THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this Prospectus 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 the Prospectus, together with the accompanying Application Form and Excess Application Form, 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.

A copy of each of the Prospectus Documents has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of each of the Prospectus Documents has been or will as soon as practicable be filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda (as amended). The Securities and Futures Commission of Hong Kong, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda and the Bermuda Monetary Authority take no responsibility for the contents of any of these documents. Dealings in the securities of the Company may be settled through CCASS (as defined herein) and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares and Bonus Shares on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC (as defined herein), the Offer Shares and Bonus Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement date of dealings in the Offer Shares and Bonus Shares or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus, 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 the Prospectus.

CHINA STAR ENTERTAINMENT LIMITED

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

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

Underwriter

KINGSTON SECURITIES LIMITED

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

The Latest Time for Acceptance of and payment for the Offer Shares is 4:00 p.m. (Hong Kong time) on Monday, 16th February 2009.

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 have been 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.

29th January 2009

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

"Announcement"	the announcement of the Company dated 8th December 2008 relating to, among other things, the Open Offer
"Application Form(s)"	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
"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$120,000,000 issued by the Company on 18th March 2008 conferring rights to convert the same into a total of 40,000,000 Shares at the conversion price of HK$3.00 per Share (subject to further adjustments) as at the Latest Practicable Date

"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
"Excess Application Form(s)"	the form(s) of application for excess Offer Shares
"GC Convertible Bonds"	the zero coupon convertible bonds in the 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 for the relevant tranche pursuant to the Subscription Agreement
"Golife"	Golife Concepts Holdings Limited, a company incorporated in Cayman Islands with limited liability whose issued shares are listed on the Growth Enterprise Market of the Stock Exchange
"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 the Prospectus
"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 Shareholder(s)"	Shareholder(s) other than 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"	20th January 2009, being the latest practicable date prior to the printing of the Prospectus for inclusion of certain information in the Prospectus
"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 at the placing price of HK$0.102 per Share pursuant to the terms of the Placing Agreement and completed on 23rd December 2008
"Placing Agreement"	the conditional placing agreement entered into between the Company and Kingston Securities dated 1st December 2008 in relation to the Placing
"Placing Share(s)"	88,000,000 new Shares 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"	this prospectus issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus, the Application Form and the Excess Application Form
"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 convened and held 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 the 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 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.

The following information is derived from, and should be read in conjunction with and, subject to, the full text of the Prospectus.

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 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.

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 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.

	2009
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 the Prospectus refer to Hong Kong times. Dates stated in the Prospectus 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. 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, 16th 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, 16th 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, 16th 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 and 18 of the Prospectus. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

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

29th January 2009

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

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 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

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

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 the Prospectus is to give you further information on, regarding the Open Offer and the Bonus Issue, including information on procedures for application and payment and certain financial information and other information in respect of the Group.

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 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.
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) 75,922,968 outstanding Options entitling the holders thereof to subscribe for 75,922,968 Shares; and (ii) 40,000,000 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 has sent (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.

Shareholders with their Shares held by a nominee (or CCASS) should note that the Board will regard the nominee (including CCASS) as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by a nominee (or CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the close of business on the Record Date. Shareholders should consult their professional advisers if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Offer Shares themselves.

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 had been closed from 20th January 2009 to 23rd January 2009, both dates inclusive, to determine the eligibility of the Open Offer. No transfer of Shares had been 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 premium of approximately 163.16% to the closing price of HK$0.019 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. Based on the register of members of the Company as at the Latest Lodging Date, the Overseas Shareholders are situated in the Australia, United Kingdom, Canada, Singapore, The People's Republic of China, Malaysia and Macau. Given that the register of members of the Company would be closed from 20th January 2009 to 23rd January 2009 and no Shares would be transferred during the book closure period, the register of members of the Company on the Record Date would be the same as that on the Latest Lodging Date. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the issue of the Offer Shares and Bonus Shares to such Overseas Shareholders.

Based on the legal opinion provided by the relevant legal advisers in the Australia, United Kingdom, Canada, Singapore, The People's Republic of China, Malaysia and Macau, the Directors are of the view that the Offer Shares and Bonus Shares can be offered to the Overseas Shareholders in these jurisdictions other than Canada as there are no legal restrictions on the offering of the Offer Shares and Bonus Shares to these Overseas Shareholders which would be onerous for the Company to comply with. Accordingly, there are no Prohibited Shareholders other than the Canada Shareholder(s).

The Oversea Letter together with the Prospectus, for information only, has been sent to the Canada Shareholders, being the Prohibited Shareholders, explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer.

It is the responsibility of the Shareholders (including the Overseas Shareholders) to observe the local legal and regulatory requirements applicable to them for taking up and onward sale (if applicable) of the Offer Shares and Bonus Shares.

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 has applied 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.

Each Qualifying Shareholder who has applied and paid for the Offer Shares will receive one share certificate for all the entitlements to the Offer Shares in fully paid form issued in its favour.

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 after completion of the Placing and as at the Latest Practicable Date; and (iii) immediately after completion of 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 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 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 have been 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 has applied 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 75,922,968 outstanding Options granted under the share option schemes adopted by the Company entitling the holders thereof to subscribe for a total of 75,922,968 Shares and the Convertible Bonds entitling the holder thereof to convert into 40,000,000 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.

PROCEDURES FOR APPLICATION

Application for Offer Shares

The Application Form is enclosed with the Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Offer Shares as shown therein subject to payment in full by the Latest Time for Acceptance. Qualifying Shareholders should note that they may apply for any number of Offer Shares only up to the number set out in the Application Form.

If Qualifying Shareholders wish to apply for all the Offer Shares offered to them as specified in the Application Form or wish to apply for any number less than their entitlements under the Open Offer, they must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the full amount payable in respect of such number of Offer Shares they have applied for with, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on Monday, 16th February 2009. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or bankers' cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "China Star Entertainment Limited – Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, have been lodged with, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. on Monday, 16th February 2009, the entitlements of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

Application for excess Offer Shares

Qualifying Shareholders may apply, by way of excess application, for any Offer Shares entitled by the Qualifying Shareholders but not validly applied for by them, any Offer Shares arising from the aggregation of fractional entitlements and any Offer Shares not offered to the Prohibited Shareholders (if any).

Application for excess Offer Shares should be made by completing the Excess Application Form enclosed with the Prospectus and lodging the same with a separate remittance for the full amount payable in respect of the excess Offer Shares being applied for in accordance with the instructions printed thereon, with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Monday, 16th February 2009. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, licensed banks in Hong Kong and made payable to "China Star Entertainment Limited – Excess Application Account" and crossed "Account Payee Only". The Registrar will notify the Qualifying Shareholders of any allotment of the excess Offer Shares made to them.

It should be noted that unless the duly completed and signed Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Monday, 16th February 2009, the Excess Application Form is liable to be rejected.

All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form or Excess Application Form in respect of which the cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholders under the Open Offer will be deemed to have been declined and will be cancelled.

In the event that applications are received for the Offer Shares in excess of assured entitlements, the Directors will allocate the Offer Shares in excess of assured entitlements at their discretion, but on a fair and reasonable basis based on the principles as stated under the paragraph headed "Application for excess Offer Shares" under the section headed "Open Offer with Bonus Issue" above.

Both Application Form and Excess Application Form are for the use by the person(s) named therein only and are not transferable.

No receipt will be issued in respect of any application monies received.

Any Offer Shares not applied for by the Qualifying Shareholders will be taken up by Kingston Securities or subscribers procured by Kingston Securities.

The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee as a single Shareholder according to the register of members of the Company.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of acceptance of Offer Shares will be returned to the Qualifying Shareholders without interest by means of cheques despatched by ordinary post to the respective addresses on the register of members at their own risk as soon as practicable thereafter.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to the Prospectus.

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

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 and the unaudited condensed consolidated results and the assets and liabilities of the Group for the six months ended 30th June 2008 as extracted from the relevant published interim financial statement of the Group.

During the three years ended 31st December 2007 and the six months ended 30th June 2008, 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
	(Unaudited)	(Audited)	(Audited)	(Audited)
	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 (Unaudited) *HK$'000*	As at 31st December 2007 (Audited) *HK$'000*	2006 (Audited) *HK$'000*	2005 (Audited) *HK$'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 31st 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$'000* (*note a*)	*HK$'000*	*HK'000*	*HK$'000* (*note b*)	*HK$'000* (*note c*)	*HK$'000*	*HK$'000* (*note d*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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%

Notes:

(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 *HK$'000*	2006 *HK$'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 *HK$'000*	2006 *HK$'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	**2006**
	HK$'000	*HK$'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)

		Six months ended 30th June	
		2008	**2007**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(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	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*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(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 (Audited)
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* (Audited)
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	As at 31st December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(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. INDEBTEDNESS

Borrowings

As at the close of business on 31st December 2008, being the latest practicable date for the purpose of the indebtedness, the Group had outstanding borrowings of approximately HK$703,278,000 which comprised of (i) bank borrowings and overdrafts of approximately HK$558,293,000, 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$144,985,000 with principal amount of HK$168,000,000.

Contingent liabilities

As at 31st December 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$325,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 31st December 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.

5. 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 the Prospectus.

6. 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 31st December 2007, being the date of which the latest published audited financial statements of the Company were made up.

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 Prospectus.

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

29th January 2009

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 125 to 127 under the heading of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 29th January 2009 (the "Prospectus"), 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 Appendix II of the Prospectus.

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 the Prospectus, as if the Open Offer had been completed on 30th June 2008.

The unaudited pro forma statement of adjusted 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 Prospectus.

	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 *(Note 1)*	Add: Estimated net proceeds from the Placing *(note 2)*	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 *(Note 3)*	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
	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 Prospectus, 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

The Prospectus 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 the Prospectus 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:		
10,000,000,000	Shares	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 75,922,968 outstanding Options exercisable into 75,922,968 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 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 Options of each other.

(c) These underlying Shares comprised outstanding 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 the Prospectus 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	63,633,333		11.95
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 III in the Prospectus, 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 52, 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 III in the Prospectus, 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 III in the Prospectus, 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. EXPERT

The following is the qualification of the expert who have given an opinion or advice which are contained in the Prospectus:

HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

As at the Latest Practicable Date, HLB Hodgson Impey Cheng did not have 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.

HLB Hodgson Impey Cheng has given and has not withdrawn its respective written consent to the issue of the Prospectus 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 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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;

(viii) 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;

(ix) 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;

(x) 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;

(xi) 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.;

(xii) 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;

(xiii) 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;

(xiv) 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;

(xv) 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.;

(xvi) 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;

(xvii) 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;

(xviii) 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;

(xix) 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;

(xx) 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;

(xxi) 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;

(xxii) the Underwriting Agreement, the Placing Agreement and the Subscription Agreement; and

(xxiii) 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 the Prospectus shall prevail over the Chinese text.

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 the Prospectus up to and including 16th February 2009:

(a) the Prospectus;

(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 interim report of the Company for the six months ended 30th June 2008;

(e) the reports from HLB Hodgson Impey Cheng on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which are set out on pages 123 to 127 of the Prospectus;

(f) the written consents referred to under the paragraph headed "Expert" in this appendix;

(g) the material contracts referred to under the paragraph headed "Material Contracts" in this appendix; and

(h) 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 of the Company.