$'000	*HK$'000*
Borrowings:		
Interest-bearing bank and other borrowings	14,368	15,245
Convertible notes — equity and liability components	—	59,504
	14,368	74,749
Equity:		
Total equity	11,753	31,548
Convertible notes — equity components	—	(11,316)
	11,753	20,232
Borrowings and equity	26,121	94,981
Gearing ratio	55%	79%

43. Comparative

The comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the period from 1 April 2006 to 31 December 2006 and therefore may not be comparable with amounts shown for the current year.

Certain comparatives are reclassified during the year to conform current year's presentation.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2008.

2. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the period from 1 April 2006 to 31 December 2006. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for period from 1 April 2006 to 31 December 2006.

Independent Auditor's Report

Cheung & Siu **Certified Public Accountants *(Practising)***
張、蕭會計師事務所

Room A,15th Floor
Fortis Bank Tower
77-79 Gloucester Road
Wanchai
Hong Kong

To the members of
GOLIFE CONCEPTS HOLDINGS LIMITED
(formerly known as "Satellite Devices Corporation")
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Golife Concepts Holdings Limited (the "Company") set out on pages 26 to 77, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1 April 2006 to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the period from 1 April 2006 to 31 December 2006 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheung & Siu
Certified Public Accountants (Practising)
Hong Kong, 28 March 2007

Consolidated Income Statement

Period from 1 April 2006 to 31 December 2006

	Notes	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/3/2006 HK$'000
Turnover	7	18,885	1,359
Cost of sales		(7,385)	(520)
Gross profit		11,500	839
Other revenue and gains	7	5,357	3,130
Selling and distribution costs		(994)	—
Administrative expenses		(12,240)	(21,695)
Finance costs	8	(1,799)	—
PROFIT/(LOSS) BEFORE TAX	9	1,824	(17,726)
Tax	11	(676)	—
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	12	1,148	(17,726)
Dividend	13	—	—
Earnings/(loss) per share	14		
— basic *(cents)*		0.32	(14.49)
— diluted *(cents)*		N/A	N/A

Consolidated Balance Sheet

31 December 2006

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,955	—
Goodwill	16	75,552	—
Intangible assets	17	4,720	—
Investments in associates	19	—	4
Total non-current assets		83,227	4
CURRENT ASSETS			
Inventories	20	2,643	—
Trade receivables	21	2,209	328
Deposits, prepayments and other receivables		4,598	10
Financial assets at fair value through profit or loss	22	6,190	—
Derivative financial instruments	23	92	—
Cash and bank balances		3,426	112
Total current assets		19,158	450
CURRENT LIABILITIES			
Trade and bills payables	24	3,116	—
Other payables and accruals		3,212	1,505
Interest-bearing bank and other borrowings	25	12,460	—
Tax payable		1,076	—
Total current liabilities		19,864	1,505
Net current liabilities		(706)	(1,055)
Total assets less current liabilities		82,521	(1,051)

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	2,785	4,775
Convertible notes	27	48,188	—
Total non-current liabilities		50,973	4,775
Net assets/(liabilities)		31,548	(5,826)
EQUITY			
Issued capital	29	5,268	65,850
Equity component of convertible notes	27	11,316	—
Reserves		14,964	(71,676)
Total equity		31,548	(5,826)

Consolidated Statement of Changes in Equity

Period from 1 April 2006 to 31 December 2006

	Issued capital	Share premium	Equity component of convertible notes	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	59,092	34,698	—	(15)	(88,633)	5,142
Issue of shares upon loan capitalisation	6,758	—	—	—	—	6,758
Net loss for the year	—	—	—	—	(17,726)	(17,726)
At 31 March 2006 and 1 April 2006	65,850	34,698	—	(15)	(106,359)	(5,826)
Capital reorganisation — *note 29*	(64,533)	—	—	—	64,533	—
Issue of shares on open offer	3,951	21,730	—	—	—	25,681
Share issuance costs	—	(786)	—	—	—	(786)
Issue of convertible notes — *note 27*	—	—	11,999	—	—	11,999
Redemption of convertible notes	—	—	(683)	—	—	(683)
Reserve realized upon disposal of subsidiaries	—	—	—	15	—	15
Net profit for the period	—	—	—	—	1,148	1,148
At 31 December 2006	5,268	55,642	11,316	—	(40,678)	31,548

Consolidated Cash Flow Statement

Period from 1 April 2006 to 31 December 2006

	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit/(loss) before tax	1,824	(17,726)
Adjustments for:		
Finance costs	1,799	—
Interest income	(9)	—
Depreciation	732	11,194
Provision for impairment on investment in an associate	4	—
Amortisation of intangible assets	280	—
Gain on disposal of subsidiaries	(1,698)	—
Waiver of other loan	(1,000)	—
Fair value gain on financial assets at fair value through profit or loss	(2,014)	—
Fair value gain on derivative financial instruments	(92)	—
Write-off of property, plant and equipment	—	5,827
Reversal of write-down of inventories	—	(176)
Reversal of provision for doubtful debts	(3)	(2,537)
Operating cash flow before movements in working capital	(177)	(3,418)
Decrease in inventories	2,837	512
Decrease/(increase) in trade receivables	(409)	2,380
Decrease in deposits, prepayments and other receivables	5,677	177
Increase in financial assets at fair value through profit or loss	(4,176)	—
Increase in trade and bill payables	1,342	—
Decrease in other payables and accruals	(400)	(961)
Increase in amount due to a fellow subsidiary	—	667
Increase in amount due to a director	—	650
Cash generated from operations	4,694	7
Interest received	9	—
Hong Kong profits tax paid	(2,718)	—
Overseas tax paid	(47)	—
NET CASH FROM OPERATING ACTIVITIES	1,938	7

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Acquisition of a subsidiary	(21,362)	—
Purchases of items of property, plant and equipment	(125)	(9)
NET CASH USED IN INVESTING ACTIVITIES	(21,487)	(9)
FINANCING ACTIVITIES		
Interest paid	(315)	—
Proceeds from open offer	24,895	—
Redemption of convertible notes	(3,500)	—
Repayment of other loan	(3,775)	—
New bank loans	7,300	—
Repayment of bank loans	(873)	—
Decrease in trust receipt loans	(3,157)	—
Repayments of capital element of finance leases	(183)	(8)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	20,392	(8)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	843	(10)
Cash and cash equivalents at beginning of period/year	112	122
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	955	112
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,426	112
Bank overdrafts	(2,471)	—
	955	112

Balance Sheet
31 December 2006

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	81,180	—
CURRENT ASSETS			
Cash and bank balances		1	22
CURRENT LIABILITIES			
Other payables and accruals		685	329
Due to a subsidiary	18	3,915	—
Total current liabilities		4,600	329
Net current liabilities		(4,599)	(307)
Total assets less current liabilities		76,581	(307)
NON-CURRENT LIABILITIES			
Convertible notes	27	48,188	—
Net assets/(liabilities)		28,393	(307)
EQUITY			
Issued capital	29	5,268	65,850
Equity components of convertible notes	27	11,316	—
Reserves	31	11,809	(66,157)
Total equity		28,393	(307)

Notes to the Financial Statements

31 December 2006

1. General information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite 14A, 14 Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong, respectively.

The Company's principal activity has not changed during the period and consisted of investment holding. The principal activities of its subsidiaries are design, development and sales of location-based technology devices and application, and distribution of high-end apparel and accessories.

2. Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

3. Impact of new Hong Kong Financial Reporting Standards and changes in accounting policies

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3.1 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HK(IFRIC)-Int 8	Scope of HKFRS 22
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[4]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[5]
HK(IFRIC)-Int 12	Service Concession Arrangements[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 May 2006
3 Effective for annual periods beginning on or after 1 June 2006
4 Effective for annual periods beginning on or after 1 November 2006
5 Effective for annual periods beginning on or after 1 March 2007
6 Effective for annual periods beginning on or after 1 January 2008

4. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared on a going concern basis notwithstanding the Group had net current liabilities as at 31 December 2006, the validity of which is dependent upon the success of the Group's future operations and its ability to generate adequate cash flows in order to meet its obligations as and when they fall due such that the Group can meet its future working capital. Subsequent the balance sheet date, the Group's operation has generated sufficient cash flows to meet its obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

The Group changed its financial year end date from 31 March to 31 December. The financial statements for the current period cover 9 months from 1 April 2006 to 31 December 2006. The comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the year ended 31 March 2006 and therefore, are not with a comparable time period.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 April 2006 to 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the period has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the income statement and reserves, respectively. The Group's interests in associates are stated in the balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups or units. Each unit or group of units to which the goodwill is so allocated:

— represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

— is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cashgenerating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment, and computer equipment	20% — 33.3%
Motor vehicles	20 — 25%
Moulds	50%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Franchise rights

Franchise rights are stated at cost less any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, its transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

— the rights to receive cash flows from the asset have expired;

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

— the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cashsettled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability components is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and components when the instruments are first recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 recongised for all taxable temporary differences, except:

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 carryforward of unused tax credits and unused tax losses can be utilised except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(b) from the rendering of services, when services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group ("market conditions"), if applicable.

Pension scheme

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the period. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

5. Significant accounting judgements and

Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

6. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the period from 1 April 2006 to 31 December 2006 and the year ended 31 March 2006.

For management purposes, the Group is currently organized into two operating divisions — design, development and sales of location-based technology devices and applications, and distribution of high-end apparel and accessories. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Design, development and sales of location-based technology devices and applications		Distribution of high-end apparel and accessories		Consolidated	
	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External turnover	543	1,359	18,342	—	18,885	1,359
RESULTS						
Segment results	(360)	(16,879)	363	—	3	(16,879)
Unallocated revenue					5,110	204
Unallocated expenses					(1,490)	(1,051)
Finance costs					(1,799)	—
Profit/(loss) before tax					1,824	(17,726)
Tax					(676)	—
Profit/(loss) for the period/year					1,148	(17,726)

	Design, development and sales of location-based technology devices and applications		Distribution of high-end apparel and accessories		Consolidated	
	31/12/2006	31/3/2006	31/12/2006	31/3/2006	31/12/2006	31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets:						
Segment assets	1	428	94,395	—	94,396	428
Investment in an associate	—	4	—	—	—	4
Unallocated corporate assets					7,989	22
Total assets					102,385	454
Liabilities:						
Segment liabilities	417	5,950	21,547	—	21,964	5,950
Unallocated corporate liabilities					48,873	330
Total liabilities					70,837	6,280

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:						
Capital expenditure	—	9 1,741	—	1,741	9	
Depreciation	—	11,194	732	—	732	11,194
Amortisation	—	—	280	—	280	—
Impairment loss	4	—	—	—	4	—

(ii) Geographical segments

During the period, the Group's turnover was derived from operations carried out in Hong Kong and Taiwan. Over 90% of the Group's assets, liabilities and capital expenditures are derived from operations carried out in Hong Kong. Accordingly, no further geographical segment information is presented in the financial statements except the followings.

	Hong Kong		Taiwan		Other		Consolidated	
	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER								
External turnover	13,798	1,359	5,087	—	–	—	18,885	1,359
RESULTS								
Segment results	1,759	(16,614)	433	—	(368)	(1,112)	1,824	(17,726)
Tax							(676)	—
Profit/(loss) for the period/year							1,148	(17,726)

7. Turnover, other revenue and gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
TURNOVER		
Design, development and sales of location-based technology devices and applications	543	1,359
Distribution of high-end apparel and accessories	18,342	—
	18,885	1,359
OTHER REVENUE AND GAINS		
Bank interest income	9	—
Consultancy fee income	72	—
Fair value gain on financial assets at fair value through profit or loss	2,014	—
Fair value gain on derivative financial instruments	92	—
Gain on disposal of financial assets at fair value through profit or loss	398	—
Gain on disposal of subsidiaries	1,698	—
Reversal of provision for doubtful debts	3	2,498
Reversal of write-down of inventories	—	176
Waiver of other loan	1,000	—
Write-off of long outstanding other payables and accruals	—	252
Sundry income	71	204
	5,357	3,130

8. Finance costs

	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
Interest on convertible notes	1,484	—
Interest on bank loans and overdrafts wholly repayable within five years	289	—
Interest on finance leases	26	—
	1,799	—

9. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Cost of inventories sold	7,323	—
Cost of services rendered	62	520
Auditors' remuneration	295	250
Amortisation of intangible assets	280	—
Depreciation of property, plant and equipment	732	11,194
Exchange losses, net	76	10
Minimum lease payments under operating leases on land and buildings	3,962	310
Provision for impairment on investment in an associate	4	—
Write-off of property, plant and equipment	—	5,827
Staff costs (excluding directors' remuneration — *note 10*)		
Salaries and allowances	3,119	1,687
Pension scheme contributions	128	(16)
	3,247	1,671

10. Directors' remuneration and five highest paid employees

The remuneration of each director for the period from 1 April 2006 to 31 December 2006 and the year ended 31 March 2006 are set out below:

Period from 1 April 2006 to 31 December 2006:

	Fees	Salaries and allowances	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Leung Tak Wah	—	190	9	199
Lo Mun Lam, Raymond	200	—	—	200
Yu Wai Yin, Vicky	40	—	—	40
Independent non-executive directors				
Lum Pak Sam	—	—	—	—
Sum Chun Ho, Sam	19	—	—	19
Wan Kwok Pan	14	—	—	14
Non-executive directors				
Duncan Chiu *(note 1)*	—	—	—	—
Richard Yen *(note 1)*	—	—	—	—
Total	273	190	9	472

Year ended 31 March 2006:

	Fees	Salaries and allowances	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo *(note 2)*	—	—	—	—
Leung Tak Wah	—	260	12	272
Lo Mun Lam, Raymond	—	—	—	—
Yu Wai Yin, Vicky	70	—	—	70
Independent non-executive directors				
Chan Chi Tong *(note 3)*	70	—	—	70
Huang Hai Wen *(note 4)*	64	—	—	64
Liu Kwong Sang *(note 5)*	—	—	—	—
Lum Pak Sum	—	—	—	—
Sum Chun Ho, Sam	35	—	—	35
Wan Kwok Pan	6	—	—	6
Total	245	260	12	517

Notes:

1. Mr. Chiu and Mr. Yen appointed on 27 September 2006.
2. Mr. Tsoi resigned on 31 August 2005.
3. Mr. Chan resigned on 15 September 2005.
4. Mr. Huang resigned on 31 August 2005.
5. Mr. Liu resigned on 8 February 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the period/year.

The five individuals whose emoluments were the highest in the Group for the period include two (year ended 31 March 2006: one) directors, details of whose emoluments are set out in above. Details of the emoluments of the remaining three (year ended 31 March 2006: four) are non-directors, highest paid employees of the Group for the period/year are as follows:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	600	675
Retirement benefits scheme contributions	30	31
	630	706

The emoluments of each of the non-director, highest paid individuals for the period from 1 April 2006 to 31 December 2006 and year ended 31 March 2006 fell within Nil to HK$1,000,000 band.

During the period from 1 April 2006 to 31 December 2006 and year ended 31 March 2006, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. 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, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

11. Tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period. In prior year, no provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of tax prevailing in the countries in which the Group operates.

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Current provision:		
— Hong Kong	575	—
— Overseas	101	—
	676	—

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	Period from 1/4/2006 to 31/12/2006		**Year ended 31/3/2006**	
	HK$'000	*%*	*HK$'000*	*%*
Profit/(loss) before tax	1,824		(17,726)	
Tax at the domestic income tax rate	319	17.5	(3,102)	(17.5)
Effect of different tax rates in other jurisdictions	(24)	(1.3)	28	0.9
Income not subject to tax	(471)	(25.8)	—	—
Expenses not deductible for tax	336	18.4	230	7.4
Tax losses not recognized	516	28.3	2,844	9.2
Tax charge at effective rate	676	37.1	—	—

12. Net profit/(loss) attributable to shareholders

The net profit/(loss) attributable to shareholders for the period from 1 April 2006 to 31 December 2006 dealt with in the financial statements of the Company is loss of approximately HK$7,511,000. (year ended 31 March 2006: loss of approximately HK$6,517,000).

13. Dividend

The directors of the Company do not recommend the payment of a dividend for the period.

14. Earnings/(loss) per share

The calculation of basic earnings per share is based on the net profit for the period from 1 April 2006 to 31 December 2006 of approximately HK$1,148,000 (year ended 31 March 2006: loss of HK$17,726,000) and the weighted average number of 361,577,386 ordinary shares (year ended 31 March 2006: 122,367,968 ordinary shares being adjusted retrospectively for the share consolidation) in issue during the period.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2006 has been retrospectively adjusted for the effect of the share consolidation completed during the period.

Diluted earnings/(loss) per share is not presented as the convertible notes had anti-dilutive effects on the basic earnings/(loss) per share.

15. Property, plant and equipment

Group

	Leasehold improvements	Computer and equipment	Furniture, fixture office equipment	Motor vehicles	Mould	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:						
At 1 April 2005	—	58,680	86	213 187	59,166	
Additions	—	9	—	—	—	9
Write-off	—	(58,689)	(86)	(213)	(187)	(59,175)
At 31 March 2006 and 1 April 2006	—	—	—	—	—	—
Acquired on acquisition of a subsidiary	3,805	—	544	—	—	4,349
Additions	52	—	73	1,616	—	1,741
At 31 December 2006	3,857	—	617	1,616	—	6,090
Accumulated depreciation:						
At 1 April 2005	—	41,677	77	213	187	42,154
Charge for the year	—	11,185	9	—	—	11,194
Write-off	—	(52,862)	(86)	(213)	(187)	(53,348)
At 31 March 2006 and 1 April 2006	—	—	—	—	—	—
Acquired on acquisition of a subsidiary	2,050	—	353	—	—	2,403
Charge for the period	347	—	62	323	—	732
At 31 December 2006	2,397	—	415	323	—	3,135
Net book value:						
At 31 December 2006	1,460	—	202	1,293	—	2,955
At 31 March 2006	—	—	—	—	—	—
At 31 March 2005	—	17,003	9	—	—	17,012

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2006, approximately amounted to HK$1,293,000 (31 March 2006: Nil).

16. Goodwill

Group

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	HK$'000
Arising from acquisition of a subsidiary	75,552
Impairment during the period	—
At 31 December 2006	75,552

17. Intangible assets

Group

	Franchise rights *HK$'000*
Cost:	
Arising from acquisition of a subsidiary	5,000
At 31 December 2006	5,000
Accumulated amortisation and impairment:	
Amortised for the period	280
At 31 December 2006	280
Net book value:	
At 31 December 2006	4,720

18. Interests in subsidiaries

	Company	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	81,180	—
Due from subsidiaries	102,193	97,629
Due to a subsidiary	(3,915)	—
Impairment in value	(102,193)	(97,629)
	(3,915)	—
	77,265	—

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid up capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Golife (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Distribution of high-end apparel and accessories
Satellite Devices (BVI) Limited	British Virgin Islands	US$3	100%	—	Investment holding
Satellite Devices Limited	Hong Kong	HK$5,000,000	—	100%	Design, development and sales of location-based technology devices and application

19. Investments in associates

	Group 31/12/2006	31/3/2006
	HK$'000	*HK$'000*
Share of net assets	4	1,474
Amount due to an associate	—	(1,470)
Impairment	(4)	—
	—	4

Particulars of the associate of the Group as at 31 December 2006 are as follows:

Name	Place of incorporation	Issued and fully paid up capital	Equity interest held indirectly	Principal activities
Telematics Systems Limited	Hong Kong	HK$10,000	40%	Dormant

20. Inventories

	Group 31/12/2006	31/3/2006
	HK$'000	*HK$'000*
Merchandise	2,643	—

At 31 December 2006, no inventories were carried at net realisable value (31 March 2006: Nil).

21. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
0 — 30 days	1,710	283
31 — 60 days	499	45
61 — 90 days	—	—
Over 90 days	—	12,719
	2,209	13,047
Less: provision for doubtful debts	—	(12,719)
	2,209	328

22. Financial assets at fair value through profit or loss

	Group	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Equity investments listed in Hong Kong, at fair value	1,493	—
Derivative financial assets, at fair value	4,697	—
	6,190	—

The derivative financial assets represent some warrants on equity investments listed in Hong Kong and are with maturity date of 21 May 2007.

23. Derivative financial instruments

	31/12/2006		31/3/2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash flow hedges				
— foreign currency contracts	92	—	—	—

The Group has two forward currency contracts outstanding at 31 December 2006 to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$92,000 was credited to the income statement during the year (year ended 31 March 2006: Nil).

24. Trade and bills payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	31/12/2006	31/3/2006
	HK$'000	*HK$'000*
0 — 30 days	2,433	—
31 — 60 days	367	—
61 — 90 days	16	—
Over 90 days	300	—
	3,116	—

25. Interest-bearing bank and other borrowings

	Effective interest rate (%)	Maturity or Interest reprice date, whichever is earlier	31/12/2006 *HK$'000*	31/3/2006 *HK$'000*
Current				
Finance lease payables *(note 26)*	3.25%	2007	395	—
Bank overdrafts — secured	best lending rate + 1%	on demand	2,471	—
Bank loans — secured	prime rate + 2%	2007	6,831	—
Trust receipt loans — secured	best lending rate	2007	2,763	—
			12,460	—
Non-current				
Finance lease payables *(note 26)*	3.25%	2008-2011	1,038	—
Bank loans — secured	prime rate + 2%	2008-2009	1,747	—
Other loan — unsecured	10%	2007, but early repaid in the period	—	4,775
			2,785	4,775
			15,245	4,775
Analysed into:				
Bank loans and overdrafts payable:				
Within one year or on demand			12,065	—
In the second to fifth years, inclusive			1,747	—
			13,812	—
Other borrowings payable:				
Within one year or on demand			395	—
In the second to fifth years, inclusive			1,038	4,775
			1,433	4,775

The Group's banking facilities are secured by:

(i) personal guarantees provided by directors of a subsidiary of the Group; and

(ii) corporate guarantee provided by the Company and the Group's related company.

26. Finance lease payables

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms ranging from four to five years.

At the balance sheet date, the total future minimum lease payments under finance lease and the present value, were as follows:

	Minimum lease payments 31/12/2006	**Minimum lease payments 31/3/2006**	**Present value of minimum lease payments 31/12/2006**	**Present value of minimum lease payments 31/3/2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable:				
Within one year	447	—	395	—
In the second year to fifth years, inclusive	1,174	—	1,038	—
Total minimum finance lease payments	1,621	—	1,433	—
Future finance charges	(188)	—		
Total net finance lease payables	1,433	—		
Portion classified as current liabilities *(note 25)*	(395)	—		
Long term portion *(note 25)*	1,038	—		

27. Convertible notes

On 31 July 2006, the Company issued interest-free convertible notes with a nominal value of HK$61.52 million to an independent noteholder. The noteholder has the right to convert the whole or any part of the principal amount of the convertible note into shares at any time and from time to time after six months from the date of issue of the convertible notes up to the date immediately prior to the maturity date.

The fair value of the liability component and the equity conversion component were determined at issuance of the convertible notes. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

The convertible notes recognized in the balance sheets are calculated as follows:

	Group and Company	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Nominal value of convertible notes issued during the period	61,520	—
Equity component	(11,999)	—
Liability component at the issuance date	49,521	—
Redemption during the period	(2,817)	
Interest expenses	1,484	—
Liability component at balance sheet date	48,188	—
Equity component at the issuance date	11,999	—
Redemption during the period	(683)	—
Equity component at balance sheet date	11,316	—

On 19 October 2006 and 21 December 2006, the Company redeemed convertible notes with principal amount of HK$2,500,000 and HK$1,000,000, respectively.

28. Deferred tax

The movements in deferred tax liabilities and assets during the period are as follows:

	Accelerated Tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	2,869	(2,869)	—
Charged/(credited) to consolidated income statement	(2,876)	2,876	—
At 31 March 2006 and 1 April 2006	(7)	7	—
Charged/(credited) to consolidated income statement	1	(1)	—
At 31 December 2006	(6)	6	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 December 2006, the Group had unused tax losses of approximately HK$97,340,000 (31 March 2006: approximately HK$97,339,000) available for offset against future profits. No deferred tax asset was recognized during the period due to the unpredictability of future profit streams (year ended 31 March 2006: HK$40,000). The unrecognized tax losses may be carried forward indefinitely.

29. Share capital

	Number of shares	*HK$'000*
Authorised:		
At 1 April 2006, ordinary shares of HK$0.1 each	10,000,000,000	1,000,000
Capital reorganisation *(note a)*	—	(900,000)
At 31 December 2006, ordinary shares of HK$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
At 1 April 2006, ordinary shares of HK$0.1 each	658,501,863	65,850
Capital reorganisation *(note a)*	(526,801,490)	(64,533)
Open offer *(note b)*	395,101,116	3,951
At 31 December 2006, ordinary shares of HK$0.01 each	526,801,489	5,268

Notes:

(a) Pursuant to the capital reorganization completed on 22 June 2006, 658,501,863 issued shares were consolidated to 131,700,373 shares on the basis of every 5 shares consolidated into 1 share. The nominal value of each issued consolidated share was then reduced from HK$0.1 each to HK$0.01 each by way of a reduction of capital. Accordingly, an amount of HK$64,533,183 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

(b) 395,101,116 new shares of the Company had been issued under the Open Offer on 25 July 2006, proceeds of approximately HK$23.05 million was being raised as working capital. As at 31 December 2006, the total issued share capital of the Company after the Open Offer are 526,801,489 shares.

30. Share option scheme

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

At the balance sheet date, no share option was granted under the Scheme since its adoption.

31. Reserves

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

Company

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	34,698	(94,338)	(59,640)
Net loss for the year	—	(6,517)	(6,517)
At 31 March 2006 and 1 April 2006	34,698	(100,855)	(66,157)
Capital reorganization	—	64,533	64,533
Issue of shares on open offer	21,730	—	21,730
Share issuance costs	(786)	—	(786)
Net loss for the period	—	(7,511)	(7,511)
At 31 December 2006	55,642	(43,833)	11,809

Note:

The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business.

At 31 December 2006, in the opinion of the directors, the Company's reserves available for distributions to shareholders amounted to HK$11,809,000.

32. Acquisition of a subsidiary

On 31 July 2006, the Company acquired 100% equity interest in Golife (Hong Kong) Limited (formerly known as "Hip Kin Retailing Limited"). This transaction has been accounted for by the purchase method.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Carrying amount of the acquiree	**Fair value adjustment**	**Fair value of the acquiree**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired comprised:			
Property, plant and equipment	1,946	—	1,946
Intangible assets	—	5,000	5,000
Inventories	5,480	—	5,480
Trade receivables	1,469	—	1,469
Deposit, prepayments and other receivables	10,265	—	10,265
Cash and bank balances	474	—	474
Trade payables	(1,774)	—	(1,774)
Other payables and accruals	(3,820)	—	(3,820)
Tax payable	(3,165)	—	(3,165)
Bank overdrafts	(2,176)	—	(2,176)
Bank loans	(2,151)	—	(2,151)
Trust receipts loans	(5,920)	—	(5,920)
Net assets acquired	628	5,000	5,628
Goodwill arising on acquisition			75,552
			81,180
Satisfied by:			
Cash consideration			19,660
Convertible notes			61,520
			81,180

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(19,660)
Cash and bank balances acquired	474
Bank overdrafts acquired	(2,176)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(21,362)

33. Disposal of subsidiaries

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Net liabilities disposal of:		
Amounts due to group companies	(3,193)	—
	(3,193)	—
Realisation of reserves	15	—
Gain on disposal of subsidiaries	1,698	—
Amounts waived by group companies	1,480	—
	—	—
Satisfied by:		
Cash	—	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Cash consideration	—	—
Cash and bank balances disposed of	—	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	—

34. Notes to the consolidated cash flow statement

(a) During the period, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK$1,616,000 (31 March 2006: Nil).

(b) During the period, the Group settled the part of the purchase consideration for acquisition of Golife (Hong Kong) Limited of approximately HK$61,520,000 by issue of convertible notes with nominal value of HK$61,520,000.

35. Related party transactions

(a) In addition to the transactions and balance detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period/year:

	Group	
	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
Management fee charged by a related company	495	—

Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests.

(b) At the balance sheet date, the Group's related company has guaranteed the trust receipt loans and bank overdrafts made to the Group's subsidiary up to HK$4,000,000 and HK$1,000,000, respectively (31 March 2006: Nil) at nil consideration.

36. Litigation

On 29 June 2005, a landlord issued writ against Satellite Devices Limited, a wholly owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provision for this amount had been made in the financial statements.

Apart from the action against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

37. Contingent liabilities

At the balance sheet date, the Company has given unlimited corporate guarantees (31 March 2006: Nil) to banks to secure the banking facilities granted to its subsidiaries. Facilities amounting to HK$5,429,000 (31 March 2006: Nil) were utilized at the balance sheet date.

38. Operating lease arrangements

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Within one year	6,301	93
In the second to fifth years, inclusive	4,618	77
	10,919	170

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rents have not been included above and only the minimum lease commitments have been included in the above table.

The operating lease rentals of certain retail shops in Taiwan are based solely on the sales of the outlets. In the opinion of the directors of the Group, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitments have not been included above table.

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group had the following commitments at the balance sheet date:

Commitments under license agreements in respect of two brand name products are:

	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Minimum purchases:		
Within one year	19,072	—
In the second to fifth years, inclusive	86,151	
Beyond five years	6,649	—
	111,872	—

40. Post balance sheet events

The following events have occurred subsequent to 31 December 2006:

(a) On 21 February 2007, Profit First Investments Limited ("Profit First"), a wholly owned subsidiary of the Company, has entered into an agreement with Zion Worldwide Limited ("Zion Worldwide") to establish LOC Limited ("LOC") which will be principally engaged in the wholesale, design, sourcing, merchandise planning and marketing of lifestyle consumer products including but not limited to jewellery and accessories under the Trademarks (the "Business"). LOC are owned by Profit First and Zion Worldwide in equal shares. Profit First has agreed to pay an earn-out payment to Zion Worldwide while Zion Worldwide has agreed to transfer and assign to LOC the Trademarks and all the Intellectual Property of "Business" at a consideration of HK$1. Further details of the transaction are also set out in a circular and an announcement of the Company dated 16 March 2007 and 23 February 2007, respectively.

(b) On 19 January 2007 the Company redeemed convertible notes with principal amount of HK$1,000,000.

(c) On 13 March 2007, convertible notes with principal amount of HK$37,100,000 converted into 371,000,000 ordinary shares at the conversion price of HK$0.10 per share. After issurance of 371,000,000 conversion shares, the Company's issued ordinary shares have been increased from 526,801,488 to 898,101,488.

41. Financial risk management objectives and polices

The Group's overall risk management programme seeks to minimize potential adverse effects on the financial performance of the Group.

(i) Cash flow and fair value interest rate risk

Interest rate risk refers to the risk experienced by the Group as a result of the fluctuation in interest rates. Currently, the Group does not have a hedge policy. However, the management monitors interest rate exposure and will consider hedging significant bank borrowings when the need arises.

(ii) Foreign currency risk

The Group incurs foreign currency risk on transactions and balances that are denominated in currencies other than Hong Kong dollars. The currencies giving rise to this risk are primarily Euro, Pound Sterling and New Taiwan Dollar.

Certain trade receivables, payables and trade related transactions of the Group are denominated in foreign currencies. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

(iii) Credit risk

The Group has no significant concentration of credit risk. The Group deals mainly with retail customers who pay with cash and credit cards. The Group's accounts receivable mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping malls that collected sales proceeds in Taiwan on behalf of the Group.

(iv) Liquidity risk

The Group aims to manage its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements. Short term funding is obtained from bank overdraft and trade financing facilities.

(v) Commodity price risk

The Group's exposure to commodity price risk is minimal.

42. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2007.

3. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the financial year ended 31 March 2006. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for the financial year ended 31 March 2006.

Independent Auditor's Report

陳浩賢會計師事務所

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF SATELLITE DEVICES CORPORATION
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)

Hong Kong, 23 June 2006

Consolidated Income Statement
For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	5	1,359	1,442
Cost of location-based technology devices and applications		(520)	(522)
		839	920
Other income		204	29
Reversal of provision for doubtful debts		2,498	—
Reversal of write-down/(write-down) of inventories		176	(1,378)
Write-off of long outstanding other payables and accruals		252	133
Waiver of accrued salary payable to a director		—	248
Write-off of property, plant and equipment		(5,827)	—
Staff costs		(2,188)	(2,628)
Depreciation		(11,194)	(11,772)
Other operating expenses		(2,486)	(2,715)
Loss before taxation	6	(17,726)	(17,163)
Taxation	7	—	—
Loss attributable to shareholders	8	(17,726)	(17,163)
Basic loss per share	9	14.49 cents	14.52 cents

Consolidated Balance Sheet
As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	12	—	17,012
Investments in associates	14	4	4
		4	17,016
Current assets			
Inventories	15	—	336
Trade receivables	16	328	171
Deposits, prepayments and other receivables		10	187
Cash and cash equivalents	17	112	122
		450	816
Current liabilities			
Other payables and accruals		1,505	2,466
Amount due to a fellow subsidiary	18	—	4,108
Amount due to a director	19	—	6,108
Current portion of obligation under finance leases		—	8
		1,505	12,690
Net current liabilities		(1,055)	(11,874)
Total assets less current liabilities		(1,051)	5,142
Capital and reserves			
Share capital	20	65,850	59,092
Reserves		(71,676)	(53,950)
Total (deficits)/equity attributable to equity holders of the Company		(5,826)	5,142
Non-current liabilities			
Other loan	23	4,775	—
		(1,051)	5,142

The financial statements on pages 21 to 51 were approved and authorised for issue by the Board of Directors on 23 June 2006 and are signed on its behalf by:

LO Mun Lam, Raymond	**LEUNG Tak Wah**
Director	*Director*

Balance Sheet
As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment in subsidiaries	13	—	—
Current assets			
Cash and cash equivalents	17	22	1
Current liabilities			
Other payables and accruals		329	549
Net current liabilities		(307)	(548)
Total assets less current liabilities		(307)	(548)
Capital and reserves			
Share capital	20	65,850	59,092
Reserves	22	(66,157)	(59,640)
		(307)	(548)

LO Mun Lam, Raymond
Director

LEUNG Tak Wah
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2004	59,092	34,698	(13)	(71,470)	22,307
Exchange differences arising on translation of financial statements of overseas subsidiaries and net losses not recognised in the consolidated income statement	—	—	(2)	—	(2)
Loss for the year	—	—	—	(17,163)	(17,163)
At 31 March 2005	59,092	34,698	(15)	(88,633)	5,142
At 1 April 2005	59,092	34,698	(15)	(88,633)	5,142
Issue of shares upon loan capitalisation	6,758	—	—	—	6,758
Loss for the year	—	—	—	(17,726)	(17,726)
At 31 March 2006	65,850	34,698	(15)	(106,359)	(5,826)

Consolidated Cash Flow Statement

For the Year Ended 31 March 2006

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(17,726)	(17,163)
Adjustments for:		
Depreciation	11,194	11,772
Write-off of property, plant and equipment	5,827	—
(Reversal of write-down)/write-down of inventories	(176)	1,378
Reversal of provision for doubtful debts	(2,537)	—
Operating loss before working capital changes	(3,418)	(4,013)
Decrease in inventories	512	159
Decrease in trade receivables	2,380	188
Decrease/(increase) in deposits, prepayments and other receivables	177	(158)
Increase in trade payables, other payables and accruals including amount due to a director and a fellow subsidiary	356	3,947
Net cash from operating activities	7	123
Net cash used in investing activities		
Purchase of property, plant and equipment	(9)	(39)
Net cash used in financing activities		
Repayment of capital element of finance leases	(8)	(15)
Net (decrease)/increase in cash and cash equivalents	(10)	69
Cash and cash equivalents at 1 April	122	55
Effect of foreign exchange rate changes	—	(2)
Cash and cash equivalents at 31 March	112	122
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	112	122

Notes to the Financial Statements

1. General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements.

The financial statements have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the continuing financial support of the Group's creditors and other external funding being available.

At 31 March 2006, the Group's net current liabilities exceeded its current assets by approximately HK$1,055,000 and the net liabilities of the Group amounted to approximately HK$5,826,000. As more detailed in note 29 below, subsequent to the balance sheet date, the directors of the Company proposed a capital reorganisation of the Company's share capital and an open offer to qualifying shareholders for subscription on the basis of three offer shares for every new share (being share of HK$0.01 each in the share capital of the Company upon the capital reorganisation become effective). Details of the proposed capital reorganisation and proposed open offer are disclosed in the Company's circular dated 27 March 2006. The estimated net proceeds from the proposed open offer will be approximately HK$23.73 million which is intended to be applied as to approximately HK$18.48 million for the partial payment of the consideration for a proposed acquisition (details of which are also disclosed in the Company's circular dated 27 March 2006) and as to approximately HK$1.85 million for marketing the brands to be acquired under the proposed acquisition and the remaining balance of approximately HK$3.40 million for general working capital of the Company. All the proposed capital reorganisation, proposed open offer and proposed acquisition were approved by the shareholders of the Company on 20 April 2006.

On the basis that the Group will raise additional working capital from the proposed open offer, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Had the going concern basis not been used, adjustments would have to be made to reclassify non-current liabilities to current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liabilities which might arise.

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised HKFRSs, HKASs and Interpretations that are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2005 which are pertinent to its operations and relevant to these financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of HKASs 2, 7, 8, 10, 12, 16, 17, 18, 19, 21, 27, 32, 33, 36, 37 and 39 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosure in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs and HKASs are summaries as follows:

(a) The adoption of HKAS 1 requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions. These related party disclosures are presented in note 26 to the financial statements.

(c) The adoption of HKFRS 2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based payment transactions in which share options granted over shares in the Company were required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4(l).

There were no share options granted by the Company after 7 November 2002 but had not vested before by 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

The Group has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The Group has considered these standards and interpretations but does not expect that they will have a material effect on the results of operation and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease [2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market-Waste, Electrical and Electronic Equipment [3]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [6]

1 Effective for the annual periods beginning on or after 1 January 2007
2 Effective for the annual periods beginning on or after 1 January 2006
3 Effective for the annual periods beginning on or after 1 December 2005
4 Effective for the annual periods beginning on or after 1 March 2006
5 Effective for the annual periods beginning on or after 1 May 2006
6 Effective for the annual periods beginning on or after 1 June 2006

3. **Critical accounting judgments and key source of estimation uncertainty**

Estimates and judgments 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 assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There are no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next year.

There are no significant effects on amounts recognised in the financial statements arising from the judgments or estimates used by management.

4. Principal accounting policies

These financial statements have been prepared in accordance with HKFRS and HKAS issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The measurement basis used in the preparation of the financial statements is the historical cost basis. The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Group accounting

(i) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power or issued share capital or controls the composition of its board of directors or has power to govern its financial and operating policies.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and significant influence is exercised in its management.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

(b) Property, plant and equipment

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

The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates are as follows:

Furniture, fixtures and office equipment, and computer equipment	20%-33.3%
Motor vehicles	25%
Moulds	50%

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(c) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to operating leases net of any incentives received from the leasing company are charged to the income statement on straight-line basis over the lease term.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with bank.

Other payables

Other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effects of discounting would be immaterial, in which case they are stated at cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. Impairment loss is recognised as an expenses 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.

(g) Provisions

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

(h) 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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group'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 the tax expected to be payable or recoverable on temporary 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 only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

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 profit 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 to 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.

(i) Related parties

For the purposes of these financial statements, 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 other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(j) Foreign currencies

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

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(k) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(l) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(m) Research and development costs

Costs incurred in the research and development of products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, all research and development costs have been expensed.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Interest income is recognised as it accrues using the effective interest method.

5. Revenue

Revenue, which is also the Group's turnover, represents net invoiced value of goods sold, less discounts and returns.

No activity analysis and geographical analysis are presented for the years ended 31 March 2006 and 2005 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

6. Loss before taxation

Loss before taxation is stated after charging/(crediting) the following:

	2006	**2005**
	HK$'000	*HK$'000*
Auditors' remuneration		
— current year	250	250
— under provision in prior year	—	80
Building management fee	251	201
Depreciation of fixed assets		
— owned assets	11,194	11,757
— assets held under finance leases	—	15
Exchange loss	10	—
Legal and professional fees	680	531
Operating lease rental in respect of land and buildings	310	499
Research and development costs *	1,010	1,120
Retirement benefits costs **	(4)	33
Telephone	259	374

* Included in the research and development costs were staff costs of HK$1,008,000 (2005: HK$1,043,000) which had also been included in staff costs in the consolidated income statement.

** This item is included in staff costs in the consolidated income statement.

7. Taxation

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the years ended 31 March 2006 and 2005.

(b) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

(c) The taxation for the year can be reconciled to loss before taxation per the consolidated income statement as follow:

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(17,726)	(17,163)
Tax at the domestic income tax rate of 17.5%	(3,102)	(3,003)
Tax effect of non-deductible expenses	230	252
Tax effect of non-taxable income	—	(115)
Effect on different tax rates of subsidiaries operating in other jurisdictions	28	27
Deferred tax assets not recognised	2,844	2,839
	—	—

8. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$6,517,000 (2005: profit of HK$88,000).

9. Loss per share

The calculation of basic loss per share is based on the loss for the year of approximately HK$17,726,000 (2005: HK$17,163,000) and the weighted average number of 122,367,968 ordinary shares (2005 (restated): 118,183,200 ordinary shares) in issue during the year.

The weighted average number is stated after taking into consideration of the consolidation of shares by way of every five existing shares into one new consolidated share ("Share Consolidation"). The Share Consolidation was effective on 22 June 2006. Further details of the Share Consolidation are also disclosed in note 29 "Post balance sheet event".

Diluted loss per share is not presented for the years ended 31 March 2006 and 2005 as there were no potential dilutive shares outstanding during both years.

10. Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 March 2006 and 2005 are set out below:

2006	**Fees**	**Salaries and allowances**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo *(note 1)*	—	—	—	—
Leung Tak Wah	—	260	12	272
Yu Wai Yin, Vicky *(note 2)*	70	—	—	70
Lo Mun Lam, Raymond *(note 3)*	—	—	—	—
Independent non-executive directors				
Liu Kwong Sang *(note 4)*	—	—	—	—
Chan Chi Tong *(note 5)*	70	—	—	70
Huang Hai Wen *(note 1)*	64	—	—	64
Sum Chun Ho *(note 6)*	35	—	—	35
Lum Pak Sum *(note 7)*	—	—	—	—
Wan Kwok Pan *(note 8)*	6	—	6	—
Total	245	260	12	517

2005	**Fees**	**Salaries and allowances**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo	—	250	2	252
Leung Tak Wah	—	179	8	187
Independent non-executive directors				
Liu Kwong Sang	—	—	—	—
Chan Chi Tong	154	—	—	154
Huang Hai Wen	76	—	—	76
Ku Ngai *(note 9)*	—	—	—	—
Total	230	429	10	669

Note:

1. Mr. Tsoi and Mr. Huang resigned on 31 August 2005

2. Ms. Yu was appointed on 26 August 2005

3. Mr. Lo was appointed on 13 September 2005

4. Mr. Liu resigned on 8 February 2006

5. Mr. Chan resigned on 15 September 2005

6. Mr. Sum was appointed on 26 August 2005

7. Mr. Lum was appointed on 13 September 2005

8. Mr. Wan was appointed on 8 February 2006

9. Mr. Ku resigned on 29 June 2004

During the year ended 31 March 2005, Mr. Tsoi Siu Ching, Leo waived his salaries to the amount of HK$248,000. The waived amount has not been included in the above disclosure. Apart from this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2006 and 2005.

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director, details of whose emoluments are set out in above. Details of the emoluments of the remaining four (2005: four) non-director, highest paid employees of the Group for the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	675	1,041
Retirement benefits scheme contributions	31	38
	706	1,079

The emoluments of each of the non-director, highest paid individuals for the years ended 31 March 2006 and 2005 fell within Nil to HK$1,000,000 band.

During the year ended 31 March 2006 and 2005, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. 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, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

12. Property, plant and equipment

	Computer equipment	Furniture fixture and office equipment	Motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2004	58,641	86	213	187	59,127
Additions	39	—	—	—	39
At 31 March 2005	58,680	86	213	187	59,166
At 1 April 2005	58,680	86	213	187	59,166
Additions	9	—	—	—	9
Write-off	(58,689)	(86)	(213)	(187)	(59,175)
At 31 March 2006	—	—	—	—	—
Depreciation, amortisation and impairment loss					
At 1 April 2004	29,947	60	188	187	30,382
Charge for the year	11,730	17	25	—	11,772
At 31 March 2005	41,677	77	213	187	42,154
At 1 April 2005	41,677	77	213	187	42,154
Charge for the year	11,185	9	—	—	11,194
Eliminated on write-off	(52,862)	(86)	(213)	(187)	(53,348)
At 31 March 2006	—	—	—	—	—
Net book value					
At 31 March 2006	—	—	—	—	—
At 31 March 2005	17,003	9	—	—	17,012

At 31 March 2006, no property, plant and equipment were held under finance leases. At 31 March 2005, the net book value of property, plant and equipment held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK$8,000.

13. Investment in subsidiaries

	Company 2006	Company 2005
	HK$'000	*HK$'000*
Amounts due from subsidiaries *(note (b))*	97,629	92,414
Less: provision	(97,629)	(92,414)
	—	—

(a) The following is a list of the subsidiaries of the Company as at 31 March 2006:

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
Shares held directly:				
Satellite Devices (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Shares held indirectly:				
Satellite Devices Limited	Hong Kong	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK$5,000,000	100%
衛科導航技術(深圳)有限公司 ("Satellite Devices Technology (Shenzhen) Company Limited")	The People's Republic of China excluding Hong Kong (the "PRC")	Provision of technical support services in the PRC	Registered capital HK$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Satellite Devices Intelligence Limited	Hong Kong	Inactive	Ordinary HK$1	100%

Satellite Devices Technology (Shenzhen) Company Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

14. Investments in associates

	2006	**2005**
	HK$'000	*HK$'000*
Share of net assets	1,474	1,474
Amount due to an associate *(note (b))*	(1,470)	(1,470)
	4	4

(a) The following is a list of the associates of the Group at 31 March 2006:

Company	**Place and date of incorporation**	**Principal activities and place of operation**	**Issued share capital**	**Interest held indirectly**
Telematics Systems Limited	Hong Kong 22 June 2001	Inactive	Ordinary shares of HK$10,000	40%
New Era Telematics Limited	Hong Kong 5 September 2001	Inactive	Ordinary shares of K$3,000,000	49%

Telematics Systems Limited and New Era Telematics Limited have adopted 31 December as their financial year end date.

(b) The amount due to an associate is unsecured, interest free and has no fixed terms of repayment.

15 Inventories

As at 31 March 2005, all inventories were carried at cost.

16 Trade receivables

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days. The aging analysis of trade receivables is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	283	98
31 – 60 days	45	45
61 – 90 days	—	8
Over 90 days	12,719	15,237
	13,047	15,388
Less: Provision for doubtful debts	(12,719)	(15,217)
	328	171

17. Cash and cash equivalents

The cash and cash equivalents at 31 March 2006 and 2005 comprised cash and bank balances only. Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and cash equivalents approximate to their fair values.

18. Amount due to a fellow subsidiary

The amount is due to Arcon Technology Limited ("ATL") and is unsecured, interest-free and repayable on demand. During the year, ATL assigned the amount due to it to a third party and the amount was included in other loan in the consolidated balance sheet at 31 March 2006.

19. Amount due to a director

The amount is due to Mr. Tsoi Siu Ching, Leo and is unsecured, interest-free and repayable on demand. During the year, Mr. Tsoi assigned the amount due to him to Executive Talent Limited, a company incorporated in the British Virgin Islands ("ETL"). The amount due to ETL was subsequently capitalised as detailed in note 20 below.

20. Share capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 April 2004, 31 March 2005 and 31 March 2006	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2004 and 31 March 2005	590,916,000	59,092
Issue of shares upon loan capitalisation *(note)*	67,585,863	6,758
At 31 March 2006	658,501,863	65,850

Note: On 9 December 2005, 67,585,863 new ordinary shares of HK$0.1 each were issued and allotted at par to a creditor, Executive Talent Limited, pursuant to a loan capitalisation deed entered into on 10 October 2005 with the creditor. Details of the loan capitalisation were disclosed in the Company's circular dated 27 March 2006. This is also the major non-cash transaction during the year.

21. Share options

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

No share option was granted under the Scheme since its adoption.

22. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

Company	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	34,698	(94,426)	(59,728)
Profit for the year	—	88	88
At 31 March 2005	34,698	(94,338)	(59,640)
At 1 April 2005	34,698	(94,338)	(59,640)
Loss for the year	–	(6,517)	(6,517)
At 31 March 2006	34,698	(100,855)	(66,157)

Note: The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

In the opinion of the director, the Company had no reserve available for distributions to shareholders at the balance sheet date.

23. Other loan

The other loan is unsecured, interest bearing at the rate of 10% per annum and repayable by 4 quarterly instalments with the first instalment due on 30 June 2007.

24. Deferred taxation

The following are the major deferred tax liabilities and assets recognised and movements thereon during current and prior accounting period:

	Accelerated tax depreciation *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2004	4,880	(4,880)	—
Charged/(credited) to consolidated income statement	(2,011)	2,011	—
At 31 March 2005	2,869	(2,869)	—
At 1 April 2005	2,869	(2,869)	—
Charged/(credited) to consolidated income statement	(2,876)	2,876	—
At 31 March 2006	(7)	7	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 March 2006, the Group had unused tax losses of approximately HK$97,339,000 (2005: approximately HK$98,477,000) available for offset against future profits. A deferred tax asset was recognised for the year ended 31 March 2006 in respect of HK$40,000 (2005: HK$16,393,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

25. Financial risk management

The Group's activities exposed it mainly to currency risk and credit risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. Cash transactions are limited to high-credit-quality institutions. In respect of the receivables, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

(b) Currency risk

The Group's principal businesses are mainly conducted and recorded in Hong Kong dollars and Renminbi Yuan. Therefore, the Group does not have any significant exposure to currency risk.

(c) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest bearing unsecured loan. The unsecured loan at fixed rate exposes the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

26. Related party transactions

Other than related party transactions in respect of key management personnel remuneration, amount due to a fellow subsidiary and amount due to a director, which were disclosed in notes 10, 18 and 19 respectively, the Group entered into the following transactions with a fellow subsidiary in the ordinary course of business:

	2006	**2005**
	HK$'000	*HK$'000*
Office rental expenses paid and payable to Arcon Technology Limited	—	16

27. **Commitments**

(a) ***Commitment under operating leases***

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	93	166
In the second to fifth years inclusive	77	9
	170	175

(b) ***Capital commitments in respect of acquisition of property, plant and equipment***

As at 31 March 2006, the Group had commitments in respect of acquisition of property, plant and equipment as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Contracted but not provided for	—	540
Authorised but not contracted for	—	—
	—	540

(c) ***Capital commitments in respect of investment in a subsidiary***

As at 31 March 2006, the Group had unprovided capital commitments amounting to HK$857,000 (2006: HK$857,000) in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

(d) ***Capital commitments in respect of acquisition of a company***

On 10 October 2005 and 24 November 2005, the Company entered into a sale and purchase agreement and supplemental agreement respectively, with Chung Chiu Limited, a company incorporated in the British Virgin Islands with its principal office in Hong Kong, (the "Vendor") for the acquisition of the entire issued share capital of Hip Kin Retailing Limited, a company incorporated in Hong Kong ("HKR") at the consideration of HK$80 million. The consideration shall be satisfied by (i) approximately HK$18.48 million in cash out of the estimated net proceeds from the proposed open offer (as detailed in note 29 below) and the issue of convertible note for the remaining balance of approximately HK$61.52 million. The proposed acquisition of HKR is subject to the Company's shareholders' approval and certain conditions, among of which are the Capital Reorganisation having become effective and the completion of Open Offer (both as defined below). Further details of the proposed acquisition are set out in the Company's circular dated 27 March 2006. Such proposed acquisition was approved by the Company's shareholders on 20 April 2006.

28. Litigation

On 29 June 2005, a landlord issued writ against Satellite Devices Limited, a wholly owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provision for this amount had been made in the financial statements.

Apart from the action against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

29. Post balance sheet events

On 20 April 2006, the following proposals which are detailed in the Company's circular dated 27 March 2006 (the "Circular"), were approved by the shareholders of the Company:

(i) proposed capital reorganisation ("Capital Reorganisation") — (i) every five existing issued and unissued shares of HK$0.10 each in the share capital of the Company be consolidated into one share of HK$0.50 each (the "Consolidated Share") in the capital of the Company (the "Share Consolidation"); (ii) the issued share capital of the Company be reduced (the "Capital Reduction") by cancelling paid-up capital to the extent of HK$0.49 on each Consolidated Share in the capital of the Company in issue on the date the Capital Reduction become effective (the "Effective Date") so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK$0.01 each in the capital of the Company (the "New Share"); (iii) the authorised but unissued share capital of the Company be sub-divided by subdividing each of the authorised but unissued shares of HK$0.50 each in the capital of the Company into fifty new shares of HK$0.01 each; and (iv) the credit amount arising from the Capital Reduction be applied to a distributable reserve of the Company where it may be utilised by the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at the Effective Date. The Capital Reorganisation had become effective on 22 June 2006;

(ii) proposed open offer ("Open Offer") — conditional upon the Capital Reorganisation having become effective and other conditions set out in the Circular being satisfied, the issue by way of open offer of 395,101,116 shares of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation (the "Offer Shares") to the Qualifying Shareholders (as defined in the Circular) for subscription on the basis of three Offer Shares for every one share of HK$0.01 at a price of HK$0.065 per Offer Share; and

(iii) the proposed acquisition of HKR as mentioned in note 27 above.

4. UNAUDITED FINANCIAL STATEMENTS

Set out below are the unaudited financial statements together with the relevant notes thereto as extracted from the third quarterly report of Golife for the nine months ended 30 September 2008. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the third quarterly report of Golife for the nine months ended 30 September 2008.

Condensed Consolidated Income Statement — Unaudited
For the nine months ended 30 September 2008

		For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	2008	2007
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER		15,926	17,427	51,177	39,454
Cost of sales		(7,516)	(5,998)	(23,298)	(13,845)
Gross profit		8,410	11,429	27,879	25,609
Other revenues and gains	*4*	276	2,702	5,354	6,071
Selling and distribution costs		(742)	(1,558)	(2,497)	(2,085)
Administrative expenses		(24,713)	(14,032)	(58,386)	(29,353)
Other expenses and losses	*5*	(131)	—	(13,705)	—
Finance costs	*6*	(426)	(346)	(1,097)	(1,254)
Share of loss of jointly controlled entities		—	(180)	—	(233)
PROFIT/(LOSS) BEFORE TAX	*7*	(17,326)	(1,985)	(42,452)	(1,245)
Tax	*8*	—	(213)	(12)	(734)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		(17,326)	(2,198)	(42,464)	(1,979)
DIVIDEND	*9*	—	—	—	—
Earnings/(loss) per share	*10*				
Basic		(6.40) cents	(0.88) cents	(16.53) cents	(0.99) cents
Diluted		N/A	N/A	N/A	N/A

Notes to the Condensed Consolidated Financial Statements

1. General Information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite A, 15/F., Wyndham Place, 40-44 Wyndham Street, Central, Hong Kong respectively.

The Company's principal activity is investment holding. The principal activity of its subsidiaries is distribution of high-end apparel and accessories.

2. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, including the Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants; accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

The accounting policies and basis of preparation adopted in the preparation of the Financial Statements are consistent with those adopted in annual financial statements for the year ended 31 December 2007.

All significant transactions and balances within the Group have been eliminated on consolidation.

The Financial Statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

3. Turnover

The Group's principal activity is distribution of high-end apparel and accessories. Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

4. Other Revenues and Gains

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank interest income	230	13	591	13
Fair value gain on financial assets at fair value through profit or loss	—	—	—	346
Profit on disposal of financial assets at fair value through profit or loss	16	2,180	16	5,040
Profit on disposal of derivative financial instruments	—	—	3,057	—
Profit on disposal of subsidiaries	—	392	—	392
Management services income	30	117	90	280
Waiver of other payable	—	—	1,600	—
	276	2,702	5,354	6,071

5. Other Expenses and Losses

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fair value loss on financial assets at fair value through profit or loss	31	—	482	—
Loss on disposal of financial assets at fair value through profit or loss	100	—	140	—
Loss on disposal of derivative financial instruments	—	—	783	—
Break-up fee for a terminated acquisition *(note)*	—	—	12,300	—
	131	—	13,705	—

Note: Upon termination of the agreement to purchase 96.57% of a French company, a break-up fee of EUR 1 million was paid to the counterparties accordingly.

6. Finance Costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on convertible notes	145	—	161	498
Interest on bank loans and overdrafts wholly repayable within five years	268	346	897	743
Interest on finance leases	13	—	39	13
	426	346	1,097	1,254

7. Profit/(Loss) before Tax

Profit/(loss) before tax is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of inventories sold	7,516	5,998	23,298	13,845
Depreciation	1,097	460	3,521	931
Minimum lease payments under operating leases on land and buildings	5,401	3,774	15,344	9,357

8. Tax

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current income tax				
Hong Kong	—	131	—	637
Overseas	—	82	—	97
Under provision for prior years				
Overseas	—	—	12	—
	—	213	12	734

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. In the corresponding period last year, Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of tax prevailing in the countries in which the Group operates.

9. Dividend

The Board does not recommend the payment of dividend for the nine months ended 30 September 2008 (2007: Nil).

10. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

	For the nine months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
Profit/(loss) attributable to shareholders	(42,464)	(1,979)
	Number of shares	
Weighted average number of ordinary shares in issue	256,820,965	199,403,008

Diluted earnings/(loss) per share is not presented as the convertible bonds and share options had antidilutive effects.

The weighted average number of ordinary shares in issue has been adjusted for the effect of share consolidation on 13 August 2008.

11. Reserves

	Share premium	Equity component of convertible notes	Share-based payments reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	55,642	11,316	—	(40,678)	26,280
Conversion of convertible notes	53,300	(11,316)	—	—	41,984
Placing of new shares	23,250	—	—	—	23,250
Cost of placing of new shares	(335)	—	—	—	(335)
Loss for the period	—	—	—	(1,979)	(1,979)
As at 30 September 2007	131,857	—	—	(42,657)	89,200
At 1 January 2008	132,103	—	98	(132,918)	(717)
Issue of convertible bonds	—	5,587	—	—	5,587
Conversion of convertible bonds	1,673	(89)	—	—	1,584
Loss for the period	—	—	—	(42,464)	(42,464)
As at 30 September 2008	133,776	5,498	98	(175,382)	(36,010)

12. Comparative Figures

Certain comparative figures have been reclassified to conform with current period's presentation.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF GOLIFE

The following management discussion and analysis of Golife for the respective periods as stated below is extracted from the relevant annual reports and quarterly report of Golife. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the relevant annual reports and quarterly report of Golife.

For the year ended 31 March 2005

Financial Results

During the year under review, the group continues to engage in the design, development and sale of location based technology devices and applications in Hong Kong. The market conditions of the business remained harsh and very competitive.

The Group recorded a turnover of approximately HK$1.44 million for the year ended 31 March 2005, representing a decrease of approximately HK$13.33 million or 90% as compared with last year's HK$14.78 million. The loss attributable to shareholders is approximately HK$17.16 million.

Business Review

Due to the growth of business in car security monitoring market condition of the Group, a self-owned and well equipped control centre has already been sat up to meet its demand. A team of well-trained control centre operators serves the clients 24 hours a day; 7 days a week. We believe our services have been improved after we have taken up the role of car security monitoring from our co-partner.

The hard effort in developing our products and services in target segment is going on. The number of members for subscription of service is gradually increased especially we have jointly worked with Canful Motors Limited. We are keeping close touch with other great luxurious private car dealers to seek for opportunity to enlarge our business with them.

The Group is now re-engineering its products by developing GPRS solution replacing currently using SMS message. The costs for communication channel will substantially be reduced.

With the continued improvement of the economies in Hong Kong, the import of great luxurious private car becomes more favorable. It is believed that the demand for security monitoring system would increase. Nevertheless, the prospect for the security monitoring industry is still challenging due to keen competition from local and PRC competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

Capital Structure

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares.

Financial Resources And Liquidity

As at 31 March 2005, the Group has total assets of approximately HK$17.8 million, which was mainly financed by current liabilities of approximately HK$12.7 million and shareholders' fund amounting to approximately HK$5.1 million. The ratio of total liabilities over the shareholders' funds is at 2.47 as at 31 March 2005.

Current assets amounted to approximately HK$0.8 million which mainly comprised of approximately HK$0.3 million inventories and HK$0.1 million cash and bank balance. The working capital ratio is 0.06 as at 31 March 2005.

The Group had no banking facilities available or any bank loans outstanding as at 31 March 2005.

The Directors believe that the Group has a strong financial position. The Group is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain financing on favorable terms.

Foreign Exchange Exposure

The revenues of the Group are denominated mostly in Hong Kong Dollars. The group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purposes.

Charges on Group Assets and Contingent Liabilities

As at 31 March 2005, there was no charge made on the Group's assets and any material contingent liability outstanding.

Employees

As at 31 March 2005, the Group had a total of 20 employees as comparing to 24 last year, who are engaged in the following operations:

Engineering and R&D	10
Sales and marketing (including field application engineers)	4
Finance, accounting, operation and administration	6
Total headcount	20

Employees in both Hong Kong and Mainland China are remunerated according to their performance and work experience. In addition to basic salaries, staff benefits include medical scheme, share options and performance bonus.

Significant Investments/Material Acquisitions and Disposals of Subsidiaries

During the year, the Group had no significant investments and no material acquisitions or disposal of subsidiaries.

Future Prospects

As per keen competition, our management team was very cautious in using the precious financial resources of the Group. We have focused on the fleet management and security monitoring system on vehicles. We expect we would diversify our products and services in Macau and PRC. The group would fine-tune its existing operations and strive for long term returns for the Company and our shareholders.

For the year ended 31 March 2006

Financial Results

For the year ended 31 March 2006, the Company and its subsidiaries (collectively the "Group") continued to focus on the security monitoring services and recorded an audited consolidated turnover of HK$1,359,000, which was trading at a similar level as of last year. The loss attributable to shareholders (the "Shareholders") of the Company this year of HK$17.73 million was also at a similar level as of last year. However, for the year ended 31 March 2006, staff cost was reduced by approximately HK$0.50 million and the successful recovery of an amount of bad debt provision, amounting to HK$2.50 million was also recorded. These savings were offset by the provision made against out-dated equipment and software amounting to HK$5.83 million. The market for our services has not grown since the last financial year, although the market in general remained very competitive.

Business Review

In 2005 and the first quarter of 2006, the Group continued to operate under keen competition. The Group has been exploring opportunities and additional sales channels for its 3G Skyeye Monitoring System by cooperating with other car dealers and insurance companies but the response from the insurance companies has not been encouraging. In August 2005, Mr. Tsoi resigned from the Group as Chairman of the board (the "Board") of directors, Chief Executive and Executive Director. The Group immediately sought qualified replacements. To strengthen the business prospects of the Group, additional directors were recruited to provide advice and service support. Furthermore, the Group also tried to improve its operational efficiency by reducing its administration headcounts and mitigating its overhead expenses by implementing tight operational control. For the year ended 31 March 2006, the Group was in pursuit of capital improvements, rationalizing and strategizing its operations to promote the return of profitability.

Capital Structure

The Board announced on 25 November 2005 that the Company and Executive Talent Limited (the "Creditor") entered into a deed on 10 October 2005 whereby the Company proposed to issue 67,585,863 shares (the "Loan Shares") at HK$0.10 each to the Creditor as full repayment of a loan owed by the Company to the Creditor (the "Loan Capitalisation"). The Loan Shares represent approximately 11.44% of the issued share capital of the Company prior to the completion of the Loan Capitalisation and approximately 10.26% of the enlarged share capital of the Company upon completion of the Loan Capitalisation which took place on 9 December 2005. It was also announced that the Board intended to put forward proposals to the Shareholders in relation to the (1) proposed capital reorganisation; (2) proposed open offer; and (3) proposed acquisition. All the proposals were submitted to the Shareholders for their approval in the extraordinary general meeting of the Company (the "EGM") held on 20 April 2006. The Directors are delighted to mention that all the special resolutions proposed at the EGM were approved, the approval of which will greatly enhance the future operations of the Group. The proposed capital reorganisation of the Group became effective on 22 June 2006.

Financial Resources and Liquidity

As at 31 March 2006, the Group has total assets of approximately HK$0.5 million, which was mainly financed by current liabilities of approximately HK$1.5 million, non-current liabilities of approximately HK$4.8 million and shareholders' deficits amounting to approximately HK$5.8 million. The ratio of total liabilities over the shareholders' fund is not applicable as at 31 March 2006 as the shareholders' fund is negative.

Current assets amounted to approximately HK$0.5 million which is mainly comprised of trade receivable and cash and bank balance of approximately HK$0.3 million and HK$0.1 million respectively. The working capital ratio is 0.30 as at 31 March 2006.

The Group had no banking facilities available or any bank loan outstanding as at 31 March 2006.

Foreign Exchange Exposure

The revenue of the Group was denominated mostly in Hong Kong Dollars. The Group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purpose.

Charges on Group Assets and Contingent Liabilities

As at 31 March 2006, there was no charge made on the Group's assets and any material contingent liability outstanding.

Employees

As at 31 March 2006, the Group had a total of 15 employees as comparing to 20 last year, who are engaged in the following operations:

Engineering and R & D	9
Sales and Marketing (including field application engineers)	1
Finance, accounting, operation and administration	5
Total headcount	15

Employees in both Hong Kong and Mainland China are remunerated according to their performance and work experience.

Significant Investment and Material Acquisitions and Disposals of Subsidiaries

As reported in the circular to Shareholders dated 27 March 2006, the Group proposed to acquire the entire share interest of Hip Kin Retailing Limited. The proposed acquisition was approved by the Shareholders at the EGM of 20 April 2006. Hip Kin Retailing Limited has been the exclusive distribution of (i) London based Anya Hindmarch, a brand offering chic designer ladies' handbags, leather accessories, luggage, shoes and apparel, in Hong Kong since 1995 and in Taiwan since 2002; (ii) Paris-based Paule Ka, a women's wear design house offering a "young couture" style that appeal to women who opt for subtly elegant designer apparel, in Hong Kong since 2002. The whole consideration is HK$80 million, payable in cash and convertible notes upon completion.

Save as the above, the Group had no significant investments and no material acquisition or disposal of subsidiaries during the year.

Future Prospects

Leveraging on its own brand name, the Group will continue to provide services and product solutions of the locationbased technology and innovations to its high-income clientele in Hong Kong. The Group's services and product solutions are still suffering from fierce competition in terms of pricing and function variety that may hamper the Group's number of subscribers in the future. In order to maintain the Group's competitiveness, the management has directed the in-house engineering team to improve the services by concentrating on certain state-of-the-art developments. We also monitor all newly introduced solutions offered by our competitors to stay ahead within the market.

In view of the positive economic growth in Hong Kong, the management will devote more effort to ensure the acquired businesses of Hip Kin Retailing Limited contribute to the future profitability of the Group. We are expecting the completion of this acquisition and the open offer made for new shares in the later part of July 2006. The successful implementation of the proposed transactions shall strengthen both the financial position and profitability of the Group substantially.

For the nine months period ended 31 December 2006

Overview

During the period, the Group changed its year-end to 31 December. Hence, the results of the period under review are effectively the results of the 9 months ended 31 December 2006.

The Group underwent a period of significant change and growth in the nine months period under review and recorded the following developments:—

— Key changes in management personnel

— Open offer raised HK$23.73 million in net proceeds

— Acquired 100% interest in Golife (Hong Kong) Limited (formerly Hip Kin Retailing Limited), which holds the Greater China distribution rights of luxury fashion brands Anya Hindmarch and Paule Ka, at HK$81 million in cash and convertible notes

To reflect the change in business nature of the Group, we changed the name of the Company from "Satellite Devices Corporation" to "Golife Concepts Holdings Limited" in October 2006.

Turnover of the Group was approximately HK$18,885,000 for the period, representing an increase of 1,290% against the entire FY2005. The Group turned around its business to report profit attributable to shareholders of HK$1,148,000 against loss attributable to shareholders of HK$17,726,000 in last year. Excluding an interest charge of HK$1,484,000, which was arising from the remeasurement of the fair value of liabilities component of Convertible Notes amounting to HK$49,521,000, profit attributable to shareholders would be HK$2,632,000. Subsequent to the year-end, HK$37,100,000 of the Convertible Notes, of which the convertible price is HK$0.10, have been converted. Should the remaining Convertible Notes be fully converted within 2007, no similar charge shall be made in the Profit and Loss Account.

The Group's improved financial results is owed mainly to the acquisition of 100% equity interest in Golife (Hong Kong) Limited completed on 31 July 2006 (the "Acquisition").

During the nine months period under review, the Group made an open offer of 395,101,116 shares and raised net proceeds of HK$23.73 million. HK$18.48 million of the proceeds was used for the Acquisition, and the balance of HK$5.25 million as working capital of the Group. HK$1.85 million is earmarked for brand marketing. The Group's financial position has strengthened as a result of these transactions.

The five-month results of Golife (Hong Kong) Limited after the Acquisition was completed had been consolidated into the Group's account. Golife (Hong Kong) Limited had contributed positively and significantly to the profitability and cash flows of the Group.

A previous shareholder of Golife (Hong Kong) Limited, Chung Chiu Limited, provided a profit guarantee to the Group, as a condition of Sale and Purchase, of no less than HK$10,000,000 of net profit before tax for the year ended 31 March 2006. Golife (Hong Kong) Limited announced on 27 September 2006 that its net profit before tax for the year was HK$9,333,387. As agreed, Chung Chiu Limited paid the Group the shortfall of guarantee profit of HK$666,613.

Operational Review

During the nine months period, the Group's apparel and accessories distribution business made HK$18.34 million in turnover and gross profit of HK$11.02 million, translating into a gross profit margin of 60%. Demand for products of the two brands currently carried by the Group, namely London-based Anya Hindmarch and Paris-based Paule Ka, was strong driven by favourable economic conditions in Hong Kong and Taiwan. The Group believes the net margin of the business will improve with rental of shop space peaked in 2006 and expected to come down in 2007, hence lower rental cost of the business is expected.

As for the Group's location-based auto-recovery business, it reported a turnover of HK$0.54 million. Competition remained keen with players making continuous capital investment and pushing for technological innovation. The Board will carefully monitor the performance of this business and will consider ceasing this business unit as soon as practicable if it does not achieve desirable profitability in the near term.

Future Plans and Prospects

The strong macro economic environment of the Greater China region is favorable for the Group's luxury consumer products distribution business. The Board believes the Group is poised to capture opportunities in the region in the next few years to achieve rapid growth.

On February 2007, the Group entered into an Agreement with Zion Worldwide Limited ("Zion Worldwide") to establish LOC Limited ("LOC"), with Profit First Investment Limited and Zion Worldwide owning equal stake. LOC will wholesale, design, source, merchandise and market lifestyle consumer products including but not limited to jewellery and accessories under the Life of Circle trademark. Created by award-winning designer Dickson Yewn, Life of Circle is an accessories brand that infuses Chinese philosophy into product designs. The brand offers concept 'bridge' jewelry and accessories. The world-renowned brand received the DTC Diamond Award in 2004, and its store was named by Forbes magazine as among the world's top 25 stores in 2005.

When the transaction is completed, Dickson Yewn and Zion Worldwide will transfer and assign to the new company all LOC IP Rights and existing Trademark-related products, and Golife will be involved in brand management and product development of LOC. Golife will also be the exclusive agent to market, distribute, promote or conduct deals of the products in overseas markets. In Hong Kong, it will open as many as 4 mono-brand stores for LOC in premium shopping malls and be responsible for wholesale arrangements with other prestigious multi-brand stores.

With Life of Circle added to its portfolio, the Group is prepared to aggressively expand its luxury consumer products distribution business in 2007.

For Anya Hindmarch, the Group has secured prime shop spaces and will open two new stores in Taiwan in mid-2007 and one new store in Hong Kong in the second half of 2007. For Paule Ka, the Group will open a second and third store in Hong Kong in the third quarter of 2007. For Life of Circle, the Group has plans for two stores in premium shopping malls in Hong Kong. Upon completion of these expansion plans, the Group will have a total of 13 points of sales compared to 6 as at 31 December 2006.

The Group will continue to identify and forge equity and/or distribution partnership with unique fashion and lifestyle-product brands with character, market potential and longevity. It will focus on a "vertical brandraising" model, which will enable it to attract more "up-and-coming" brands in Greater China to become its partners. The Group targets to double its points of sales every 18 months.

The Group also plans to start distributing products and setting up retail operations in Mainland China, the fastest growing economy in Asia. It expects to complete mapping out related strategy and mechanism in the near future. The Group is confident of capturing the demand for luxury products in key Mainland cities.

Liquidity and Financial Resources

The Group had cash and bank balances of HK$3.43 million as at 31 December 2006. To achieve a higher return for working capital, the Group also held short-term investments, mainly derivatives and equity listed in Hong Kong, totaling HK$6.20 million.

The Group will continue to improve its financial position. With positive cash inflow from operations and secured banking facilities, the Group has sufficient financial resources to meet its commitments and working capital requirements.

For the year ended 31 March 2007

Financial Review

Financial year 2007 was a significant and challenging year for the Group. It saw rapid development of brands represented by the Group and growth of the Group's distribution business. Significant financial and human resources were deployed in strengthening and re-structuring the management team and operational units to ensure the Group is able to meet the anticipated expansion of demand in 2008.

Turnover of the Group was approximately HK$60,598,000 for the year, representing an increase of 221% compared with the period from 1 April 2006 to 31 December 2006. Gross profit was HK$37,768,000, representing approximately 62% of turnover. Loss attributable to shareholders after tax was HK$92,240,000. In accordance with Hong Kong Accounting Standard 36, the Group recognised a one-time write-off of goodwill of HK$75,552,000; such goodwill was attributable to the acquisition of Golife (Hong Kong) Limited (formerly known as "Hip Kin Retailing Limited") in 2006. An impairment of intangible assets of HK$4,047,000 was also recognised.

During the year, the Group added two new brands, Cynthia Rowley and Life of Circle, to its distribution business and commenced product design and development for both brands. As a result, certain one-off pre-opening expenses were incurred, which contributed negatively to the financial performance that would have been achieved otherwise.

Distribution Business

Distribution business for two luxury brands, Anya Hindmarch and Paule Ka, continued to grow steadily. British accessory brand Anya Hindmarch remained the Group's main revenue contributor accounting for 72% of the Group's turnover. Turnover from Anya Hindmarch was HK$43,831,000, of which 69% was derived in Hong Kong and the remaining 31% from Taiwan. Turnover from the Paris-based women's wear brand Paule Ka was HK$12,931,000.

In March 2007, designer jewellery and accessory brand, Life of Circle, was added to the Group's distribution portfolio. Two points of sale ("POS") of the brand commenced operation during the year in Hong Kong, with the third one scheduled to open in April 2008. During the year, distribution business for Life of Circle achieved a turnover of HK$3,774,000 and reported a loss of HK$2,641,000. The Group believes the Life of Circle brand has enormous long-term potential, and it is only a matter of time for the brand to reach the critical mass.

In September 2007, the Group became the licensee and distributor of New York-designer brand Cynthia Rowley in Hong Kong and mainland China. The Group had secured two premises in Hong Kong and one in Beijing for setting up POS of the brand, the first of which will open in May 2008. Under the licensing agreement, the Group plans to open up to 20 POS for the brand by 2013, some of which will be opened in second-tier cities in mainland China to be operated by individual franchisees.

During the year, the Group strengthened its management by recruiting managers for its distribution and marketing departments to ensure that the manpower of these departments are sufficient to support the expansion of the Group's distribution business in the Greater China region. With a number of new POS to open in 2008, the Directors believe the Group will be able to achieve greater economies of scale and brace the performance of the distribution business and operating margins in 2008.

Product Development

Life of Circle Limited, which was formed in February 2007, and in which the Group had a 50% interest is responsible for the design, sourcing, merchandise planning and wholesale of conceptual jewellery and accessories carrying the Life of Circle trademark.

The new Life of Circle operation, which gave the Group indirect interest of the trademark, has transformed the Group from a pure distribution company into also a brand development and management company. The Group now works closely with Life of Circle Limited to ensure marketability and profitability of Life of Circle products. The Group plans to double the number of new jewellery products and introduce a new line of corporate gifts in 2008 to meet market demand.

CR Hong Kong Limited, a company in which the Group had a 50% interest as at 31 December 2007, was granted the licensing rights to design, manufacture and distribute products carrying the Cynthia Rowley trademark in Hong Kong and mainland China. It handles the design, sourcing and merchandise planning of women's apparels and accessories under the Cynthia Rowley trademark.

Expecting Cynthia Rowley brand products to contribute revenues in a decent proportion to its total revenues in the next few years, the Group has deployed resources to strengthen product development and sourcing capabilities in Hong Kong and mainland China to support the brand. The different measures taken included conducting focused market researches and recruitment of designers and merchandisers for the brand.

Acquisition of French-brand Solola

On 8 November 2007, the Group signed an agreement with Crédit Lyonnais Capital Investissement, Crédit Lyonnais Développement 2, Mr. Pierre Hémar, Lion Capital Investissement, Nollius BV and Quilvest France ("the Sellers") to purchase the sale shares, representing 96.57% of the issued share capital of Financière Solola and FS Convertible Bonds at a total initial consideration of EUR7,717,766 (approximately HK$92,381,659). Upon conversion of the FS Convertible Bonds, the Company's interest in Financière Solola will increase to approximately 98.25%.

In addition to the initial consideration and upon satisfaction of certain EBITDA targets set in the agreement, the Group will pay to the Sellers the Earn Out – a one-off performance related payment of EUR2,894,162 (approximately HK$34,643,119). If the audited consolidated EBITDA of Financière Solola Group for the year ending 31 December 2008 based on the French GAAP is equal to or in excess of the EBITDA Target, the Earn Out shall be capped at EUR2,894,162 (approximately HK$34,643,119). (Note: Euro/Hong Kong Dollar = 11.97, as per circular dated 8 March 2008)

Financière Solola was incorporated on 6 February 2003 and the Financière Solola Group is principally engaged in the design and sale of women's apparels carrying the "Solola" brand. "Solola" products are sold in 13 boutiques of the brand in France as well as a network of over 500 wholesale points in France and worldwide.

The acquisition will give the Group equity ownership of an established French brand in Europe and will boost the Group's design and product development capabilities. On top of bringing in revenues and profits, Financière Solola becoming a member of the GoLife family is also conducive to the Group's plan to extend its POS network in Greater China and speed up business development in mainland China where demand for quality consumer brands is growing.

It is expected that, subject to satisfaction of the various conditions, including approval from shareholders of the Company, the proposed acquisition will be completed in the second quarter of 2008.

Future Plans and Strategies

Upon completion of the acquisition of the Solola brand, the Group will have five prestigious brands in its portfolio and thirty mono-branded POS in its distribution network. The Group aims to become an international premier lifestyle-product company, with emphasis on brand management, product development as well as distribution and marketing.

With China becoming the fastest growing economy in Asia, the Group will continue to focus on building a sizable POS network in mainland China, where there will be abundant opportunities for the Group's luxury lifestyle products.

The Group will continue to seek and identify unique international accessory and apparel brands with character, market potential and longevity to form distribution, product development and equity partnerships.

Corporate Planning and Administration

During the financial year, the management established a Corporate Planning and Administration division for the Group to oversee the finance as well as human resources and administration departments. The respective departments under this division support the Group's business operations, in areas including accounting, company secretarial functions, legal and compliance, human resources and investor relations.

To cope with the expanding operations in different countries, namely China, Taiwan and France, the division plans to commence an overall internal review of the Group's current systems and affairs as well as implement new internal control systems, including setting up corporate governance committees upon completion of such review as appropriate and necessary.

Liquidity and Financial Resources

The Group had cash and bank balances of HK$9,536,000 as at 31 December 2007, out of which HK$5,949,000 was pledged for banking facilities. To achieve a higher return from working capital, the Group also held short-term investments, mainly in equity listed in Hong Kong, totalling 966,000 of which HK$728,000 was secured. Total borrowings as at 31 December 2007 amounted to HK$14,368,000, which included HK$13,563,000 with maturity within one year. Except for borrowings of HK$1,613,000 denominated in pound sterling, all other borrowings were denominated in Hong Kong dollar. The Group's gearing ratio, representing borrowings divided by the total of borrowings and equity, was 55%. The Group's major exposure in foreign currency risk was arising from purchase transactions. Forward contracts were entered into for hedging such transactions during the year.

As at 31 December 2007, the Group had operating lease commitments of HK$28,364,000, purchase commitments of HK$118,468,000, capital commitment for investment in Financière Solola Group of HK$89,086,000 and other capital commitments of HK$7,880,000.

Employees

As at 31 December 2007, the Group had 73 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other benefits include share options granted or to be granted under the share option scheme.

For the nine months period ended 30 September 2008

Overview

Turnover of the Group was approximately HK$51,177,000 for the nine months ended 30 September 2008 (the "Period"), representing an increase of 30% compared with the corresponding period last year. Gross profit was HK$27,879,000, representing approximately 54% of turnover. Loss attributable to shareholders after tax was HK$42,464,000. Within the total losses, HK$22,421,000 was attributed by the termination of the acquisition of Financière Solola in April 2008 and certain related financing exercises. Excluding the one-time losses that were attributed from the termination of this acquisition, the Group's net loss attributable to shareholders was HK$20,043,000.

Business performance

Distribution business for two luxury European brands, Anya Hindmarch, and Paule Ka, continued to grow steadily. British accessory brand Anya Hindmarch remained as the Group's main revenue contributor accounting for 63% of the Group's turnover. Turnover from Anya Hindmarch was HK$32,183,000, of which 66% was derived in Hong Kong and the remaining 34% from Taiwan. Turnover from the Paris-based women's wear brand Paule Ka was HK$13,440,000.

Distribution business of the Group's 50% owned designer jewelry brand, Life of Circle, achieved satisfactory results through 3 POS in Hong Kong. During the Period, distribution business for Life of Circle achieved a turnover of HK$5,316,000. The Group believes the Life of Circle brand has enormous long-term potential and it is a matter of time for the brand to reach the critical mass.

Future Plans

During the review period, the global financial crisis has begun to affect consumer spending in the Greater China region. In the interests of shareholders, the Group has immediately implemented measures to cut down costs as well as scale-down its retail operations. The Board also considers it necessary to diversify the Group's income base by entering into industries that are less affected by the expected persistent economic downturn.

A. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, for the purpose of incorporation in the Circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

30th December 2008

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 321 to 329 under the heading of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in Section A of Appendix III of the Company's circular dated 30th December 2008 (the "Circular"), in connection with the proposed subscription (the "Subscription") of convertible bonds issued by Golife Concepts Holdings Limited (the "GC Convertible Bonds") (collectively referred to as the "Enlarged Group"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the Subscription of the GC Convertible Bonds might have affected the relevant financial information of the Group presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix III of the Circular.

Respective responsibilities of directors of the Company and 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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any 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 work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and performed 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 complied by the directors of the Company on the basis stated, that such basis consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, 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 Group as at 30th June 2008 or any future date; or

– the results and cash flows of the Group for the year ended 31st December 2007 or for any future periods.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

- such basis is consistent with the accounting policies of the Group; and

- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of the Chapter 4 of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

Unless otherwise defined, capitalised terms used in the following text shall have the same meaning of those used in the Circular.

The following is the unaudited pro forma consolidated balance sheet (the "Unaudited Pro Forma Consolidated Balance Sheet") of the Enlarged Group assuming that the Subscription had been completed on 30th June 2008. Since the conversion of the GC Convertible Bonds is subject to the provision that such conversion will not trigger off a mandatory offer Rule 26 of the Takeovers Code on the part of the Company and its connected parties, under the current Takeovers Code regime, the ultimate equity interest of the Company in Golife Concept Holdings Limited ("GC") would be limited to less than 30% unless a whitewash waiver would be granted by the Securities and Futures Commission in accordance with the Takeovers Code. As a result, it is assuming that the Group would exercise those conversion rights attached solely to the GC Convertible Bonds after the Subscription, to the extent that the aggregate holding by the Group of the shares in GC immediately after such conversion shall be less than 30% of the then issued share capital of GC (the "Partial Conversion").

Following the Partial Conversion of the GC Convertible Bonds into the GC Conversion Shares and the converted GC Conversion Shares representing more than 20% but less than 30% of the issued share capital of GC as enlarged by the converted GC Conversion Shares. GC will be treated as an associate of the Company and the investment in the converted GC Conversion Shares will be accounted for in the Group's consolidated financial statements using the equity method in accordance with Hong Kong Accounting Standard 28 – Investments in Associates.

The Unaudited Pro Forma Consolidated Balance Sheet is based on the unaudited consolidated balance sheet of the Group as at 30th June 2008 as set out in Appendix I to the Circular, and the unaudited consolidated balance sheet of GC and its subsidiaries (the "GC Group") as at 30th June 2008 as extracted from the interim report of the GC Group for the six months ended 30th June 2008 and after making pro forma adjustments relating to the Subscription and the Partial Conversion, as if the Subscription and the Partial Conversion had been completed on 30th June 2008.

The Unaudited Pro Forma Consolidated Balance Sheet has been prepared for illustrative purposes only, 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 Group as at 30th June 2008 and any future date.

	The Group as at 30th June 2008	Pro forma adjustment Note 1	Pro forma adjustment Note 2	The Enlarged Group as at 30th June 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	6,244			6,244
Interests in leasehold land	5,560			5,560
Investment properties	51,100			51,100
Intangible asset	989,205			989,205
Goodwill	38,037			38,037
Interest in an associate	–		6,709	6,709
Available-for-sale financial assets	25,200			25,200
Convertible bonds receivable	–	32,723	(3,008)	29,715
Conversion option embedded in convertible bonds receivable	–	40,265	(3,701)	36,564
	1,115,346			1,188,334
Current assets				
Inventories	301			301
Film rights	40,269			40,269
Films in progress	21,828			21,828
Trade receivables	74,723			74,723
Deposits, prepayments and other receivables	30,121			30,121
Held-for-trading investments	24,300			24,300
Amounts due from associates	663			663
Prepaid tax	485			485
Cash and cash equivalents	23,967	(60,000)		(36,033)
	216,657			156,657
Assets classified as held for sale	1,396,666			1,396,666
	1,613,323			1,553,323
Total assets	2,728,669			2,741,657

	The Group as at 30th June 2008	Pro forma adjustment Note 1	Pro forma adjustment Note 2	The Enlarged Group as at 30th June 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital and reserves				
Share capital	22,212			22,212
Reserves	1,398,682	12,988		1,411,670
Equity attributable to equity holders of the Company	1,420,894			1,433,882
Minority interests	1,197			1,197
Total equity	1,422,091			1,435,079
Non-current liabilities				
Bank borrowings – due after one year	7,199			7,199
Deferred tax liabilities	15,059			15,059
Unsecured convertible notes	319,225			319,225
	341,483			341,483
Current liabilities				
Trade payables	14,946			14,946
Deposit received, accruals and other payables	58,805			58,805
Bank borrowings – due within one year	2,517			2,517
	76,268			76,268
Liabilities associated with assets classified as held for sale	888,827			888,827
	965,095			965,095
Total liabilities	1,306,578			1,306,578
Total equity and liabilities	2,728,669			2,741,657
Net current assets	648,228			588,228
Total assets less current liabilities	1,763,574			1,776,562

Notes to the Unaudited Pro forma Consolidated Balance Sheet

(1) The pro forma adjustments represented:

- the payment of HK$60,000,000 by the Group for the Subscription;

- the initial measurement of the estimated fair value of the debt element and the conversion option element of the GC Convertible Bonds on 30th June 2008, assuming the Subscription had been completed on 30th June 2008, were approximately HK$32,723,000 and HK$40,265,000 respectively, based on a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified professional valuer; and

- the difference between the estimated fair value and the principal value of the GC Convertible Bonds at the acquisition date of approximately HK$12,988,000 credited to income statement.

(2) Pursuant to the interim report of the GC Group for the six months ended 30th June 2008, GC had 257,400,297 outstanding ordinary shares (after taken up the adjustment of the share consolidation for which every five shares in issue to be consolidated into one share on 12th August 2008) as at 30th June 2008. Accordingly, the maximum number of GC shares that the Group can convert under the GC Convertible Bonds to the extent that the aggregate holding of the GC shares shall be more than 20% but less than 30% (assumed to be 29.99%) of the then issued share capital of GC is 110,314,412. The pro forma adjustment represented the recognition of the interest in an associate – the GC Group of approximately HK$6,709,000, de-recognition of the debt element and the conversion option element of the GC Convertible Bonds of approximately HK$3,008,000 and HK$3,701,000 respectively, assuming the Subscription and the Partial Conversion had been completed on 30th June 2008.

2. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement (the "Unaudited Pro Forma Consolidated Income Statement") of the Enlarged Group assuming that the Subscription and the Partial Conversion had been completed on 1st January 2007. The Unaudited Pro Forma Consolidated Income Statement is based on the audited consolidated income statement of the Group for the year ended 31st December 2007 as set out in Appendix I to the Circular, and the consolidated income statement of the GC Group for the year ended 31st December 2007 as extracted from the annual report of the GC Group for the year ended 31st December 2007 and after making pro forma adjustments relating to the Subscription and the Partial Conversion, as if the Subscription and the Partial Conversion had been completed on 1st January 2007.

The Unaudited Pro Forma Consolidated Income Statement has been prepared for illustrative purposes only, 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 Group as at 1st January 2007 and any future date.

	The Group for the year ended 31st December 2007	Pro forma adjustment Note 3	Pro forma adjustment Note 4	Pro forma adjustment Note 5	The Enlarged Group for the year ended 31st December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Turnover	64,305				64,305
Cost of sales	(44,843)				(44,843)
Gross profit	19,462				19,462
Other revenue	9,076	2,269			11,345
Other income	3,807				3,807
Administrative expenses	(39,343)				(39,343)
Marketing and distribution expenses	(5,791)				(5,791)
Share-based payment expenses	(17,660)				(17,660)
Net realised and unrealised gain on financial assets classified as held-for-trading	22,866				22,866
Impairment loss recognised in respect of film rights	(16,850)				(16,850)
Impairment loss recognised in respect of goodwill	(30,141)				(30,141)
Increase in fair value of investment properties	10,220				10,220
Loss from operations	(44,354)				(42,085)
Finance costs	(2,159)				(2,159)
Share of results of associates	56,648			(1,796)	54,852
Loss on deemed disposal of interests in associates	(49,744)				(49,744)
Changes in fair value in respect of conversion option embedded in convertible bonds receivable	–		41,272		41,272
Changes in fair value in respect of conversion options embedded in convertible notes receivables from an associate	(50)				(50)
(Loss)/profit before taxation	(39,659)				2,086
Taxation	(1,593)				(1,593)
(Loss)/profit for the year from continuing operations	(41,252)				493
Discontinued operations					
Loss for the year from discontinued operations	(62,555)				(62,555)
	(103,807)				(62,062)

Notes to the Unaudited Pro Forma Consolidated Income Statement

(3) The pro forma adjustment represented the imputed interest income on the debt element of the GC Convertible Bonds for the year ended 31st December 2007, assuming the Subscription and the Partial Conversion had been completed on 1st January 2007. The adjustment had continuing financial effect.

(4) The pro forma adjustment represented the fair value changes on the conversion option element of the GC Convertible Bonds at the acquisition date and during the year ended 31st December 2007, assuming the Subscription and the Partial Conversion had been completed on 1st January 2007. The adjustment had continuing financial effect.

(5) The pro forma adjustment represented the share of results of an associate – the GC Group, for the year ended 31st December 2007, which comprised of share of loss of the GC Group of approximately HK$9,464,000 and discount on acquisition of an associate of approximately HK$7,668,000, assuming the Subscription and the Partial Conversion had been completed on 1st January 2007. The adjustment had continuing financial effect.

3. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

The following is the unaudited pro forma consolidated cash flow statement (the "Unaudited Pro Forma Consolidated Cash Flow Statement") of the Enlarged Group assuming that the Subscription and the Partial Conversion had been completed on 1st January 2007. The Unaudited Pro Forma Consolidated Cash Flow Statement is based on the audited consolidated cash flow statement of the Group for the year ended 31st December 2007 as set out in Appendix I to the Circular, and after making pro forma adjustments relating to the Subscription and the Partial Conversion, as if the Subscription and the Partial Conversion had been completed on 1st January 2007.

The Unaudited Pro Forma Consolidated Cash Flow Statement has been prepared for illustrative purposes only, 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 Group as at 1st January 2007 and any future date.

	The Group for the year ended 31st December 2007	Pro forma adjustment Note 6	Pro forma adjustment Note 7	The Enlarged Group for the year ended 31st December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Loss before taxation, including loss from discontinued operations	(101,856)	41,745		(60,111)
Adjustments for:				
Interest expenses	12,827			12,827
Interest income	(3,897)	(2,269)		(6,166)
Dividend income	(79)			(79)
Impairment loss in respect of film rights	16,850			16,850
Impairment loss in respect of goodwill	30,141			30,141
Depreciation and amortisation of property, plant and equipment	23,866			23,866
Increase in fair value of investment properties	(10,220)			(10,220)
Gain on disposal of property, plant and equipment	(107)			(107)
Loss on disposal of interest in a subsidiary	45,471			45,471
Discount on acquisition of a subsidiary	(15,498)			(15,498)
Loss on deemed disposal of interests in associates	49,744			49,744
Net realised and unrealised gain on financial assets classified as held-for-trading	(22,866)			(22,866)
Gain on conversion of convertible bonds	(2,315)			(2,315)
Change in fair value in respect of conversion options	50	(41,272)		(41,222)
Share of results of associates	(56,648)	1,796		(54,852)
Share-based payment expenses	17,660			17,660
Operating cash flows before movements in working capital	(16,877)			(16,877)
Decrease in inventories	885			885
Decrease in film rights	29,780			29,780
Decrease in films in progress	4,521			4,521
Increase in trade receivables	(39,130)			(39,130)
Increase in deposits, prepayments and other receivables	(3,977)			(3,977)
Increase in deposit for investment	(400,000)			(400,000)
Increase in amounts due from associates	(1,454)			(1,454)
Decrease in trade payables	569			569
Change in amount due to a minority shareholder	502			502
Increase in deposits received, accruals and other payables	18,647			18,647

	The Group for the year ended 31st December 2007	Pro forma adjustment Note 6	Pro forma adjustment Note 7	The Enlarged Group for the year ended 31st December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash used in operations	(406,534)			(406,534)
Tax refund	235			235
Net cash used in operating activities	(406,299)			(406,299)
Cash flows from investing activities				
Interest received	3,773			3,773
Dividend income	79			79
Acquisition of interests in associates	(130,813)			(130,813)
Acquisition of a subsidiary (net cash and cash equivalents)	(668,929)			(668,929)
Loan to a minority shareholder	(196,000)			(196,000)
Proceeds from disposal of financial assets at fair value through profit or loss	94,858			94,858
Proceeds from disposal of property, plant and equipment	20			20
Proceeds from disposal of interest in a subsidiary	315,000			315,000
Subscription of convertible notes	(22,630)		(60,000)	(82,630)
Purchase of financial assets at fair value through profit or loss	(24,032)			(24,032)
Purchases of property, plant and equipment	(5,899)			(5,899)
Repayment of convertible notes receivables	52,000			52,000
Net cash used in investing activities	(582,573)			(642,573)
Cash flows from financing activities				
Interest paid	(11,724)			(11,724)
Proceeds from issue of shares	390,415			390,415
Proceeds from issue of convertible bonds	160,075			160,075
Redemption of convertible notes	(20,000)			(20,000)
Repayment of bank loans	(2,261)			(2,261)
New bank loan acquired	450,000			450,000
Share issuing expenses	(10,226)			(10,226)
Net cash generated from financial activities	956,279			956,279

	The Group for the year ended 31st December 2007	Pro forma adjustment Note 6	Pro forma adjustment Note 7	The Group for the year ended 31st December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net decrease in cash and cash equivalents	(32,593)			(92,593)
Cash and cash equivalents at the beginning of the year	89,347			89,347
Effect of foreign exchange rate changes	567			567
Cash and cash equivalents at the end of the year	57,321			(2,679)

Notes to the Unaudited Pro Forma Consolidated Cash Flow Statement

(6) The pro forma adjustment represented the imputed interest income, the fair value changes on the conversion option element of the GC Convertible Bonds and share of results of the associate – the GC Group for the year ended 31st December 2007, assuming the Subscription and the Partial Conversion had been completed on 1st January 2007. The adjustment had continuing financial effect.

(7) The pro forma adjustment represented the cash proceeds used for the Subscription. The adjustment did not have continuing financial effect.

B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, for the purpose of incorporation in the Circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

30th December 2008

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 332 to 334 under the heading of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in Section B of Appendix III of the Company's circular dated 30th December 2008 (the "Circular"), in connection with the open offer (the "Open Offer") of the Company on the basis of two offer shares for every one existing share held on the record date with bonus issue on the basis of three bonus shares for every one offer share taken up under the Open Offer. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the Open Offer might have affected the relevant financial information of the Group presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section B of Appendix III of the Circular.

Respective responsibilities of directors of the Company and 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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any 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 work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and performed 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 complied by the directors of the Company on the basis stated, that such basis consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, 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 Group as at 30th June 2008 or any future date.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

- such basis is consistent with the accounting policies of the Group; and

- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of the Chapter 4 of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group in accordance with paragraph 29 of Chapter 4 of the Listing Rules to illustrate the effect of the Open Offer on the consolidated net tangible assets attributable to equity holders of the Company, as set out in Appendix I to this Circular, as if the Open Offer had been completed on 30th June 2008.

The unaudited pro forma consolidated net tangible assets of the Group has been prepared for illustrative purposes only, 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 Group as at 30th June 2008 and any future date.

Unless otherwise defined, capitalised terms used in the following text shall have the same meaning of those used in the Circular.

	Unaudited consolidated net assets of the Group attributable to the equity holders of the Company as at 30th June 2008	Less: Intangible assets	Unaudited adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30th June 2008	Add: Estimated net proceeds from the Placing	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30th June 2008 and prior to completion of the Open Offer	Add: Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30th June 2008 after completion of the Open Offer
			(Note 1)	*(note 2)*		*(Note 3)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Based on Minimum Number of Offer Shares and Bonus Shares to be issued *(Note 2)*	1,420,894	(1,116,633)	304,261	–	304,261	42,000	346,261
Based on Maximum Number of Offer Shares and Bonus Shares to be issued *(Note 2)*	1,420,894	(1,116,633)	304,261	8,800	313,061	50,800	363,861

Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30th June 2008 and prior to completion of the Placing and the Open Offer *(Note 4)*	HK$0.685
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30th June 2008 and after completion of the Placing and prior to completion of the Open Offer *(Note 5)*	HK$0.588
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30th June 2008 upon completion of the Open Offer (Based on Minimum Number of Offer Shares and Bonus Shares to be issued) *(Note 6)*	HK$0.087
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30th June 2008 upon completion of the Open Offer (Based on Maximum Number of Offer Shares and Bonus Shares to be issued) *(Note 7)*	HK$0.076

Notes:

1. The unaudited adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30th June 2008 is based on the unaudited consolidated net assets of the Group attributable to the Company's equity holders as at 30th June 2008 of approximately HK$1,420,894,000, as extracted from the published interim report of the Company for the six months ended 30th June 2008 as set out in Appendix I to the Circular, with an adjustment for the intangible assets as at 30th June 2008 of approximately HK$1,116,633,000.

2. The Company entered into a conditional placing agreement with the placing agent in relation to placing of 88,000,000 Shares (the "Placing") and the estimated net proceeds from the Placing would be approximately HK$8,800,000, net of placing expenses. Therefore, the number of the Offer Shares will increase from 888,486,080 ("Minimum Number of Offer Shares") to 1,064,486,080 ("Maximum Number of Offer Shares"). In addition to the Offer Shares, the Company will also issue three Bonus Shares for every one Offer Share taken up under the Open Offer, the number of Bonus Shares will increase from 2,665,458,240 (together with Minimum Number of Offer Shares, "Minimum Number of Offer Shares and Bonus Shares") to 3,193,458,240 (together with Maximum Number of Offer Shares,"Maximum Number of Offer Shares and Bonus Shares") accordingly.

3. The estimated net proceeds from the Open Offer of approximately HK$42,000,000 and HK$50,800,000 are calculated based on 888,486,080 Offer Shares and 1,064,486,080 Offer Shares to be issued at the subscription price of HK$0.05 per Offer Share and after deduction of estimated related expenses respectively.

4. The unaudited pro forma consolidated net tangible assets per Share attributable to the equity holders of the Company prior to completion of the Placing and the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group prior to completion of the Placing and the Open Offer of approximately HK$304,261,000 divided by 444,243,040 Shares in issue as at 30th June 2008.

5. The unaudited pro forma consolidated net tangible assets per Share attributable to the equity holders of the Company after completion of the Placing and prior to completion of the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group after the Placing and prior to completion of the Open Offer of approximately HK$313,061,000 divided by 532,243,040 shares in issue upon completion of the Placing and prior to completion of the Open Offer. 532,243,040 Shares comprised of the existing 444,243,040 Shares in issue as at 30th June 2008 and 88,000,000 new Shares issued under the Placing.

6. The unaudited pro forma adjusted consolidated net tangible assets per Share upon completion of the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the Open Offer of approximately HK$346,261,000 divided by 3,998,187,360 Shares in issue upon completion of the Open Offer (based on Minimum Number of Offer Shares and Bonus Shares to be issued). 3,998,187,360 Shares comprised of the existing 444,243,040 Shares in issue as at 30th June 2008, 888,486,080 Offer Shares and 2,665,458,240 Bonus Shares to be issued under the Open Offer.

7. The unaudited pro forma adjusted consolidated net tangible assets per Share upon completion of the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the Open Offer of approximately HK$363,861,000 divided by 4,790,187,360 Shares in issue upon completion of the Open Offer (based on Maximum Number of Offer Shares and Bonus Shares to be issued). 4,790,187,360 Shares comprised of the existing 444,243,040 Shares in issue as at 30th June 2008, 88,000,000 new Shares issued under the Placing, 1,064,486,080 Offer Shares and 3,193,458,240 Bonus Shares to be issued under the Open Offer.

8. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30th June 2008.

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 not contained herein the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

(a) Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date were, and (ii) immediately following completion of the Increase in Authorised Share Capital, the Open Offer and the Bonus Issue will be, as follows:

(i) As at the Latest Practicable Date

		HK$
Authorised share capital:		
2,000,000,000	Shares	100,000,000.00
Issued and fully paid share capital or credited as filly paid:		
532,243,040	Shares	26,612,152.00

(ii) Upon completion of the Increase in Authorised Share Capital, the Open Offer and the Bonus Issue

		HK$
Authorised share capital:		
2,000,000,000	Shares prior to the completion of the Increase in Authorised Share Capital	100,000,000.00
10,000,000,000	Shares after the completion of the Increase in Authorised Share Capital	500,000,000.00
Issued and fully paid share capital or credited as filly paid:		
532,243,040	Shares in issue as at the Latest Practicable Date	26,612,152.00
4,257,944,320	Offer Shares and Bonus Shares to be issued pursuant to the Open Offer and the Bonus Issue	212,897,216.00
4,790,187,360	Shares in issue upon completion of the Open Offer and the Bonus Issue	239,509,368.00

All the issued existing Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the new Shares which will be in issue upon completion of the Open Offer and Bonus Issue will rank pari passu in all respects with the existing Shares in issue including as regards to all rights as to dividends, voting and return of capital.

The issued Shares are listed on the Stock Exchange. There is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted, except for the Offer Shares, the Bonus Shares, the Shares to be issued upon conversion of the Convertible Bonds and the 75,922,972 outstanding Options exercisable into 75,922,972 Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

As at the Latest Practicable Date, the interests of the Directors in the Shares and the underlying Shares 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	1,432,266,019 *(Note a)*	219,088 *(Note b)*	1,432,485,107	29.90
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	1,432,266,019 *(Note a)*	219,088 *(Note b)*	1,432,485,107	29.90
Ms. Li Yuk Sheung	Beneficial owner	1	368,525 *(Note c)*	368,526	0.08

All interests stated above represent long positions.

(a) These Shares are held as to 487,713,070 Shares by Mr. Heung, as to 28,544,949 Shares by Ms. Chen (the spouse of Mr. Heung), as to 913,243,500 Shares by Porterstone and as to 2,764,500 Shares by Dorest.

(b) These underlying Shares comprised outstanding share options of the Company are held as to 109,544 options by Mr. Heung and as to 109,544 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.

(b) Directors' interests in assets of the Company

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

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 Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31st December 2007, being the date to which the latest published audited accounts of the Group were made up.

(c) Directors' service agreements

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

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 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 5% 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:

Name	Capacity	Number of Shares/ underlying Shares held		Approximate % of interest held
Porterstone Limited	Beneficial owner	913,243,500		
	Interest of controlled corporation	2,764,500	*(Note a)*	
		916,008,000		19.12
Ng Cheuk Fai	Interest of controlled corporation	79,633,333		14.96
Kingston Securities Limited	Beneficial owner	44		
	Other	2,938,545,212	*(Note b)*	
		2,938,545,256		61.34
Chu Yuet Wah	Interest of controlled corporation	2,938,545,256	*(Note c)*	61.34
Ma Siu Fong	Interest of controlled corporation	2,938,545,256	*(Note c)*	61.34
Au Tsui Yee, Maggie	Other	478,000,000		9.97

All interests stated above represent long positions.

Notes:

(a) These Shares are held by Dorest, a wholly-owned subsidiary of Glenstone 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.

(b) These Shares are held by Kingston Securities Limited as an underwriter in the open offer with bonus issue of the Company as announced by the Company on 8th December 2008.

(c) These Shares are held by Kingston Securities 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 5% 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.

PROFILES OF DIRECTORS

Executive Directors

Mr. HEUNG Wah Keung, aged 60, is the chairman of the Company. He is the husband of Ms. Chen Ming Yin, Tiffany, vice chairman of the Company. He has over 20 years of experience in the entertainment and multimedia industries. He was the founder of Win's Entertainment Limited ("Win's") and One Hundred Years of Film Company Limited ("One Hundred Years"), which produces films recommended by audiences and distributors around the world. He is also a chairman and executive director of another main board listed company in Hong Kong, China Star Investment Holdings Limited and the vice-chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive Director in 1996. Save as disclosed above, Mr. Heung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any other Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix IV in this circular, Mr. Heung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. CHEN Ming Yin, Tiffany, aged 51, is the vice chairman of the Company. She is the wife of Mr. Heung Wah Keung and has over 15 years of experience in the entertainment and multimedia industries. Ms. Chen has produced a number of blockbuster films for Win's and One Hundred Years. She is also an executive director of another main board listed company in Hong Kong, China Star Investment Holdings Limited. In 2003, she was selected as one of 2003 Women in Entertainment – International Power by The Hollywood Reporter. Ms. Chen was appointed as an executive Director in 1996. Save as disclosed above, Ms. Chen had not held any directorship with any other listed companies within the past three years and does not have any relationship with any other Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix IV in this circular, Ms. Chen does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. LI Yuk Sheung, aged 41, is an executive Director. She has more than 10 years experience of management in the entertainment and multimedia industries. She is responsible for the overall operations, and is familiar with the Group's system. Ms. Li was appointed as an executive Director in 2001. Ms. Li had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix IV in this circular, Ms. Li does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Independent Non-executive Directors

Mr. HUNG Cho Sing, aged 67, is an independent non-executive Director. He has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. He has been the chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association from 1992 to 1995. Mr. Hung was appointed as a non-executive Director in 1996. Mr. Hung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Mr. Hung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. HO Wai Chi, Paul, aged 57, is an independent non-executive Director. He is the sole proprietor of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho was appointed as a non-executive Director in 1996. Mr. Ho also holds directorships as independent non-executive director of companies listed on the main board of the Stock Exchange which included China Star Investment Holdings Limited, Ngai Hing Hong Company Limited and Bel Global Resources Holdings Limited. Save as disclosed above, Mr. Ho had not held any directorship with any other listed companies within the past three years. Mr. Ho does not have any relationship with any Directors or general managers of the Company and does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. LEUNG Hok Man, aged 46, is an independent non-executive Director. Mr. Leung read law at the University of East London before completing the Legal Practice Course at the College of Law, York. After having admitted as a solicitor of the High Court of Hong Kong in 1999, he has moved into the field of intellectual property. He is currently an in-house solicitor at an international patent and trademark agency firm. He has substantial experience in intellectual property practice. Mr. Leung was appointed as an independent non-executive Director in 2007. Mr. Leung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Mr. Leung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Heung Wah Keung *(Chairman)* Ms. Chen Ming Yin, Tiffany *(Vice Chairman)* Ms. Li Yuk Sheung *(Executive Director)* Mr. Hung Cho Sing *(Independent Non-Executive Director)* Mr. Ho Wai Chi, Paul *(Independent Non-Executive Director)* Mr. Leung Hok Man *(Independent Non-Executive Director)*
AUTHORISED REPRESENTATIVES	Mr. Heung Wah Keung Ms. Chen Ming Yin, Tiffany
COMPANY SECRETARY	Ms. Wong Shuk Han, Dorothy

REGISTERED OFFICE	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
PRINCIPAL REGISTRAR AND TRANSFER OFFICE	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermuda Road Pembroke, Bermuda
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
PRINCIPAL BANKERS	Bank of China (Hong Kong) Limited Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited Seng Heng Bank Limited
AUDITORS	HLB Hodgson Impey Cheng Chartered Accountants Certified Public Accountants
LEGAL ADVISERS TO THE COMPANY	As to Bermuda Law: Appleby 8/F Bank of America Tower 12 Harcourt Road, Central, Hong Kong As to Hong Kong Law: Robertsons 57/F, The Center, 99 Queen's Road Central, Hong Kong
STOCK CODE	326
WEBSITE	www.chinastar.com.hk www.irasia.com/listco/hk/chinastar

6. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice, which are contained in this circular:

Grand Cathay Securities (Hong Kong) Limited	a licensed corporation for type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

As at the Latest Practicable Date, none of Grand Cathay Securities (Hong Kong) Limited and HLB Hodgson Impey Cheng had any interest, either direct or indirect, in any assets which have been, since 31st December 2007, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group, or any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Grand Cathay Securities (Hong Kong) Limited and HLB Hodgson Impey Cheng has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it respectively appears.

7. LITIGATION

As at the Latest Practicable Date, none of the member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

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

(i) the acquisition agreement dated 3rd January 2007 between the Company and Great Trust-Gestao E Participacoes, Limitada relating to the sale and purchase of a 19.25% interest in the issued quota in the capital of Kingsway Hotel Limited and a sale loan, and 38.5% interest in the issued quota in the capital of Xin Wei Property Investment Company Limited and a sale loan;

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

(iii) the deeds of variation dated 28th February 2007 entered into between the Company and the respective parties of three conditional sale and purchase agreements dated 13th June 2006 relating to the acquisitions of approximately 34.96% and 8.13% equity interest in Triumph Up Investments Limited respectively and relating to the acquisition of the entire issued share capital of Great Chain Limited, to extend the longstop date for the fulfilment of the conditions precedent in these agreements to 31st May 2007;

(iv) a subscription agreement dated 12th March 2007 entered into between Classical Statue Limited ("CSL") and Brilliant Arts Multi-Media Holding 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;

(v) the agreement dated 19th 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;

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

(vii) the placing agreement dated 19th March 2007 entered into between CSL and Kingston Securities relating to the placing of 1,296,860,000 existing shares of China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) ("Riche") beneficially owned by CSL;

(viii) the subscription agreement dated 19th March 2007 entered into between CSL and Riche relating to the subscription of 1,296,860,000 new shares of Riche by CSL;

(ix) the conditional placing agreements dated 29th March 2007 entered into between the Company and the placing agent, Kingston Securities 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;

(x) the conditional placing agreement dated 4th June 2007 entered into between the Company and the placing agent, Kingston Securities 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;

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

(xii) the sale and purchase agreement (the "S&P Agreement") dated 1st August 2007 entered into between the Company, Legend Rich Limited, a wholly-owned subsidiary of Riche, and Riche relating to the sale and purchase of the 1 ordinary share in issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, and a sale loan amounted to approximately HK$409,222,000 for an aggregate consideration of HK$447,000,000;

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

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

(xv) the conditional placing agreement dated 5th September 2007 entered into between the Company and the placing agent, Kingston Securities, 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;

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

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

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

(xix) a conditional loan agreement dated 23rd October 2007 entered into between Kingsway Hotel Limited as lender and Most Famous Enterprises Limited as borrower in respect of the loan facility of up to HK$196,000,000 to be granted by Kingsway Hotel Limited to Most Famous Enterprises Limited;

(xx) a deed of variation dated 11th December, 2007 entered into between the Company and the placing agent, Kingston Securities relating to extend the longstop date for Placing I and to change the price in Placing I from HK$0.21 to HK$0.12;

(xxi) the conditional placing agreement dated 11th December 2007 entered into between the Company and the placing agent, Kingston Securities, relating to the placing of up to a maximum of 1,400,000,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.12 per Share;

(xxii) the conditional sale and purchase agreement dated 13th May 2008 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Glenstone Investments Limited relating to the disposal of CSL;

(xxiii) the memorandum of agreement dated 3rd December 2008 entered into between China Star Production Services Limited and Hong Kong Movie City Company Limited relating to the disposal of numbers of system/ unit owned by the Company;

(xxiv) the Underwriting Agreement, the Placing Agreement and the Subscription Agreement; and

(xxv) the termination agreement dated 23rd December 2008 entered into between the Company, Legend Rich Limited and Riche to terminate the S&P Agreement.

9. GENERAL

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

(ii) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

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

(iv) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

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

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

(viii) 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 Group are proposed to be acquired or disposed of by or leased to member of the Group since 31st December 2007, being the date to which the latest published audited accounts of the Group were made up.

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) this circular;

(b) the memorandum and bye-laws of the Company;

(c) the annual reports of the Company for each of the two financial years ended 31st December 2006 and 2007;

(d) the reports from HLB Hodgson Impey Cheng on the unaudited pro forma financial information of the Group and the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which are set out on pages 319 to 334 of this circular;

(e) the valuation report prepared by Grant Sherman Appraisal Limited as mentioned on page 324 of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on pages 33 and 34 of this circular;

(g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 35 to 45 of this circular;

(h) the written consents referred to under the paragraph headed "Experts" in this appendix;

(i) the material contracts referred to under the paragraph headed "Material Contracts" in this appendix; and

(j) the copy of each circular issued pursuant to the requirements set in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts.

中国星
CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**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 Friday, 23 January 2009 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of the Company be increased from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 shares (each a "**Share**") of HK$0.05 each by the creation of an additional 8,000,000,000 shares of HK$0.05 each and that any directors (the "**Directors**") of the Company be and are hereby authorised to do all such acts, deeds and things and shall execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the increase in the authorised share capital of the Company."

2. "**THAT**

(i) subject to the fulfillment of the conditions as set out therein, the subscription agreement (the "**Subscription Agreement**", a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) dated 26th November 2008 entered into between the Company and Golife Concepts Holdings Limited ("**Golife**"), in relation to the subscription (the "**Subscription**") of the zero coupon convertible bonds (the "**GC Convertible Bonds**") in an aggregate principal amount of HK$60 million to be issued by Golife in five tranches of HK$12 million each due on the tenth anniversary of the date of issue of such GC Convertible Bonds and the transactions contemplated thereunder (including but not limited to the exercise of conversion rights conferred by such GC Convertible Bonds) be and are hereby approved, confirmed and ratified; and

(ii) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Subscription or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Subscription, the Subscription Agreement and the transactions contemplated thereunder."

3. "**THAT**

(a) subject to the passing of the special resolution numbered 4 and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Open Offer (as defined below) and the transactions contemplated thereunder be and are hereby approved;

For the purpose of this resolution, "**Open Offer**" means the proposed issue by way of open offer of not less than 888,486,080 offer shares and not more than 1,064,486,080 offer shares (the "**Offer Shares**") at a subscription price of HK$0.05 per Offer Share to the qualifying shareholders (the "**Qualifying Shareholders**") of the Company whose names appear on the date by reference to which entitlement under the Open Offer will be determined (other than those shareholders (the "**Prohibited Shareholders**") with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of two (2) Offer Shares for every one (1) existing Share then held and otherwise pursuant to and subject to the fulfillment of the conditions set out in the underwriting agreement (the "**Underwriting Agreement**" including all supplemental agreements relating thereto) (a copy of which have been produced to this Meeting marked "B" and signed by the chairman of this Meeting for the purpose of identification) dated 1st December 2008 (as supplemented by the supplemental agreement dated 8th December 2008) and made between the Company and Kingston Securities Limited as underwriter (the "**Underwriter**" or "**Kingston Securities**");

(b) any Directors be and is hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or Prohibited Shareholders as they deem necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;

(c) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by Kingston Securities) be and are hereby approved, confirmed and ratified;

(d) the arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and

(e) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder."

SPECIAL RESOLUTION

4. "**THAT**

(a) subject to the passing of the ordinary resolution numbered 3, the issue (the "**Bonus Issue**") by way of bonus shares (the "**Bonus Shares**") to the first registered holders of the Offer Shares on the basis of three (3) Bonus Shares for every one (1) Offer Share taken up in accordance with the terms and conditions as set out in the circular of the Company dated 30th December 2008 be and is hereby confirmed and approved and any Directors be and is hereby authorised to allot and issue the Bonus Shares pursuant to or in connection with the Bonus Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing shareholders of the Company and, in particular, the Directors be and are hereby authorised to make such exclusion or other arrangements in relation to fractional entitlements or Prohibited Shareholders as they deem necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and

(b) any Directors be and is hereby authorised to sign and execute such documents and do all such acts and things as they consider necessary, desirable or expedient in connection with the Bonus Issue, including but not limited to the allotment and issue of the Bonus Shares."

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

Hong Kong, 30th December 2008

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

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 or attorney duly authorised.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, 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.