THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Star Entertainment Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

(1) CHANGE IN BOARD LOT SIZE; (2) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE WITH BONUS WARRANTS ON THE BASIS OF ONE BONUS WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE; (3) APPLICATION FOR WHITEWASH WAIVER AND (4) NOTICE OF SPECIAL GENERAL MEETING

Underwriters

Mansion House Securities (F.E.) Limited

Heung Wah Keung Family Endowment Limited

Financial adviser to China Star Entertainment Limited

Nuada Limited

Corporate Finance Advisory

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

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

A letter from the Board is set out on pages 11 to 34 of this circular.

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 35 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its recommendation in respect of the Rights Issue, the Bonus Issue and Whitewash Waiver, is set out on pages 36 to 53 of this circular.

A notice convening the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 4:00 pm. (or immediately after the conclusion or adjournment of the meeting of the Company) is set out on pages 179 to 181 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM thereof should you so wish.

The last day of dealing in the Shares on a cum-entitlement basis is Friday, 27 May 2011. The Shares will be dealt in on an ex-entitlement basis commencing from Monday, 30 May 2011. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive). Shareholders and potential investors should note that dealing in Shares and/or nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

Shareholders and potential investors should note that the Rights Issue and the Bonus Issue is conditional upon fulfillment of various conditions precedent and the Underwriters are entitled to terminate the Underwriting Agreement prior to the Latest Time for Termination, details of which have been set out under the paragraph headed "Termination of the Undewriting Agreement" of this circular. Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue are subject are fulfilled (which is expected to be on or before 4:00 p.m. on Monday, 27 June 2011) and/or dealing in nil-paid Rights Shares between Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive), will accordingly bear the risk that the Rights Issue and the Bonus Issue may not become unconditional and may not proceed. Any Shareholder or person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.

The Rights Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the Rights Issue and the Bonus Issue" in the section headed "Letter from the Board" on pages 20 and 21 of this circular. In particular, the Rights Issue is conditional upon the Whitewash Waiver having been granted by the Executive and the approval of the Rights Issue, the Bonus Issue and Whitewash Waiver by the Independent Shareholders at the SGM by way of poll. The Underwriters may, under the Underwriting Agreement, terminate the Underwriting Agreement on the occurrence of certain events, including but not limited to force majeure, as more particularly described in the section headed "Termination of the Underwriting Agreement" on pages 9 and 10 of this circular. The Rights Issue is therefore also subject to the right of the Underwriters to terminate the Underwriting Agreement. Accordingly, the Rights Issue may or may not proceed.

20 May 2011

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	2011
Effective date of the Capital Reorganisation	Monday, 9 May
Dealing in Shares commences	9:00 a.m. on Monday, 9 May
Original counter for trading in Original Shares in board lot size of 5,000 Original Shares temporarily closes	9:00 a.m. on Monday, 9 May
Temporary counter for trading in Shares in board lot size of 500 Shares in the form of existing share certificates opens	9:00 a.m. on Monday, 9 May
First day for free exchange of share certificates of Original Shares for new share certificates for Shares	Monday, 9 May
Despatch of circular with notice of SGM	Friday, 20 May
Original counter for trading in Shares in board lot size of 10,000 Shares in the form of new share certificates for Shares re-opens	9:00 a.m. on Tuesday, 24 May
Parallel trading in Shares in the form of new share certificates and existing share certificates commences	9:00 a.m. on Tuesday, 24 May
Designated broker starts to stand in the market to purchase and sell odd lots of Shares	Tuesday, 24 May
Last day of dealing in the Shares on a cum-entitlement basis	Friday, 27 May
First day of dealing in the Shares on an ex-entitlement basis	Monday, 30 May
Latest time for lodging transfer of the Shares in order to be qualified for subscription of the Rights Issue and the Bonus Issue	4:30 p.m. on Tuesday, 31 May
Register of members for the Shares closes (both dates inclusive)	Wednesday, 1 June to Tuesday, 7 June
Latest time for lodging proxies	4:00 p.m. on Sunday, 5 June
Record Date	Tuesday, 7 June

	2011
SGM	4:00 p.m. on Tuesday, 7 June
Announcement of result of SGM to be posted on the Stock Exchange's website	Tuesday, 7 June
Register of members for the Shares reopens	Wednesday, 8 June
Despatch of Prospectus Documents	Wednesday, 8 June
First day of dealing in nil-paid Rights Shares	Friday, 10 June
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Tuesday, 14 June
Parallel trading in Shares in the form of new share certificates and existing share certificates ends	4:00 p.m. on Tuesday, 14 June
Temporary counter for trading in Shares in board lot size of 500 Shares in the form of existing share certificates closes	4:00 p.m. on Tuesday, 14 June
Designated broker ceases to stand in the market to purchase and sell odd lots of Shares	4:00 p.m. on Tuesday, 14 June
Last day for free exchange of share certificates of Original Shares for new share certificates for Shares	Thursday, 16 June
Last day of dealing in nil-paid Rights Shares	Friday, 17 June
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares	4:00 p.m. on Wednesday, 22 June
Latest time for the Rights Issue and the Bonus Issue to become unconditional	4:00 p.m. on Monday, 27 June
Announcement of the results of acceptance and excess application of the Rights Issue to be posted on the Stock Exchange's website	Tuesday, 28 June
Refund cheques for wholly and partially unsuccessful excess applications to be posted	Wednesday, 29 June

	2011
Certificates for fully-paid Rights Shares and Bonus Warrants to be posted	Wednesday, 29 June
Dealing in fully-paid Rights Shares and Bonus Warrants commences	Monday, 4 July

Note: *For the timetable regarding implementation of the Capital Reorganisation and the associated trading arrangement, please refer to the announcement dated 28 February 2011 and the circular dated 7 March 2011 of the Company.*

All references to times and dates in this circular are references to Hong Kong local times and dates.

Dates or deadlines specified herein may be varied or extended by the Company and the Underwriters and are therefore tentative and indicative only. Further announcement(s) will be made by the Company on any changes to the above expected timetable, if and when appropriate.

Note: *The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:*

(1) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or

(2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights 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 of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take effect on the Acceptance Date, the dates mentioned above may be affected. An announcement will be made by the Company in such event as soon as practicable.

DEFINITIONS

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

"2009 Proposed Acquisition"	the proposed acquisition of business interests pursuant to a conditional agreement dated 29 April 2009 entered into between the Group and Ms. Chen, details of which are set out in the announcement and circular of the Company dated 5 May 2009 and 17 August 2009 respectively, which is subject to conditions precedent and yet to be completed
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Acceptance Date"	Wednesday, 22 June 2011, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company and Underwriters may agree in writing
"Announcement"	the announcement of the Company dated 18 April 2011 in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bonus Issue"	the proposed issue of the Bonus Warrants on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue
"Bonus Warrants"	not less than 294,707,325 bonus warrants and not more than 336,821,377 bonus warrants to be issued under the Bonus Issue
"Bonus Warrants Share(s)"	the new Shares to be allotted and issued pursuant to the exercise of the subscription rights attached to the Bonus Warrant(s) at the Bonus Warrants Subscription Price
"Bonus Warrants Subscription Price"	the initial subscription price of HK$0.25 per Bonus Warrants Share (subject to adjustment)
"Bonus Warrants Subscription Period"	the period of 18 months from the date of the issue of the Bonus Warrants
"Business Day"	a day (other than a Saturday, a Sunday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business

"Capital Reorganisation"	the capital reorganisation of the Company involving (i) the consolidation of every ten (10) issued and unissued Original Shares of HK$0.01 each into one (1) consolidated Original Share of HK$0.10 each; (ii) the capital reduction of the nominal value of all the authorised share capital of the Company and the cancellation of the paid-up capital of the issued Shares from HK$0.10 each to HK$0.01 each and the credit arising from reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (iii) increase of authorised share capital of the Company, details of which were disclosed in the announcements of the Company dated 9 February 2011 and 28 February 2011 and the circular of the Company dated 7 March 2011, which has become effective on 9 May 2011
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Chen Convertible Bonds"	the convertible bonds in principal amount of HK$350 million conferring rights to subscribe for 70,000,000 new shares of the Company at the initial subscription price of HK$0.50 per share of the Company (subject to adjustment) to be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed)
"Companies Act"	the Companies Act 1981 of Bermuda (as amended)
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"Concert Group"	HWKFE, Mr. Heung, Ms. Chen, Dorest, Eternity, Mr. Lei, Simple View and their respective associates and parties acting in concert with any of them
"Connected Person(s)"	has the meaning ascribed to it in the Listing Rules
"Directors"	directors of the Company
"Directors' Options"	926 Shares Options held by Mr. Heung conferring rights to subscribe for 926 new Shares, and 926 Shares Options held by Ms. Chen conferring rights to subscribe for 926 new Shares

"Dorest"	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung
"Dorest Warrants"	an amount of approximately HK$5,289 Existing Warrants held by Dorest entitling it to subscribe for 2,906 new Shares
"Eternity"	Eternity Investment Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 764) and its single largest shareholders is Mr. Lei who holds 19.99% of its issued shares
"Eternity Convertible Bonds"	the convertible bonds in principal amount of HK$650 million conferring rights to subscribe for 812,500,000 new Shares at the initial conversion price of HK$0.80 (subject to adjustment) proposed to be issued by the Company to Eternity in relation to the Proposed Subscription (which is subject to conditions precedent and yet to be completed)
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Future Commission of Hong Kong or any of his delegates
"EOEW"	the outstanding Share Options and Existing Warrants, except for the HWKFE Warrants and Simple View Warrants, which HWKFE and Simple View have undertaken not to exercise the subscription rights thereof respectively on or before completion of the Rights Issue pursuant to the Irrevocable Undertakings
"Existing Warrants"	the outstanding warrants in an aggregate principal amount of HK$111,525,643.67 entitling the holders thereof to subscribe for 61,277,826 new Shares at an adjusted subscription price of HK$1.82 per Share (subject to further adjustment) pursuant to the warrant instrument issued by the Company on 15 June 2010
"Goldin Financial"	Goldin Financial Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the Independent Financial Adviser
"Group"	the Company and its subsidiaries
"HWKFE	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors are Mr. Heung and Ms. Chen

"HWKFE's EAF Shares"	the Rights Shares successfully applied for or taken up by HWKFE and its associates by way of excess application for Rights Shares under the Rights Issue, which shall in any event not exceed 800,000,000 Right Shares
"HWKFE Warrants"	an amount of approximately HK$5,453,021 Existing Warrants held by HWKFE entitling it to subscribe for 2,996,166 new Shares
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	the parties or persons who are third parties independent of and not connected with the director, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
"Independent Board Committee"	a committee of the Board, comprising all independent non-executive Directors to advise the Independent Shareholders on the Rights Issue, the Bonus Issue and the Whitewash Waiver
"Independent Financial Adviser"	the independent financial adviser appointed by the Company and approved by the Independent Board Committee as to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the Concert Group and those who are involved in, or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver, who are required to abstain from voting in respect of the Rights Issue, the Bonus Issue and the Whitewash Waiver at the SGM pursuant to the Takeovers Code and the Listing Rules
"Irrevocable Undertakings"	the irrevocable undertakings given by HWKFE, Simple View, Eternity, and Ms. Chen respectively, details of which are set out in the paragraph headed "Irrevocable Undertakings" of this circular
"Last Trading Day"	29 March 2011, being the last trading day of the Shares prior to the release of the Announcement
"Latest Lodging Time"	4:30 p.m. on Tuesday, 31 May 2011 as the latest time for lodging transfer of the Shares in order to be qualified for the subscription of the Rights Issue and the Bonus Issue

"Latest Practicable Date"	18 May 2011, being the latest practicable date prior to the despatch of this circular for ascertaining certain information for inclusion in this circular
"Latest Time for Acceptance"	4:00 p.m. on Wednesday, 22 June 2011 or such later time or date as may be agreed between the Company and the Underwriters, being the latest time for acceptance of and payment for, the Rights 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 the Underwriters, being the latest time to terminate the Underwriting Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Mansion House"	Mansion House Securities (F.E.) Limited, a corporation licensed to conduct Type 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance), 7 (providing automated trading services) and 9 (asset management) regulated activities under the SFO, being one of the Underwriters
"Mr. Heung"	Mr. Heung Wah Keung, an executive Director and the spouse of Ms. Chen
"Mr. Lei"	Mr. Lei Hong Wai, the single largest shareholder of Eternity holding 19.99% of the issued share capital of Eternity and an employee of the Company
"Mr. Lei Warrants"	an amount of approximately HK$513,380 Existing Warrants held by Mr. Lei entitling him to subscribe for 282,077 new Shares, which represents approximately 0.46% of the total Existing Warrants
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive Director and the spouse of Mr. Heung
"Original Shares"	ordinary shares of HK$0.01 each in the existing issued and unissued share capital of the Company before the Capital Reorganisation becoming effective

"Overseas Letter(s)"	letter(s) from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Rights Issue and the Bonus Issue
"Overseas Shareholders"	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record 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 Rights Shares (with the Bonus Warrants) to them
"Proposed Acquisition"	the proposed acquisition of the property leasehold right in respect of the leasehold granted by the Macau Government over the Sites pursuant to the conditional agreement entered into between the Company and Sociedade de Turismo e Diversões de Macau, S.A., details of which are set out in the announcement dated 7 January 2011 of the Company, which is subject to conditions precedent and yet to be completed
"Proposed Subscription"	the proposed subscription of the Eternity Convertible Bonds by Eternity, details of which are set out in the announcement dated 9 February 2011 jointly issued by the Company and Eternity, which is subject to condition precedent and yet to be completed
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue and the Bonus Issue
"Prospectus Documents"	the Prospectus and the provisional allotment letter of Rights Shares and the form of application for excess Rights Shares
"Prospectus Posting Date"	Wednesday, 8 June 2011 or such later date as may be agreed between the Underwriters 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"	Tuesday, 7 June 2011, being the date by reference to which entitlements to the Rights Issue and the Bonus Issue will be determined

"Registrar"	Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the branch share registrar and transfer office of the Company in Hong Kong
"Relevant Period"	the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date
"Rights Issue"	the proposed issue of the Rights Shares by way of rights issue on the basis of three Rights Shares for every one Share held on the Record Date, with Bonus Warrants on the basis of one Bonus Warrant for every five Rights Shares taken up
"Rights Share(s)"	Not less than 1,473,536,625 Shares and not more than 1,684,106,889 Shares proposed to be offered to the Qualifying Shareholders for subscription under the Rights Issue
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 4:00 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) to consider and approve the Rights Issue, the Bonus Issue and the Whitewash Waiver and the transactions contemplated thereunder
"Share(s)"	the ordinary share(s) of HK$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective on 9 May 2011
"Shareholder(s)"	holder(s) of Share(s)
"Share Options"	1,780,530 outstanding share options granted by the Company exercisable into 1,780,530 Shares as at the Latest Practicable Date
"Share Option Scheme"	the share option scheme adopted by the Company on 27 May 2002
"Simple View"	Simple View Investment Limited, a wholly-owned subsidiary of Eternity and whose directors are Mr. Heung and Ms. Chen
"Simple View Warrants"	an amount of approximately HK$26,248,000 Existing Warrants held by Simple View entitling it to subscribe for 14,421,978 new Shares

"Sites"	Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE)
"Specified Event"	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen 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 Price"	HK$0.25 per Rights Share
"Supplemental Agreement"	the supplemental agreement dated 18 April 2011 entered into amongst the Company and the Underwriters in relation to the Underwriting Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwritten Shares"	the Rights Shares, other than those entitled and undertaken to be taken up by HWKFE and Simple View respectively under the Rights Issue pursuant to the Irrevocable Undertakings
"Underwriters"	Mansion House and HWKFE
"Underwriting Agreement"	the underwriting agreement dated 29 March 2011 (as supplemented by the Supplemental Agreement) entered into between the Company and the Underwriters in relation to the Rights Issue and the Bonus Issue
"Untaken Shares"	the Rights Shares not taken up by the Qualifying Shareholders
"Whitewash Waiver"	a waiver from the obligation of the Concert Group to make a mandatory offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the acceptance for the Rights Shares and underwriting the Rights Shares (with Bonus Warrants) under the Underwriting Agreement and/or application of excess Rights Shares pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
"%"	per cent.

If, prior to the Latest Time for Termination:

(1) in the sole and absolute opinion of the Underwriters, the success of the Rights Issue and the Bonus Issue 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue; 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; 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 sole and absolute opinion of the Underwriters is likely to materially or adversely affect the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriters 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 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 Rights Issue and the Bonus Issue; or

(5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue and the Bonus Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

the Underwriters shall at their sole and absolute discretion be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriters 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 warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or

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

Any such notice shall be served by the Underwriters prior to the Latest Time for Termination.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 972)

Executive Directors:
Mr. Heung Wah Keung
Ms. Chen Ming Yin, Tiffany
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

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

20 May 2011

To the Shareholders and for information only, the holders of the Existing Warrants and Share Options,

Dear Sir or Madam,

(1) CHANGE IN BOARD LOT SIZE;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE WITH BONUS WARRANTS ON THE BASIS OF ONE BONUS WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE;
(3) APPLICATION FOR WHITEWASH WAIVER AND
(4) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

It was announced on 18 April 2011 that conditional upon, inter alia, the Capital Reorganisation becoming effective, the Company proposed to raise not less than approximately HK$368.38 million but not more than approximately HK$421.03 million before expenses, by way of rights issue of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares at the Subscription Price of HK$0.25 per Rights Share on the basis of three Rights Shares for every one Share in issue on the Record Date. The Company also announced on 3 May 2011 that the board lot size for trading in the shares of the Company will be changed from 5,000 Shares to 10,000 Shares after the Capital Reorganisation becoming effective.

The Independent Board Committee comprising the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Rights Issue, the Bonus Issue and the Whitewash Waiver. Goldin Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) details of the change in board lot size, the Rights Issue, the Bonus Issue and the Whitewash Waiver and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver and the transactions contemplated thereunder; and (iv) the notice of the SGM.

CHANGE IN BOARD LOT SIZE

The Board proposes to change the board lot size for trading in the shares of the Company from 5,000 Shares to 10,000 Shares after the Capital Reorganisation becoming effective.

In order to increase the value of each board lot of the Shares so that the value of each board lot of the Shares will not be less than HK$2,000, as well as to reduce transaction and registration costs incurred by the Shareholders and investors of the Company, the Board proposed to change the board lot size for trading from 5,000 Shares to 10,000 Shares with effect from Tuesday, 24 May 2011. The change in board lot size will not result in any change in the relative rights of the Shareholders. The Board is of the opinion that the change in board lot size is in the interests of the Company and its Shareholders as a whole.

Shareholders may submit their existing share certificates for the Original Shares (in red colour) to the Registrar in exchange for new share certificates for Shares (in apple green colour) free of charge during business hours from Monday, 9 May 2011 to Thursday, 16 June 2011 (both days inclusive). After the expiry of such period, existing share certificates will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each new share certificate issued or each existing share certificate submitted, whichever number of share certificates involved is higher. It is expected that the new share certificates will be available for collection from the Registrar by the Shareholders within 10 business days after delivery of the existing share certificates to the Registrar for exchange purpose.

The existing share certificates will be valid for trading and settlement up to 4:00 pm, Tuesday, 14 June 2011, thereafter, all existing share certificates will continue to be good evidence of legal title and may be exchanged for new share certificates at any time but are not acceptable for trading, settlement and registration purposes.

Arrangement for matching service for odd lots

In order to alleviate the difficulties arising from the existence of odd lots of the Shares, the Company has procured a designated broker to arrange for the matching of the sales and purchases of odd lots of the Shares on behalf of Shareholders. Holders of odd lots of the Shares who wish to take advantage of this trading facility to dispose of or top up odd lots should contact Ms. Rosita Kiu (telephone number: 2298-6200 or fax number: 2295-0682) of Kingston Securities Limited located at Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, during the period from Tuesday, 24 May 2011 to Tuesday, 14 June 2011, both dates inclusive.

Holders of the Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the Shares will not be guaranteed. Shareholders are advised to consult their professional advisers if they are in doubt about the above procedures.

RIGHTS ISSUE AND THE BONUS ISSUE

Reference is made to the announcements dated 9 February 2011 and 28 February 2011 issued by the Company in relation to the Capital Reorganisation. The relevant resolution in respect to the Capital Reorganisation has been passed by the Shareholders at the special general meeting of the Company convened on 6 May 2011, therefore the Capital Reorganisation has become effective on 9 May 2011.

Issue statistics

Basis of the Rights Issue:	Three Rights Shares for every one Share held on the Record Date
Basis of the Bonus Issue:	One Bonus Warrant for every five Rights Shares taken up under the Rights Issue
Subscription Price:	HK$0.25 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	491,179,000 Shares
Number of Shares in issue assuming the EOEW (excluding HWKFE Warrants and Simple View Warrants) are exercised in full before the Record Date:	536,819,212 Shares
Number of Rights Shares:	Not less than 1,473,536,625 Rights Shares (with aggregate nominal value of HK$14,735,366.25) and not more than 1,684,106,889 Rights Shares (with aggregate nominal value of HK$16,841,068.89)
Number of Bonus Warrants:	Not less than 294,707,325 Bonus Warrants (entitling holders thereof to subscribe for a total of 294,707,325 Bonus Warrants Shares at the Bonus Warrants Subscription Price) and not more than 336,821,377 Bonus Warrants (entitling holders thereof to subscribe for a total of 336,821,377 Bonus Warrants Shares at the Bonus Warrants Subscription Price)

Number of Shares in issue immediately upon completion of the Rights Issue and the Bonus Issue and assuming none of the Bonus Warrants is exercised:	Not less than 1,964,716,000 Shares and not more than 2,245,475,852 Shares
Number of Shares in issue immediately upon completion of the Rights Issue and the Bonus Issue and assuming the Bonus Warrants are exercised in full:	Not less than 2,259,423,400 Shares and not more than 2,582,297,229 Shares

In view of the Irrevocable Undertakings given by HWKFE, Simple View, Eternity and Ms. Chen, details of which are set out in the paragraph headed "Irrevocable Undertakings" of this circular, the Rights Issue is fully underwritten by the Underwriters on the terms and subject to the conditions of the Underwriting Agreement, details of which are set out under the paragraph headed "Underwriting Agreement" under the section headed "Underwriting Arrangement" of this circular.

Share Options, Existing Warrants, Chen Convertible Bonds and Eternity Convertible Bonds

As at the Latest Practicable Date, there are 1,780,530 Share Options entitling the holders thereof to subscribe for a total of 1,780,530 Shares (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options). Other than those held by the Concert Group, the Share Options are held by eligible persons as defined in the Share Option Scheme. There are an amount of HK$111,525,643.67 Existing Warrants entitling the holders thereof to subscribe for a total of 61,277,826 Shares (including the 17,703,127 Shares may be subscribed by the Concert Group after exercising the subscription rights attached to the HWKFE Warrants, Simple View Warrants, Mr. Lei Warrants and Dorest Warrants, representing approximately 28.89% of the Existing Warrants).

Pursuant to the Irrevocable Undertakings: (i) HWKFE has undertaken to the Company and Mansion House, among other things, not to dispose of and not to exercise the subscription rights attached to the HWKFE Warrants to subscribe for a total of 2,996,166 new Shares on or before completion of the Rights Issue; and (ii) Simple View has undertaken to the Company and the Underwriters, among other things, not to dispose of and not to exercise the subscription rights attached to the Simple View Warrants to subscribe for 14,421,978 new Shares on or before completion of the Rights Issue. Details of the Irrevocable Undertakings are set out in the paragraph headed "Irrevocable Undertakings" of this circular.

Furthermore, the Chen Convertible Bonds may be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed), details of which are set out in the announcement of the Company dated 5 May 2009, and the Eternity Convertible Bonds may be issued to Eternity in relation to the Proposed Subscription (which is subject to condition precedent and yet to be completed), details of which are set out in the announcement of the Company dated 9 February 2011. Pursuant to the Irrevocable Undertakings, Eternity has undertaken to the Company and the Underwriter not to dispose of any Eternity Convertible Bonds, not to transfer the Eternity Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Eternity Convertible Bonds, if issued, on or before completion of the Rights Issue, and Ms. Chen has undertaken to the Company and the Underwriters not to dispose of any Chen Convertible Bonds, not to transfer the Chen Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Chen Convertible Bonds, if issued, on or before completion of the Rights Issue, details of which are set out in the paragraph headed "Irrevocable Undertakings" of this circular.

None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares.

Accordingly, other than the EOEW conferring rights to subscribe for an aggregate of 45,640,212 new Shares (being the 63,058,356 new Shares which may fall to be issued upon exercise of the Share Options and the subscription rights attaching to the Existing Warrants less the 17,418,144 new Shares which may fall to be issued upon exercise of the subscription rights attaching to the HWKFE Warrants and the Simple View Warrants which will not be exercised on or before completion of the Rights Issue) which may be exercised by their holders, none of the Share Options or the Existing Warrants will be exercised on or before completion of the Rights Issue.

Save as disclosed above, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Qualifying Shareholders

The Rights Issue and the Bonus Issue are only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Overseas Letter together with the Prospectus (without the provisional allotment letter and excess application form), for information only, to the Prohibited Shareholders.

To qualify for the Rights Issue and the Bonus Issue, 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 at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Tuesday, 31 May 2011.

Rights of the Prohibited Shareholders

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

For those Overseas Shareholders who are to be excluded from the Rights issue and the Bonus Issue, the Company will, subject to compliance with the relevant local laws, regulations and requirements, send copies of the Prospectus for information only to those Prohibited Shareholders, but the Company will not send the provisional allotment letter and excess application form to such Prohibited Shareholders.

The Company shall provisionally allot the Rights Shares which represent the entitlements of the Prohibited Shareholders to nominee of the Company in nil-paid form and the Company shall procure that such nominee to endeavour to sell the rights as soon as practicable after dealings in Rights Shares in nil-paid forms commence and in any event before the Latest Time for Acceptance at a net premium. If and to the extent that such Rights Shares in nil-paid forms can be so sold, the nominee shall account to the Company for the net proceeds of sale (after the deduction of the expenses of sale (if any) attributable to the sale of the Rights Shares that would otherwise have been allotted to the Prohibited Shareholders shall be distributed pro rata (but rounded down to the nearest cent) to the Prohibited Shareholders provided that individual amounts of $100 or less shall be retained by the Company for its own benefit. Any of such Rights Shares in nil-paid forms which are not sold as aforesaid will be dealt with as Rights Shares not accepted.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 1 June 2011 to Tuesday, 7 June 2011, both dates inclusive, to determine those who/which are eligible for the Rights Issue and the Bonus Issue. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price is HK$0.25 per Rights Share, payable in full on acceptance of the provisional allotment of the Rights Shares or application for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

(i) a discount of approximately 54.55% to the adjusted closing price of HK$0.55 per Share (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK$0.055 per Original Share as quoted on Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 13.79% to the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 23.08% to the theoretical ex-entitlement price of approximately HK$0.325 per Share after the Rights Issue (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK$0.055 per Original Share as quoted on the Stock Exchange on the Last Trading Day; and

(iv) a discount of approximately 56.90% to the adjusted average closing price of HK$0.58 per Share (adjusted for the effect of the Capital Reorganisation), based on the average closing price of HK$0.058 per Original Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day.

The net price for the Rights Shares is approximately HK$0.247 per Rights Share (calculated as the estimated net proceeds from the Rights Issue divided by the total number of the Rights Shares).

Bonus Warrants and Bonus Warrants Subscription Price

Subject to the satisfaction of the conditions of the Rights Issue and the Bonus Issue, the Bonus Warrants will be issued to the first registered holders of the Rights Shares on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue. Each Bonus Warrant will entitle the holders thereof to subscribe for one Share at the Bonus Warrants Subscription Price of HK$0.25 per Bonus Warrants Share (subject to adjustment). The Bonus Warrants Subscription Price is equivalent to the Subscription Price. The Bonus Warrants Subscription Period is the period of 18 months from the date of the issue of the Bonus Warrants.

On the basis of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares to be issued under the Rights Issue, not less than 294,707,325 Bonus Warrants entitling holders thereof to subscribe for a total of 294,707,325 Bonus Warrants Shares at the Bonus Warrants Subscription Price and not more than 336,821,377 Bonus Warrants entitling holders thereof to subscribe for a total of 336,821,377 Bonus Warrants Shares at the Bonus Warrants Subscription Price will be issued. The Shares to be issued upon exercise of the Bonus Warrants represents approximately 15.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares immediately upon the Rights Issue.

In compliance with Rule 15.02 of the Listing Rules, the Shares to be issued upon exercise of the Bonus Warrants will not, when aggregated with the Shares which remain to be issued on exercise of the Existing Warrants, if the Existing Warrants were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Bonus Warrants are issued, given the Share Options which are granted under the Share Option Scheme which comply with Chapter 17 of the Listing Rules are excluded for the purpose of such limit.

Basis of determining the Subscription Price and the Bonus Warrants Subscription Price

The Subscription Price and the Bonus Warrants Subscription Price were arrived at after arm's length negotiation between the Company and the Underwriters with reference to the prevailing market price of the Original Shares. Taking into consideration the theoretical ex-entitlement price per Share, the Directors consider that the Subscription Price and the Bonus Warrants Subscription Price are appropriate. The Directors consider that the discount would encourage the Qualifying Shareholders to participate in the Rights Issue, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group. The Directors consider the Subscription Price and the Bonus Warrants Subscription Price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares and the Bonus Warrants Shares

The Rights Shares and the Bonus Warrants Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares then in issue. Holders of the fully-paid Rights Shares and the Bonus Warrants 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 Rights Shares (in fully-paid form) and the Bonus Warrants Shares.

Basis of provisional allotment

The basis of the provisional allotment shall be three Rights Shares for every one Share held by the Qualifying Shareholders on the Record Date. Acceptance for all or part of a Qualifying Shareholder's provisional allotment should be made by completing the provisional allotment letter and lodging the same with a remittance for the Rights Shares being accepted for.

Fractions of the Rights Shares and the Bonus Warrants

The Company will not provisionally allot fractions of the Rights Shares in nil-paid form or allot fractions of Bonus Warrants. All fractions of Right Shares and Bonus Warrants will be aggregated (rounded down to the nearest whole number) and allotted to a nominee appointed by the Company and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale(s) for its own benefit.

Any unsold fractions of the Rights Shares and Bonus Warrants will be made available for excess applications by the Qualifying Shareholders.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for, by way of excess application, any unsold entitlements of the Prohibited Shareholders and for any nil-paid Rights Shares provisionally allotted but not accepted by other Qualifying Shareholders.

Applications for excess Rights Shares may be made by completing the excess application forms for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and

(2) subject to availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for a smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive a lesser number of Rights Shares, whereas Qualifying Shareholders applying for a larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive a higher number of Rights Shares).

No preference treatment will be given to the Concert Group in the allocation of the excess Rights Shares, if any.

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders/investors. The investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of nominee companies (including Shares held through CCASS) should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholdings in their own names and apply for excess Rights Shares themselves.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company must lodge all necessary documents with the Registrar at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:30 p.m. on or before Tuesday, 31 May 2011, being the business day immediately before the close of the register of members of the Company.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares. Dealings in the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants on the Stock Exchange as well as compliance with the stock admission requirement of HKSCC, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms and the Bonus Warrants 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.

The Shares are currently traded on the Stock Exchange in board lots of 5,000 Shares. After the Capital Reorganisation and the change in board lot size becoming effective, the Shares will be traded in board lots of 10,000 Shares. Nil-paid Rights Shares are expected to be traded in board lots of 10,000 Rights Shares (being the same as that of the Shares). Dealings in the Rights Shares, in both nil-paid and fully-paid forms (both in board lots of 10,000 Shares), which are registered in the Registrar, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong. The Bonus Warrants are expected to be traded in board lots of 5,000 Bonus Warrants.

Certificates of the Rights Shares and the Bonus Warrants and refund cheques

Subject to fulfillment of the conditions of the Rights Issue and the Bonus Issue, share certificates for the fully-paid Rights Shares and warrant certificates for the Bonus Warrants are expected to be posted on or before Wednesday, 29 June 2011 to those entitled thereto by ordinary post to their registered addresses at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Wednesday, 29 June 2011 by ordinary post to the applicants' registered addresses at their own risk. Dealing in the fully-paid Rights Shares and the Bonus Warrants are expected to commence on Monday, 4 July 2011.

Conditions of the Rights Issue and the Bonus Issue

The Rights Issue and the Bonus Issue are conditional upon:

(1) the passing by the Independent Shareholders at the SGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Rights Issue;

(2) the passing by the Independent Shareholders at the SGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Whitewash Waiver;

(3) the filing with the Registrar of Companies in Bermuda one copy of each of the Prospectus Documents duly signed by all the Directors or one of the Directors (for and on behalf of all the Directors) (and all other documents required to be attached thereto) and otherwise in compliance with the Companies Act 1981 of Bermuda (as amended from time to time) as soon as reasonably practicable after the Prospectus Posting Date;

(4) the Executive granting the Whitewash Waiver to the Concert Group and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and such other necessary waiver or consent of the Executive for the transactions contemplated under the Rights Issue and the Bonus Issue;

(5) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Rights Shares, the Bonus Warrants and the Bonus Warrants Shares by the Latest Time of Termination or such later time as the Underwriters may agree with the Company in writing;

(6) the delivery to the Stock Exchange 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) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;

(7) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;

(8) 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 Rights Shares (in both nil-paid and fully paid forms), the Bonus Warrants and the Bonus Warrants Shares by no later than the Prospectus Posting Date;

(9) the Capital Reorganisation having become effective;

(10) the passing of an ordinary resolution by the Independent Shareholders at the SGM to approve the issue of the Bonus Warrants and the issue and allotment of the Bonus Warrants Shares;

(11) compliance with and performance of all undertakings and obligations of HWKFE under the Irrevocable Undertakings;

(12) compliance with and performance of all undertakings and obligations of Simple View under the Irrevocable Undertakings;

(13) compliance with and performance of all undertakings and obligations of Ms. Chen under the Irrevocable Undertakings;

(14) compliance with and performance of all undertakings and obligations of Eternity under the Irrevocable Undertakings;

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

(16) compliance with and performance of all undertakings and obligations of the Underwriters under the Underwriting Agreement.

The condition stated at point (9) above has been fulfilled. The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole by the Latest Time for Termination or such other date as the Company and the Underwriters 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, and the Rights Issue and the Bonus Issue will not proceed.

UNDERWRITING ARRANGEMENT

Irrevocable Undertakings

As at the Latest Practicable Date, HWKFE is interested in 24,671,500 Shares, representing approximately 5.02% of the existing issued share capital of the Company, and the HKWFE Warrants conferring rights to subscribe for 2,996,166 new Shares. HWKFE has given an irrevocable undertaking to the Company and Mansion House: (a) to accept or procure the acceptance for the 74,014,500 Rights Shares (with 14,802,900 Bonus Warrants), to which HWKFE is entitled under the Rights Issue and the Bonus Issue; and (b) not to dispose of and not to exercise the subscription rights attached to the HKWFE Warrants on or before completion of the Rights Issue.

As at the Latest Practicable Date, Simple View is interested in 68,000,000 Shares, representing approximately 13.84% of the existing issued share capital of the Company, and the Simple View Warrants conferring rights to subscribe for 14,421,978 new Shares. Simple View has given an irrevocable undertaking to the Company and the Underwriters: (a) to accept or procure the acceptance for 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants), to which Simple View is entitled under the Rights Issue and the Bonus Issue; and (b) not to dispose of and not to exercise the subscription rights attached to the Simple View Warrants on or before completion of the Rights Issue. Simple View has not given any undertaking in relation to the acceptance of the remaining 4,000,000 Rights Shares (with 800,000 Bonus Warrants) entitled by it under the Rights Issue and the Bonus Issue.

Furthermore, the Chen Convertible Bonds may be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed), details of which are set out in the announcement of the Company dated 5 May 2009, and the Eternity Convertible Bonds may be issued to Eternity in relation to the Proposed Subscription (which is subject to condition precedent and yet to be completed), details of which are set out in the announcement of the Company dated 9 February 2011. Ms. Chen has given an irrevocable undertaking to the Company and the Underwriters not to dispose of any Chen Convertible Bonds, not to transfer the Chen Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Chen Convertible Bonds (if issued) on or before completion of the Rights Issue. Eternity has given an irrevocable undertaking to the Company and the Underwriters not to dispose of any Eternity Convertible Bonds, not to transfer the Eternity Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Eternity Convertible Bonds (if issued) on or before completion of the Rights Issue.

None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares.

Save for the Simple View Warrants and the HWKFE Warrants, none of the warrants holders has given any undertaking.

Underwriting Agreement

Date: 29 March 2011

Underwriters: HWKFE and Mansion House

HWKFE is a Shareholder and its ordinary course of business does not include underwriting. HWKFE will not be entitled to any underwriting commission. HWKFE is a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen. As at the Latest Practicable Date, the Concert Group is interested in approximately 19.28% of the existing issued share capital of the Company.

To the best of the Directors' knowledge and information, Mansion House and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules), and are not interested in any Shares. Pursuant to the Underwriting Agreement, Mansion House will receive a commission calculated as 2.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares (the number of Rights Shares as determined on the Record Date minus 800,000,000 Rights Shares) payable by the Company and the Company will reimburse the Underwriters for all reasonable costs and expenses incurred in connection with the Underwriting under the Underwriting Agreement.

Number of Rights Shares underwritten by the Underwriters

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Underwritten Shares in the manner that if:

(a) the HWKFE's EAF Shares (if any) together with the Untaken Shares are equal to or less than 800,000,000 Rights Shares, HWKFE shall subscribe for all such Untaken Shares; or

(b) the HWKFE's EAF Shares (if any) together with the Untaken Shares exceed 800,000,000 Rights Shares, HWKFE shall subscribe for such number of Untaken Shares equivalent to 800,000,000 Rights Shares less the HWKFE's EAF Shares (if any), and Mansion House shall subscribe or procure subscription for all the remaining Untaken Shares (being not more than 610,092,389 Underwritten Shares).

As stated in (a) above, the aggregate number of HWKFE's EAF Shares and the Untaken Shares subscribed by HWKFE shall in any event not exceed 800,000,000 Rights Shares. Therefore, the HWKFE's EAF Shares shall in any event not exceed 800,000,000 Rights Shares and if the number of HWKFE's EAF Shares equals to 800,000,000, HWKFE will not take up any Untaken Shares.

Given the Irrevocable Undertakings, details of which are set out in the paragraph headed "Irrevocable Undertakings" of this circular, the Rights Issue is fully underwritten.

Mansion House has sub-underwritten 610,092,388 Underwritten Shares and one Underwritten Share will be remained for its own account. Mansion House has undertaken to the Company that (i) it will ensure that the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters are third parties independent of and not acting in concert with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (including the Concert Group); (ii) no such subscriber or purchaser of the Underwritten Shares shall be procured by it or by the sub-underwriters if allotment and issue of any Rights Shares (with Bonus Warrants) to it would result in it and its associates and concert parties, when aggregated with the Shares (if any) already held by them holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue; and (iii) in performing its underwriting obligations under the Underwriting Agreement, no subscriber or purchaser of the Underwritten Shares will become a substantial Shareholder immediately after completion of the Rights Issue and the Bonus Issue. The Underwritten Shares taken up by Mansion House will be placed to not less than six placees.

As at the Latest Practicable Date, Mansion House and the sub-underwriters of Mansion House have entered into the sub-underwriting agreements and Mansion House has already confirmed the procurement of the sub-underwriting of the 610,092,388 Underwritten Shares and the placees to be procured by the sub-underwriters of Mansion House will be independent and not acting in concert with the Concert Group.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

(1) in the sole and absolute opinion of the Underwriters, the success of the Rights Issue and the Bonus Issue 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue; 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or

   (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; 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 sole and absolute opinion of the Underwriters is likely to materially or adversely affect the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriters 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 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 Rights Issue and the Bonus Issue; or

(5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the sole and absolute opinion of the Undewriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue and the Bonus Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

the Underwriters shall at their sole and absolute discretion be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriters 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 warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or

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

Any such notice shall be served by the Underwriters prior to the Latest Time for Termination.

INTENTION OF HWKFE

It is the intention of HWKFE that the Group will continue its current business. HWKFE has no intention to make any major changes to the business or employment of the employees of the Group or redeploy the fixed assets of the Group.

REASONS FOR THE RIGHTS ISSUE AND THE BONUS ISSUE AND USE OF PROCEEDS

The Group is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit stream from gaming promotion business and property and hotel investment.

As disclosed in the Company's announcement dated 7 January 2011, the development period of the Sites shall end on 14 April 2013 and, subject to the fulfillment of the conditions precedent, the Proposed Acquisition is expected to be completed on or before 30 June 2011 (the long stop date), the Company has a funding need for development of the Sites. Given the tight deadline imposed on the development of the Sites, the entering into the Underwriting Agreement between the Company and the Underwriters prior to the Capital Reorganisation becoming effective enables the Company to have sufficient time to source other alternatives to fund the development of the Sites, if the Rights Issue and the Bonus Issue do not proceed.

The gross proceeds from the Rights Issue will be not less than approximately HK$368.38 million and not more than approximately 421.03 million. The estimated net proceeds from the Rights Issue will be not less than approximately HK$363.53 million but not more than approximately HK$414.86 million. On 23 December 2010, the Company has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the Proposed Acquisition. As stated in its announcement dated 7 January 2011, the Company intends to develop the Sites into office units and residential apartment for sale and the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding areas of Hotel Lan Kwai Fong Macau. The Board considers that the Proposed Acquisition will diversify the Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long-term profitability. Given the lengthy due diligence process and/or pledging of assets required for bank financing, the Board intends to apply approximately HK$360 million of the net proceeds from the Rights Issue to fund the financial needs for developing the Sites and/or the remaining for general working capital of the Group. If the Proposed Acquisition does not proceed, the Company intends to apply the net proceeds from the Rights Issue for other possible property investment opportunities in Macau, other investment opportunities and/or for general working capital of the Group. As at the Latest Practicable Date, the Company has not identified any such investment opportunities. Subject to the fulfillment of the conditions precedent, the completion of the Proposed Acquisition is expected to be on or before 30 June 2011 (the long stop date).

Assuming full exercise of the Bonus Warrants at the Bonus Warrants Subscription Price, the cash proceeds from the exercise of the Bonus Warrants would be not less than approximately HK$73.68 million and not more than HK$84.21 million. It is expected that the proceeds from the exercise of the Bonus Warrants, if any, will be used for general working capital of the Group.

Having taken into account the terms of the Rights Issue and the Bonus Issue, the Board considers that the Rights Issue and the Bonus Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, it also 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 to participate in the future development of the Company should they wish to do so. In addition, the Bonus Issue will be an additional incentive for the Shareholders to take part in the Rights Issue. **However, those Qualifying Shareholders who do not take up the Rights Shares (with the Bonus Warrants) to which they are entitled should note that their shareholdings in the Company will be diluted.**

EFFECTS ON SHAREHOLDING STRUCTURE

For illustration purposes only, the effects on the shareholding structure of the Company as a result of the Rights Issue and the Bonus Issue based on the Irrevocable Undertakings and different scenarios are illustrated as follows:

(1) Assuming none of the EOEW are exercised before the Record Date:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue and the Bonus Issue, assuming all Qualifying Shareholders take up his/her/its entitlements under the Rights Issue and the Bonus Issue				Immediately upon completion of the Rights Issue and the Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Underwriters)				Immediately upon completion of the Rights Issue and Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Concert Group) *(Note 5)*					
			Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming that only the Bonus Warrants held by Concert Group are exercised	
	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %
The Concert Group																
HWKFE *(Note 1)*	24,671,500	5.02	98,686,000	5.02	113,488,900	5.02	898,686,000	45.74	1,073,488,900	47.51	898,686,000	45.74	1,073,488,900	47.51	1,073,488,900	49.21
Dorest *(Note 2)*	13,702	0.01	54,808	0.01	63,029	0.01	13,702	0.00	13,702	0.00	54,808	0.01	63,029	0.00	63,029	0.00
Simple View and its associates *(Note 3a)*	69,995,000	14.25	279,980,000	14.25	321,977,000	14.25	269,995,000	13.74	309,995,000 *(Note 3b)*	13.72	279,980,000	14.25	321,977,000	14.25	321,977,000	14.76
Sub-total	**94,680,202**	**19.28**	**378,720,808**	**19.28**	**435,528,929**	**19.28**	**1,168,694,702**	**59.48**	**1,383,497,602**	**61.23**	**1,178,720,808**	**60.00**	**1,395,528,929**	**61.76**	**1,395,528,929**	**63.97**
The placees *(Note 4)*	–	–	–	–	–	–	399,522,500	20.34	479,427,000	21.22	389,496,394	19.82	467,395,673	20.69	389,496,394	17.85
Public Shareholders	396,498,798	80.72	1,585,995,192	80.72	1,823,894,471	80.72	396,498,798	20.18	396,498,798	17.55	396,498,798	20.18	396,498,798	17.55	396,498,798	18.18
Total	**491,179,000**	**100.00**	**1,964,716,000**	**100.00**	**2,259,423,400**	**100.00**	**1,964,716,000**	**100.00**	**2,259,423,400**	**100.00**	**1,964,716,000**	**100.00**	**2,259,423,400**	**100.00**	**2,181,524,121**	**100.00**

(2) Assuming the EOEW are exercised in full before the Record Date:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue and the Bonus Issue, assuming all Qualifying Shareholders take up his/her/its entitlements under the Rights Issue and the Bonus Issue				Immediately upon completion of the Rights Issue and the Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Underwriters)				Immediately upon completion of the Rights Issue and Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Concert Group) *(Note 5)*					
			Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming none of the Bonus Warrants are exercised		Assuming the Bonus Warrants are exercised in full		Assuming that only the Bonus Warrants held by Concert Group are exercised	
	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %
The Concert Group																
HWKFE *(Note 1)*	24,671,500	5.02	98,686,000	4.59	113,488,900	4.59	898,686,000	41.85	1,073,488,900	43.47	898,686,000	41.85	1,073,488,900	43.47	1,073,488,900	45.40
Dorest *(Note 2)*	13,702	0.01	66,432	0.01	76,396	0.01	16,608	0.00	16,608	0.00	66,432	0.01	76,396	0.01	76,396	0.01
Mr. Heung	–	0.00	3,704	0.00	4,260	0.00	926	0.00	926	0.00	3,704	0.00	4,260	0.00	4,260	0.00
Ms. Chen	–	0.00	3,704	0.00	4,260	0.00	926	0.00	926	0.00	3,704	0.00	4,260	0.00	4,260	0.00
Simple View and its associates *(Note 3a)*	69,995,000	14.25	282,362,852	13.15	324,717,279	13.15	270,590,713	12.60	310,590,713 *(Note 3b)*	12.58	282,362,852	13.15	324,717,279	13.15	324,717,279	13.73
Sub-total	**94,680,202**	**19.28**	**381,122,692**	**17.75**	**438,291,095**	**17.75**	**1,169,295,173**	**54.45**	**1,384,098,073**	**56.05**	**1,181,122,692**	**55.01**	**1,398,291,095**	**56.63**	**1,398,291,095**	**59.14**
The placees *(Note 4)*	–	–	–	–	–	–	536,443,136	24.98	643,731,763	26.07	524,615,617	24.43	629,538,741	25.49	524,615,617	22.19
Public Shareholders	396,498,798	80.72	1,766,154,156	82.25	2,031,077,280	82.25	441,538,539	20.57	441,538,539	17.88	441,538,539	20.56	441,538,539	17.88	441,538,539	18.67
Total	**491,179,000**	**100.00**	**2,147,276,848**	**100.00**	**2,469,368,375**	**100.00**	**2,147,276,848**	**100.00**	**2,469,368,375**	**100.00**	**2,147,276,848**	**100.00**	**2,469,368,375**	**100.00**	**2,364,445,251**	**100.00**

Notes:

1. HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

2. Dorest is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The Shares held by Dorest are under a charging order and Dorest is the registered shareholder and has the voting right. These Shares had been deposited in C.A. Pacific Finance Limited which is in liquidation.

3. (a) Simple View is a wholly owned subsidiary of Eternity. Mr. Heung and Ms. Chen are directors of Simple View.

   (b) This figure includes the 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants) undertaken to be accepted by Simple View.

4. Mansion House has undertaken to the Company that (i) it will ensure that the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters are third parties independent of and not acting in concert with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates; (ii) no such subscriber or purchaser of the Underwritten Shares shall be procured by it or by the sub-underwriters if allotment and issue of any Rights Shares (with Bonus Warrants) to it would result in it and its associates and concert parties, when aggregated with the Shares (if any) already held by them holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue; and (iii) in performing its underwriting obligations under the Underwriting Agreement, no subscriber or purchaser of the Underwritten Shares will become a substantial Shareholder immediately after completion of the Rights Issue and the Bonus Issue. The placees to be procured by the sub-underwriters of Mansion House will be independent and not acting in concert with the Concert Group.

5. These scenarios are for illustrative purpose assuming the Concert Group take up their respective entitlements, if any, under the Rights Issue and the Bonus Issue. It should be noted that:

   (a) Dorest has not given any undertaking in relation to exercise of the Dorest Warrants nor acceptance of the 41,106 Rights Shares (with 8,221 Bonus Warrants) entitled by it. The Shares held by Dorest are under charging order.

   (b) None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares. Save for the Simple View Warrants and the HWKFE Warrants, none of the holders of the Existing Warrants has given any undertaking.

   (c) Pursuant to the Irrevocable Undertakings, Simple View has undertaken to accept 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants) to which it is entitled under the Rights Issue and the Bonus Issue. Save as disclosed, Simple View has not given any undertaking in relation to acceptance or non-acceptance of the remaining 4,000,000 Rights Shares (with 800,000 Bonus Warrants) entitled by it under the Rights Issue and the Bonus Issue.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the fund raising activities conducted by the Company in the past twelve months immediately prior to the Announcement:

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the date of the Announcement
9 February 2011	The Proposed Subscription	HK$649.50 million	For financing the Proposed Acquisition and development of the Sites and/or general working capital of the Group	The Proposed Subscription is subject to conditions precedent and may or may not proceed
14 January 2011	Placing of up to 577,855,000 Original Shares at a price of HK$0.07 per Original Share	HK$39.93 million	To satisfy part of the consideration for the Proposed Acquisition	The net proceeds will be used as intended
8 July 2010	Rights issue of 1,444,643,184 Original Shares on the basis of one Original Share for every two Original Shares held on 20 July 2010 at the subscription price of HK$0.10 per Original Share	HK$141.46 million	To reduce the Group's bank borrowings and financing hotel operation or finance the general working capital of the Group	Approximately HK$41 million has been applied to hotel operation and general working capital of the Group and HK$100.46 million will be applied to the Proposed Acquisition

IMPLICATION UNDER THE LISTING RULES

Pursuant to Rule 7.19(6) of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue and the Bonus Issue. As at the Latest Practicable Date, there is no controlling Shareholder. Accordingly, Mr. Heung, Ms. Chen, HWKFE, Dorest, Eternity, Mr. Lei, Simple View and their respective associates who in aggregate hold approximately 19.28% of the existing issued share capital of the Company as at the Latest Practicable Date will abstain from voting in favour of resolution relating to the Rights Issue and the Bonus Issue at the SGM.

IMPLICATION UNDER THE TAKEOVERS CODE AND WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Underwritten Shares in the manner that if (a) the HWKFE's EAF Shares (if any) together with the Untaken Shares are equal to or less than 800,000,000 Rights Shares, HWKFE shall subscribe for all such Untaken Shares; or (b) the HWKFE's EAF Shares (if any) together with the Untaken Shares exceed 800,000,000 Rights Shares, HWKFE shall subscribe for such number of Untaken Shares equivalent to 800,000,000 Rights Shares less the HWKFE's EAF Shares (if any), and Mansion House shall subscribe or procure subscription for all the remaining Untaken Shares (being not more than 610,092,389 Underwritten Shares. The underwriting obligation of HWKFE depends on whether HWKFE will apply for the Rights Shares by way of excess application and the actual number of Rights Shares allocated to HWKFE. The HWKFE's EAF Shares shall in any event not exceed 800,000,000 Rights Shares. Therefore, the aggregate number of the HWKFE's EAF Shares and the Untaken Shares subscribed by HWKFE shall in any event no more than 800,000,000 Rights Shares.

In the case that none of the EOEW is exercised before the Record Date and no Qualifying Shareholders (except the Concert Group) take up the Rights Shares, the Concert Group's aggregate shareholding in the Company will increase from 94,680,202 Shares, representing approximately 19.28% as at the Latest Practicable Date, to 1,178,720,808 Shares, representing approximately 60.00% immediately upon completion of the Rights Issue, which is the largest possible shareholding percentage of the Concert Group. Therefore, this will trigger an obligation on the Concert Group to make a mandatory offer for all the Shares and securities issued by the Company (not already held by the Concert Group) under Rule 26 of the Takeovers Code.

An application will be made by HWKFE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders (i.e. Shareholders other than the Concert Group and those who are not involved in or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver) at the SGM. If the Whitewash Waiver is not granted by the Executive, the Rights Issue and the Bonus Issue will not proceed.

Mr. Heung, Ms. Chen, HWKFE, Dorest, Eternity, Mr. Lei, Simple View and their respective associates and the Shareholders who are involved in or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver will abstain from voting on the relevant resolutions at the SGM.

Completion of the Rights Issue and the Bonus Issue is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive. Accordingly, if the Whitewash Waiver is not obtained, the Rights Issue and the Bonus Issue will lapse and will not proceed.

If the Concert Group holds more than 50% of the voting rights of the Company upon completion of the Rights Issue, the Concert Group may increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a mandatory offer.

However, where there are changes in the make-up of the Concert Group that effectively result in a new group being formed or the balance of the Concert Group being changed significantly, may trigger an obligation to make a mandatory offer under Rule 26 of the Takeover Code unless a waiver from the Executive is granted.

DEALINGS OF THE SHARES OR ORIGINAL SHARES BY THE CONCERT GROUP

There has been no dealing of Original Shares, Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by the Concert Group for the six months' period immediately prior to the date of the Announcement and up to the Latest Practicable Date.

As at the Latest Practicable Date, save as the 94,680,202 Shares (representing approximately 19.28% of the entire issued share capital of the Company), the 315,488 Share Options (representing approximately 17.72% of the total Share Options) and the Existing Warrants which can be exercised to subscribe 17,703,127 Shares (representing 28.89% of the Existing Warrants held by the Concert Group), the Concert Group:

(a) did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(b) save for the Irrevocable Undertakings, there was no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of HWKFE and the Company and which may be material to the Underwriting Agreement, the Whitewash Waiver, the Rights Issue and the Bonus Issue;

(c) there was no agreements or arrangements to which the Concert Group is a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Underwriting Agreement, the Whitewash Waiver, the Rights Issue and the Bonus Issue, other than those set out in the section headed "Condition of the Rights Issue and the Bonus Issue" of this circular;

(d) did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolution in respect of the Underwriting Agreement or the Rights Issue or the Bonus Issue or the Whitewash Waiver; and

(e) did not borrow or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

ADJUSTMENTS TO SHARE OPTIONS AND EXISTING WARRANTS

Adjustments to the exercise prices and number of the Share Options and the subscription price of the Existing Warrants may be required under the Share Option Scheme and the relevant terms under the warrant instrument constituting the Existing Warrants. An approved financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and the numbers of the Share Options and the subscription price of the Existing Warrants. Further announcement will be made by the Company in this regard.

WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The last day of dealing in the Shares on a cum-entitlement basis is Friday, 27 May 2011. The Shares will be dealt in on an ex-entitlement basis commencing from Monday, 30 May 2011. The

Rights Shares are expected to be dealt in their nil-paid form from Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive). Shareholders and potential investors should note that dealing in Shares and/or nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

Shareholders and potential investors should note that the Rights Issue and the Bonus Issue is conditional upon fulfillment of various conditions precedent and the Underwriters are entitled to terminate the Underwriting Agreement prior to the Latest Time for Termination, details of which have been set out under the paragraph headed "Termination of the Undewriting Agreement" of this circular. Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue is subject are fulfilled (which is expected to be on 4:00 p.m. on Monday, 27 June 2011) and/or dealing in nil-paid Rights Shares between Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive), will accordingly bear the risk that the Rights Issue and the Bonus Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.

GENERAL

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

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been appointed to give recommendation to the Independent Shareholders in respect of the Rights Issue, the Bonus Issue and the Whitewash Waiver. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on page 35 of this circular.

INDEPENDENT FINANCIAL ADVISER

Goldin Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Bonus Issue and the Whitewash Waiver. The appointment of Goldin Financial has been approved by the Independent Board Committee. Your attention is drawn to its letter to the Independent Board Committee and the Independent Shareholders set out on pages 36 to 53 of this circular.

THE SGM

Set out on pages 179 to 181 of this circular is a notice of the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 4:00 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) at which an ordinary resolution will be proposed to approve the Rights Issue, the Bonus Issue, the Underwriting Agreement and the Whitewash Waiver and the transaction contemplated thereunder. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return to the Registrar as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

VOTING BY POLL

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

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 35 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver and the letter from Goldin Financial set out on pages 36 to 53 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

As stated in the letter from the Independent Board Committee, the Independent Shareholders are recommended to vote in favour of the resolution relating to the Rights Issue, the Bonus Issue and the Whitewash Waiver at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
On behalf of the Board
Heung Wah Keung
Chairman

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 972)

20 May 2011

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE WITH BONUS WARRANTS ON THE BASIS OF ONE BONUS WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 20 May 2011 (the "Circular") of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to consider the Rights Issue, the Bonus Issue and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue, the Bonus Issue and the Whitewash Waiver and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the SGM to approve the Rights Issue, the Bonus Issue and the Whitewash Waiver. Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regards.

We wish to draw your attention to the letter from the Board and the letter from Goldin Financial as set out in the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms and conditions of the Rights Issue, the Bonus Issue and the Whitewash Waiver with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of Goldin Financial, we consider that the terms of the Rights Issue, the Bonus Issue and the Whitewash Waiver are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Rights Issue, the Bonus Issue and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Rights Issue, the Bonus Issue and the Whitewash Waiver and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Hung Cho Sing **Ho Wai Chi, Paul** **Leung Hok Man**
Independent non-executive Directors

The following is the text of a letter of advice from Goldin Financial prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver.

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

20 May 2011

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

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE WITH BONUS WARRANTS ON THE BASIS OF ONE BONUS WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the board of directors ("the Independent Board Committee") and the independent shareholders ("the Independent Shareholders") in relation to the proposed Rights Issue, the Bonus Issue and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "Letter from the Board") contained in this circular dated 20 May 2011 issued by the Company (the "Circular"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18 April 2011, the Company announced that, among other things, subject to the Capital Reorganisation becoming effective, the Board proposed to raise not less than approximately HK$368.38 million and not more than approximately HK$421.03 million before expenses by way of rights Issue of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares at the Subscription Price of HK$0.25 per Rights Share on the basis of three Rights Shares for every one Share held on the Record Date. Subject to the satisfaction of the conditions of the Rights Issue and the Bonus Issue, the Bonus Warrants will be issued to the first registered holders of the Rights Shares on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue.

The Rights Issue is fully underwritten by Mansion House and HWKFE. According to the Letter from the Board, Mansion House is an independent third party and HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen who are members of the Concert Group. As set out in the Letter from the Board, pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Unwritten Shares in the manner that if (i) the HWKFE's EAF Shares (if any) together with the Untaken Shares are equal to or less than 800,000,000 Rights Shares, HWKFE shall subscribe for all such Untaken Shares; or (ii) the HWKFE's EAF Shares (if any) together with the Untaken Shares exceed 800,000,000 Rights Shares, HWKFE shall subscribe for such number of Untaken Shares equivalent to 800,000,000 Rights Shares less the HWKFE's EAF Shares (if any) and Mansion House shall subscribe or procure subscription for all the remaining Untaken Shares, being not more than 610,092,389 Underwritten Shares. In the case that none of the EOEW is exercised before the Record Date and no Qualifying Shareholders (except the Concert Group) take up the Rights Shares, the total number of Shares as held by the Concert Group will increase from 94,680,202 Shares (representing approximately 19.28% of the total number of Shares in issue of the Company as at the Latest Practicable Date) to 1,178,720,808 Shares (representing approximately 60.00% of the total number of Shares in issue immediately upon completion of the Rights Issue).

Accordingly, without the Whitewash Waiver, the taking up of the Underwritten Shares by HWKFE may trigger an obligation on the part of the Concert Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned by or agreed to be acquired by the Concert Group.

An application has been made by HWKFE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders (i.e. Shareholders other than the Concert Group and those who are not involved in or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver) at the SGM by way of poll. It is one of the precedent conditions of the Rights Issue and Bonus Issue that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders at the SGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Rights Issue and the Bonus Issue will not proceed.

Pursuant to Rule 7.19(6) of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue and the Bonus Issue. As at the Latest Practicable Date, there is no controlling Shareholder. Accordingly, Mr. Heung, Ms. Chen, HWKFE, Dorest, Eternity, Mr. Lei, Simple View and their respective associates who in aggregate hold approximately 19.28% of the existing issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in favour of the resolution for approving the Rights Issue and the Bonus Issue at the SGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, has been established to make recommendations to the Independent Shareholders as to whether the Rights Issue, the Bonus Issue and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver.

We, Goldin Financial, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver, and to make a recommendation as to, among others, whether the Rights Issue, the Bonus Issue and the Whitewash Waiver are fair and reasonable and as to voting in respect of the resolution relating to the Rights Issue, the Bonus Issue and the Whitewash Waiver at the SGM. Our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcements, the agreements and the undertakings in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver and the annual reports of the Company for the three years ended 31 December 2008, 2009 and 2010. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and the reasons for, the Rights Issue and the Bonus Issue and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background information and prospect of the Group

The Group is principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit stream from the gaming promotion business and property and hotel investment. Set out below is the audited financial information of the Group for the three years ended 31 December 2008, 2009 and 2010 as extracted from the Group's annual reports for the relevant financial years:

Table 1: Financial highlights of the Group

	For the year ended 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	864,261	543,429	227,747
Profit/(Loss) attributable to owners of the Company	(8,083)	204,388	90,604

	As at 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	2,058,909	2,337,092	2,077,833
Current assets	1,286,183	853,183	527,334
(Current liabilities)	(226,872)	(605,620)	(394,579)
Net current assets	1,059,311	247,563	132,755
Net assets	2,579,956	2,319,393	1,702,975

The turnover of the Group increased from approximately HK$78.35 million for the year ended 31 December 2007 to approximately HK$227.75 million for the year ended 31 December 2008, representing an increase of approximately 190.68%. The Group recorded profit attributable to owners of the Company of approximately HK$90.60 million for the year ended 31 December 2008 compared with a loss attributable to owners of the Company of approximately HK$92.55 million in the prior year. According to the annual report of the Group for the year ended 31 December 2008, the increase in profit attributable to owners of the Company was mainly attributable to contribution from the sharing of profit streams from investments in gaming and entertainment business in Macau after the acquisition of the entire equity interest in Best Mind International Inc. Of the total turnover amount for the year ended 31 December 2008, approximately HK$203.33 million or approximately 89.28% was generated from gaming and entertainment business, approximately HK$19.14 million or approximately 8.40% was generated from film distribution business, and approximately HK$5.28 million or approximately 2.32% was generated from other business of the Group.

As at 31 December 2008, the audited net current assets and net assets of the Group amounted to approximately HK$132.76 million and approximately HK$1,702.98 million, respectively. In March 2008, the Company completed the acquisition of 100% issued share capital of Best Mind International Inc. at an aggregate consideration of HK$1,054.90 million satisfied as to HK$600.00 million in cash, HK$384.00 million by the issue of 5% convertible notes at an initial conversion price of HK$0.30 per share and the balance of HK$70.90 million by the allotment and issue of 236,333,333 shares credited as fully paid. Best Mind International Inc. became a subsidiary of the Group. In May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of Classical Statue Limited for a cash consideration of approximately HK$330.57 million. The aforesaid transaction was completed on 18 August 2008.

The turnover of the Group increased from approximately HK$227.75 million for the year ended 31 December 2008 to approximately HK$543.43 million for the year ended 31 December 2009, representing an increase of approximately 138.61%. The profit attributable to owners of the Company for the year ended 31 December 2009 was approximately HK$204.39 million, representing an improvement of approximately 125.60% over approximately HK$90.60 million in the prior year. According to the annual report of the Group for the year ended 31 December 2009, the increase in turnover and profit attributable to owners was supported by the growth in the hotel and gaming service operations of the Group. In August 2009, Hotel Lan Kwai Fong Macau started to contribute revenue to the Group. Of the total turnover for the year ended 31 December 2009, approximately HK$222.04 million or approximately 40.86% was generated from hotel and gaming service operations, approximately HK$294.81 million or approximately 54.25% was generated from gaming promotion operations and approximately HK$26.58 million or approximately 4.89% was generated from film distribution operations.

As at 31 December 2009, the audited net current assets and net assets of the Group amounted to approximately HK$247.56 million and approximately HK$2,319.39 million, respectively. In April 2009, Bestjump Holdings Limited, a wholly owned subsidiary of the Company and Ms. Chen, entered into a sale and purchase agreement pursuant to which Bestjump Holdings Limited has agreed to purchase and Ms. Chen agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and outstanding loans in an aggregate amount of approximately HK$750.81 million due by Reform Base Holdings Limited to Ms. Chen at an aggregate consideration of HK$900.00 million. The foresaid transaction is subject to conditions precedent and was yet to be completed as at the Latest Practicable Date. In April 2009, the Group completed the disposal of China Star Production Services Limited at a total consideration of HK$11.20 million. In June 2009, the Group entered into a sale and purchase agreement to dispose of 100% equity interest in Bingo Chance Limited at a consideration of HK$22.96 million. The Group recorded a loss on disposal of approximately HK$29.60 million.

For the year ended 31 December 2010, the turnover of the Group increased from approximately HK$543.43 million to approximately HK$864.26 million, representing an increase of approximately 59.04%. Of the total turnover amount for the year, approximately HK$725.13 million or approximately 83.90% was generated from hotel and gaming service operations, approximately HK$137.81 million or approximately 15.95% was generated from gaming promotion operations and approximately HK$1.32 million or approximately 0.15% was generated from film distribution operations. Although turnover for 2010 was higher than that of the previous year, the Group recorded loss attributable to owners of approximately HK$8.08 million compared with profit attributable to owners of approximately HK$204.39 million in the prior year. As advised by the Group, the decrease was mainly attributable to an aggregate impairment losses of approximately HK$206.95 million recognised in respect of intangible assets of approximately HK$197.97 million and goodwill of approximately HK$8.98 million during the interim review of the Group as at 30 June 2010 with regard to the decrease in sharing of profit streams from investments in gaming promotion business in Macau from Best Mind International Inc. As at 31 December 2010, the Group did not identify further impairment losses.

As at 31 December 2010, the audited net current assets and net assets of the Group amounted to approximately HK$1,059.31 million and approximately HK$2,579.96 million, respectively. On 8 December 2010, China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited (the “JV Company”) entered into a joint venture agreement relating to the formation of the JV Company, which is principally engaged in production and distribution of films. On 23 December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company, the Company, Sociedade de Turismo e Diversões de Macau, S.A. and Mr. Heung entered into a conditional agreement in relation to the Proposed Acquisition, which is subject to conditions precedent and was yet to be completed as at the Latest Practicable Date. According to the announcement of the Company dated 29 April 2011, the circular in respect of the Proposed Acquisition is expected to be despatched to the Shareholders on a date no later than 31 May 2011.

2. Reasons for the Rights Issue and the use of proceeds

As mentioned in the Letter from the Board, the Company will raise not less than approximately HK$368.38 million but not more than approximately HK$421.03 million before expenses in the Rights Issue. Based on 1,473,536,625 Rights Shares, the estimated net proceeds from the Rights Issue will be approximately HK$363.53 million. The Company intends to use approximately HK$360 million of the the net proceeds from the Rights Issue for the funding of the development of the Sites in relation to the Proposed Acquisition, details of which are set out in the announcement of the Company dated 7 January 2011, and/or to use the remaining for general working capital of the Group.

As disclosed in the aforesaid announcement, the Company has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau to acquire the property leasehold rights of the Sites, which the Company intends to develop into office units and residential apartment for sale with the street level of the Sites developed into area consisting of restaurants, bars, nightclubs and art galleries, in order to create more traffic in the surrounding areas of Hotel Lan Kwai Fong Macau. The Board considers that the Proposed Acquisition will diversify the Group's investment portfolio in Macau and broaden its revenue base which has a positive impact on its long-term profitability. If the Proposed Acquisition does not proceed, the Company intends to apply the net proceeds from the Rights Issue for other possible property investment opportunities in Macau, other investment opportunities and/or for general working capital of the Group. As at the Latest Practicable Date, the Company has not identified any such opportunities.

Assuming full exercise of the Bonus Warrants at the Bonus Warrants Subscription Price, the cash proceeds from the exercise of the Bonus Warrants would not be less than approximately HK$73.68 million and not more than approximately HK$84.21 million. It is expected that the proceeds from the exercise of the Bonus Warrants, if any, will be used for general working capital of the Group.

As shown in the annual report of the Company for the year ended 31 December 2010, the segment revenue contributed by the hotel and gaming services operations of Hotel Lan Kwai Fong Macau during the year amounted to approximately HK$725.13 million, representing approximately 83.96% of the Group's total revenue. In view of the location of the Sites which is adjacent to Hotel Lan Kwai Fong Macau and the intention of the Company to develop part of the Sites into a leisure and entertainment area, we consider that the expected increase of traffic in the surrounding areas of Hotel Lan Kwai Fong created by the Sites when developed could increase the amount of potential customers of Hotel Lan Kwai Fong Macau which would potentially widen the hotel's revenue stream and thus, would broaden the revenue base of the Group, if the Proposed Acquisition proceed.

As stated in the annual report of the Company for the year ended 31 December 2010, it is the Group's intention to diversify into the property development market in Macau. According to Macao Economic Bulletin, 4th Quarter 2010 (the "Bulletin"), the latest joint publication on Macau's economy issued by the Statistics and Census Service of the Macao SAR Government, the GDP of Macau increased by approximately 31.30%, or by approximately 26.20% in real terms, from approximately MOP165.5 million in 2009 to approximately MOP217.3 million in 2010. According to the Bulletin, construction by the private sector in Macau, once impeded by the global economic crisis which resulted in total construction falling from 73 units in 2007 to 37 units in 2008, has regained momentum with total construction increasing by approximately 22.22% from 45 units in 2009 to 55 units in 2010. In view of the above, it is expected that any possible property investment opportunity in Macau, should such opportunity arises, would enable the Group to capitalise on the growth of the economic development of Macau especially in the property sector in the future.

Considering that the proceeds from the Rights Issue (i) is partly intended to satisfy the funding requirement for the development of the Sites which will diversify the Group's investment portfolio in Macau and is expected to broaden its future revenue base; (ii) is partly intended to be applied for the general working of the Group which, together with the Bonus Issue, would strengthen the Company's capital base and enhance its financial position; and (iii) allows the Group to capitalise on the growth of the Macau's property market which is in line with the Group's business strategy, we concur with the Director's view that the Rights Issue and the Bonus Issue are in the interests of the Group and the Shareholders as a whole.

3. Alternative to the Rights Issue

According to the Letter from the Board, save for (i) the rights issue of 1,444,643,184 Original Shares on the basis of one Original Share for every two Original Shares as announced by the Company on 8 July 2010; (ii) the placing of up to 577,855,000 Original Shares as announced by the Company on 14 January 2011; and (iii) the Proposed Subscription (subject to conditions precedent and yet to be completed) as announced by the Company on 9 February 2011, the Group has not carried out any other fund raising activity during the past 12 months immediately prior to the date of the Announcement.

The Directors advised that they have considered alternative means for the Group to raise funds other than the Rights Issue, including but not limited to, other forms of fund raising activities such as debt financing. However, the Directors consider that bank borrowing will create additional finance cost on the Group and increase the gearing of the Group. We concur with the Directors' view that equity financing is a prudent way to finance the Group's future business development.

The Directors have also considered the possibility of fund raising by way of share placement as an alternative to the Rights Issue. But, unlike the Rights Issue which provides all Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and at the same time allow them to maintain their proportionate interests in the Company, a share placement would involve an issue of new Shares and result in a dilution of existing Shareholders' interest. As such, the Directors do not consider a share placement to be a desirable alternative to the Rights Issue.

Moreover, the Directors have considered the possibility of fund raising by open offer as an alternative to the Rights Issue. But unlike the Rights Issue, an open offer would not allow the Shareholders who do not want to participate in the fund raising of the Company to transfer or dispose of their nil-paid Rights Shares on the Stock Exchange. The Shareholders may receive a cash consideration provided that there are purchasers for such nil-paid Rights Shares. Thus, we concur with the Directors' view that given the circumstances the Rights Issue is the most appropriate means to raise fund and is beneficial to the Shareholders as a whole.

Having considered that (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue to take up their provisional allotments in full to maintain their respective shareholdings in the Company and participate in the future growth and development of the Company; and (ii) the Rights Issue is considered more preferable than other financing alternatives as explained above, we consider that the Rights Issue is an equitable means to raise capital for the Group.

4. Principal terms of the Rights Issue

- Basis

The Company proposed to raise not less than approximately HK$368.38 million and not more than approximately HK$421.03 million before expenses by way of the Rights Issue of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares at the Subscription Price of HK$0.25 per Rights Share on the basis of three Rights Share for every one Share held on the Record Date. Based on 1,473,536,625 Rights Shares, the estimated net proceeds from the Rights Issue will be approximately HK$363.53 million. The net price for the Rights Shares is approximately HK$0.247 per Rights Share.

- The Subscription Price

As stated from the Letter from the Board, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the prevailing market price of the Original Shares. The Directors consider that the discount would encourage the Qualifying Shareholders to participate in the Rights Issue, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group.

The Subscription Price represents:

- a discount of approximately 54.55% to the adjusted closing price of HK$0.55 per Share (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK$0.055 per Original Share as quoted on Stock Exchange on the Last Trading Day;

- a discount of approximately 23.08% to the theoretical ex-entitlement price of approximately HK$0.325 per Share after the Rights Issue (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK$0.055 per Original Share as quoted on the Stock Exchange on the Last Trading Day;

- a discount of approximately 56.90% to the average adjusted closing price of HK$0.58 per Share (adjusted for the effect of the Capital Reorganisation), based on the average closing price of HK$0.058 per Original Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

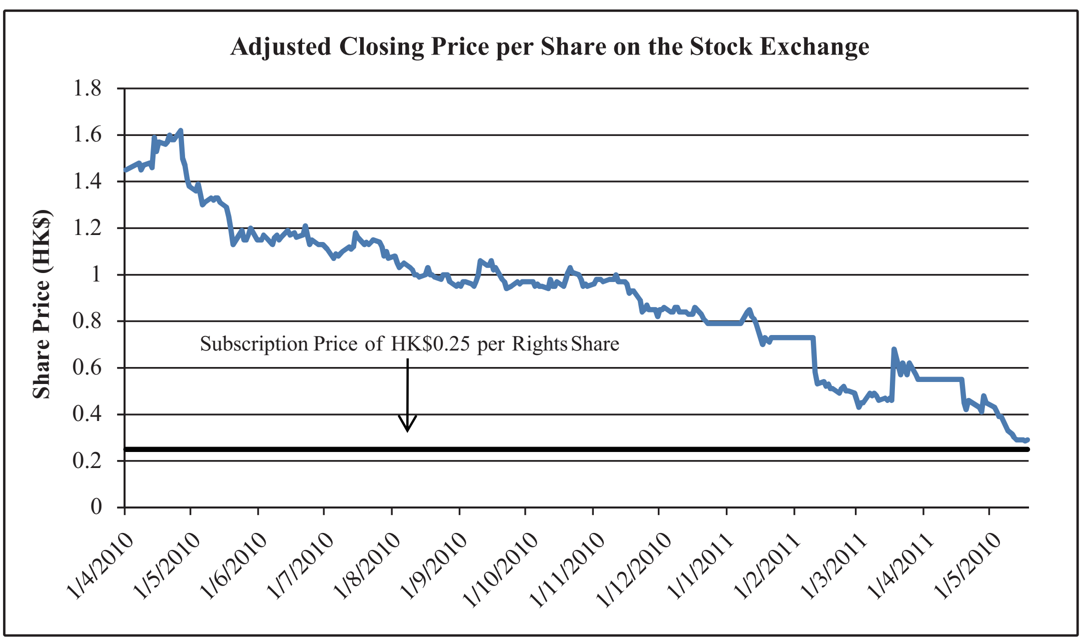
- a discount of 16.00% to the closing price of HK$0.29 per Share as quoted on Stock Exchange on the Latest Practicable Date; and

- a discount of approximately 4.00% to the theoretical ex-entitlement price of approximately HK$0.26 per Share after the Rights Issue, based on the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

Historical Share price performance

Chart 1 below shows the daily theoretical closing price of the Share which is based on closing price of the Share and the adjusted closing prices of the Original Share as quoted on the Stock Exchange taking into account the effect of the Share Consolidation (the "Adjusted Closing Price"), versus the Subscription Price for the period commencing from 1 April 2010 up to and including the Latest Practicable Date (the "Review Period"):

Chart 1: Historical Share price performance



Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: Trading in the Shares was suspended from 24 December 2010 to 7 January 2011, from 24 January 2011 to 9 February 2011 and from 30 March 2011 to 18 April 2011.

During the Review Period, the Adjusted Closing Price showed a downward trend in general, with the highest and the lowest Adjusted Closing Price of the Share being HK$1.62 on 26 April 2010 and HK$0.285 on 17 May 2011, respectively. The Subscription Price represents a discount of approximately 40.48% to the lowest Adjusted Closing Price and a discount of approximately 84.57% to the highest Adjusted Closing Price during the Review Period. The Shares were traded above the Subscription Price throughout the entire Review Period. In view of the downward trend demonstrated by the historical movement of the Share price, we consider that the setting of the Subscription Price at a lower level is reasonable.

Historical trading volume of the Shares

Table 2 below shows the average daily number of the Original Shares (before the Capital Reorganisation) trading volume per month, and the respective percentages of the Original Shares' monthly trading volume as compared to the total number of issued Original Shares as at the Last Trading Day, during the Review Period:

Table 2: Historical trading volume of the Original Shares

Month	Total no. of Original Shares trading volume	No. of trading days	Average daily trading volume	Total no. of outstanding Shares *(Note)*	Total no. of shares Trading volume over outstanding Shares *(Note)* *(%)*	Average daily trading volume over outstanding Shares *(Note)* *(%)*
April-10	894,932,659	19	47,101,719	4,911,788,757	18.22	0.96
May-10	344,123,606	20	17,206,180	4,911,788,757	7.01	0.35
Jun-10	214,976,666	21	10,236,984	4,911,788,757	4.38	0.21
Jul-10	507,951,757	21	24,188,179	4,911,788,757	10.34	0.49
Aug-10	351,078,254	22	15,958,102	4,911,788,757	7.15	0.32
Sep-10	647,957,120	21	30,855,101	4,911,788,757	13.19	0.63
Oct-10	644,965,214	20	32,248,261	4,911,788,757	13.13	0.66
Nov-10	304,187,765	22	13,826,717	4,911,788,757	6.19	0.28
Dec-10	263,989,583	22	11,999,527	4,911,788,757	5.37	0.24
Jan-11	347,594,941	10	34,759,494	4,911,788,757	7.08	0.71
Feb-11	260,171,854	13	20,013,220	4,911,788,757	5.30	0.41
Mar-11	1,454,863,311	21	69,279,205	4,911,788,757	29.62	1.41
Apr-11	653,634,399	7	93,376,343	4,911,788,757	13.31	1.90
May-11 (Up to 6 May 2011, being the date prior to the Capital Reorganisation becoming effective)	128,546,510	4	32,136,628	4,911,788,757	2.62	0.65

Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: Total number of outstanding Shares based on the total number of Original Shares issued as at the Last Trading Day

As illustrated from Table 2 above, we note that the average number of Shares trading volume accounted for only a small portion (less than 1%) of the total number of Shares issued as at the Last Trading Day during the Review Period except for March 2011 and April 2011, during which the Company announced the annual financial results of the Group for the year ended 31 December 2010 and the proposed Rights Issue with Bonus Issue which are considered to be price-sensitive in nature. In view of the thin trading volume of the Shares during the Review Period except for March 2011 and April 2011, with an average daily trading volume ranging between approximately 10,236,984 Shares to approximately 47,101,719 Shares, representing approximately 0.21% to approximately 0.96% of the Shares in issue on the Last Trading Day, we consider that the setting of the Subscription Price at a lower level is reasonable and that the Subscription Price would attract the Qualifying Shareholders to subscribe for the Rights Shares.

Comparison of the Subscription Price

To assess the fairness and reasonableness of the Subscription Price, we have attempted to compare the market prices of the other companies listed on the Main Board and the GEM of the Stock Exchange with principal businesses and financial positions similar to that of the Company. Although a few of the companies we selected have part of their principal businesses similar to that of the Company, these companies are each unique in themselves and we are short of finding a conclusive justification for a fair comparison. As a further step, we have identified, based on the information available in public domain, 34 companies listed on the Stock Exchange which had raised funds by way of rights issues during the six-month period prior to the Last Trading Day in order to provide the Independent Shareholders a reference to consider the Subscription Price under similar market condition and sentiments as the Rights Issue. We have examined the annual reports of these companies but noted that such companies are not in a business closely similar to the Company. We consider that the inclusion of these companies for comparison purpose would not be able to give a representative and comprehensive information to the Independent Shareholders. Shareholders should, however, note that while listed companies differ from one another, it is a common market practice to price a rights issue at a discount to the market price of the relevant shares in order to entice subscription by their shareholders based on our review of the 34 rights issues announced during the six-month period prior to the Last Trading Day. In addition, the market sentiment and conditions at the relevant time may also play a pivotal role in the determination of the subscription price.

Taking into account that (i) the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the prevailing market price of the Original Shares; (ii) the Share price demonstrated a downward trend with thin trading volume during the Review Period; (iii) it is the normal market practice to offer discount to enhance the attractiveness of a rights issue; and (iv) all Qualifying Shareholders are offered an equal opportunity to participate in Rights Issue and to take up their entitlements in full at the same price to maintain respective shareholdings in the Company, we are of the view that the Subscription Price is fair and reasonable.

- Application for excess Rights Shares

As set out in the letter from the Board, Qualifying Shareholders are entitled to apply for, by way of excess application, any unsold entitlements of the Prohibited Shareholders and any nil paid Rights Shares provisionally allotted but not accepted by other Qualifying Shareholders.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the principals of (i) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and (ii) subject to availability of excess Rights Shares after allocation under principle (i), the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for a smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive a lesser number of Rights Shares, whereas Qualifying Shareholders applying for a larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive a higher number of Rights Shares).

We are not aware of the allocation arrangement of excess application of the Rights Issue is unusual to that of the rights issues announced by companies listed on the Stock Exchange during the six-month period prior to the Last Trading Day and consider such allocation arrangement is in line with normal market practice.

5. Underwriting arrangements

Pursuant to the Underwriting Agreement, Mansion House will receive a commission calculated as 2.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares based on the number of Rights Shares as determined on the Record Date minus 800,000,000 Rights Shares payable by the Company. HWKFE is a Shareholder and its ordinary course of business does not include underwriting. HWKFE will not be entitled to any underwriting commission.

We note from the announcements published by companies listed on the Stock Exchange which have raised funds by way of rights issue within six-month period before the Last Trading Day that the underwriting commission charged by the respective underwriters of such rights issues ranged from 0.5% to 3.0% on funds raised. The commission rate charged by Manison House of 2.5% falls within the range of that of such rights issues and is equivalent to the median of 2.5% in the analysis. Upon enquiry with the management of the Company, the underwriting commission was determined between the Company and Manison House after arm's length negotiation.

Having considered that (i) the underwriting commission was determined between the Company and Manison House after arm's length negotiation; and (ii) the trading volume of the Shares was thin during the Review Period, we are of the view that the underwriting commission paid to Mansion House is in line with the market and is fair and reasonable.

We have also reviewed other major terms of the Underwriting Agreement including, but not limited to, the payment terms, the termination of the Underwriting Agreement and conditions of the Underwriting Agreement (details of which are set out in the Letter from the Board) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

6. The Bonus Issue

The Company also proposed to issue the Bonus Warrants to the first registered holders of the Rights Shares on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue.

Each of the Bonus Warrants will entitle the holders thereof to subscribe for one Share at the Bonus Warrants Subscription Price of HK$0.25 per Bonus Warrants Share subject to adjustment(s), details of which are set out in Appendix I to the Circular. The Bonus Warrants Subscription Price is equivalent to the Subscription Price, and was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the prevailing market price of the Original Share.

In order to evaluate the fairness and reasonableness of the Exercise Price, we have attempted to identify rights issue with issue of bonus warrants during a period extended from 1 April 2010 to the Latest Practicable Date announced by companies with principal business closely similar to the Company listed on the Main Board and the Growth Enterprise Market of the Stock Exchange. To the best of our knowledge and as far as we are aware of, no such rights issue meeting the above criteria has been identified. It is also considered practically difficult to define the value of the Bonus Warrants given that the trading volume of the underlying Shares has been relatively thin. However, we are of the view that the Bonus Issue serves as an incentive for the Qualifying Shareholders to subscribe for the Rights Shares.

As (i) the Bonus Warrants serve as an incentive for the Qualifying Shareholders to subscribe for the Rights Shares; (ii) holders of such Bonus Warrants have full discretion on whether or not to subscribe for the same number of Shares; and (iii) the Bonus Warrants, when exercised, may raise additional working capital to further strengthen the financial position of the Group, we consider the Bonus Issue, as part of the Rights Issue, is in the interests of the Company and the Independent Shareholders as a whole, and is fair and reasonable so far as the Independent Shareholders are concerned.

7. Potential dilution effect to the Shareholders

The changes in shareholding structure of the Company arising from the Rights Issue and the Bonus Issue are set out in the paragraph headed "Effects on Shareholding Structure" in the Letter from the Board. All Qualifying Shareholders are entitled to subscribe for the Rights Shares. Assuming none of the Bonus Warrants is exercised, the shareholding of the Qualifying Shareholders who take up their provisional allotment under the Rights Issue will remain unchanged immediately upon completion of the Rights Issue assuming none of the EOEW is exercised before the Record Date. The shareholding of the Qualifying Shareholders (except the Underwriters) who do not subscribe for in full their assured entitlements under the Rights Issue will be diluted from approximately 80.72% to the extent of (i) approximately 20.18% assuming none of the EOEW is exercised before the Record Date; or (ii) approximately 20.57% assuming the EOEW is exercised in full before the Record Date but none of the Bonus Warrants is exercised; or (iii) approximately 17.88% assuming the EOEW is exercised in full before the Record Date and the Bonus Warrants are exercised in full.

Taking into account (i) that all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue; (ii) that the dilution on the shareholding of Qualifying Shareholders who do not take up in full their assured entitlements in all cases of rights issue is inevitable; (iii) that the Directors considered that the Rights Issue is considered more preferable than other financing alternatives as explained above; (iv) the potential positive effect to the future revenue generating ability of the Group due to the development of the Sites to be funded by the proceeds from the Rights Issue as mentioned above; and (v) that the application of part of the proceeds from the Rights Issue for general working capital of the Group would, together with the Bonus Issue, strengthen the Company's capital base and enhance its financial position, we are of the view that the potential dilution effect of the Rights Issue is acceptable.

8. Financial effects of the Rights Issue and the Bonus Issue

(a) Net tangible assets

According to the unaudited pro forma financial information of the Group as set out in Appendix III to the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group was approximately HK$1,471.18 million as at 31 December 2010. Upon completion of the Rights Issue, based on 1,473,536,625 Rights Shares to be issued, the unaudited pro forma adjusted consolidated net tangible assets of the Group will be approximately HK$1,834.71 million, representing an increase of approximately 24.71%. Such increase is attributable to the estimated net proceeds from the Rights Issue of approximately HK$363.53 million based on 1,473,536,625 Rights Shares to be issued, before deducting any development costs of the Sites. This significant improvement in the financial position of the Group is beneficial to the Company and the Shareholders as a whole.

(b) Liquidity

As at 31 December 2010, the cash and bank balances of the Group was approximately HK$625.83 million. Upon completion of the Rights Issue, the Company would raise net proceeds of approximately HK$363.53 million based on 1,473,536,625 Rights Shares to be issued. The cash and bank balances of the Group is expected to increase. As such, the net current assets and current ratio of the Company will improve accordingly.

(c) Gearing ratio

According to the annual report of the Company for the year ended 31 December 2010, the gearing ratio of the Group was approximately 19.38% (calculated based on the total borrowings over total equity) as at 31 December 2010. Upon completion of the Rights Issue, the capital base of the Group would be enlarged upon completion of the Rights Issue whilst the borrowings of the Group are not expected to change as a result of the Rights Issue. As such, the gearing ratio of the Group is expected to improve upon completion of the Rights Issue.

In addition, upon full exercise of the Bonus Warrants at the Bonus Warrants Subscription Price, the estimated cash proceeds of not less than approximately HK$73.68 million and not more than approximately HK$84.21 million, which is expected to be used for general working capital purpose as advised by the Company, would further strengthen the Group's working capital position and thereby improve its liquidity.

9. Whitewash Waiver

As at the Latest Practicable Date, the Concert Group was holding an aggregate of 94,680,202 Shares. Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Unwritten Shares in the manner that if (i) the HWKFE's EAF Shares (if any) together with the Untaken Shares are equal to or less than 800,000,000 Rights Shares, HWKFE shall subscribe for all such Untaken Shares; or (ii) the HWKFE's EAF Shares (if any) together with the Untaken Shares exceed 800,000,000 Rights Shares, HWKFE shall subscribe for such number of Untaken Shares equivalent to 800,000,000 Rights Shares less the HWKFE's EAF Shares (if any) and Mansion House shall subscribe or procure subscription for all the remaining Untaken Shares, being not more than 610,092,389 Underwritten Shares. In the event that none of the EOEW is exercised before the Record Date and no Qualifying Shareholders (except the Concert Group) accepts any Rights Shares, the total number of Shares as held by the Concert Group will increase from 94,680,202 Shares (representing approximately 19.28% of the total number of Shares in issue of the Company as at the Latest Practicable Date) to 1,178,720,808 Shares (representing approximately 60.00% of the total number of Shares in issue as enlarged by the Rights Issue).

Accordingly, without the Whitewash Waiver, the taking up of the Underwritten Shares by the HWKFE may trigger an obligation on the part of the Concert Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned by or agreed to be acquired by the Concert Group.

An application will be made by HWKFE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders (i.e. Shareholders other than the Concert Group and those who are not involved in or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver) at the SGM by way of poll. It is one of the precedent conditions of the Rights Issue and the Bonus Issue that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders at the SGM by way of poll. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue and the Bonus Issue will not proceed. Accordingly, the Company will lose all the benefits that are expected to be brought by the Rights Issue and the Bonus Issue, including but not limited to, the availability of funds out of the net proceeds to be raised from the Rights Issue and the Bonus Issue for strengthening its capital base and financial position and for the future development of the Group when opportunities arise.

All Shareholders are given equal opportunity to participate in the Rights Issue and the Bonus Issue and to apply for extra Rights Shares in excess of their provisional allotments if they so desire, We consider the principles of the allotment of the excess Rights Shares details of which are set out in the Letter from the Board, are fair and reasonable so far as the Company and the Independent Shareholders are concern as a whole.

Based on our analysis of the terms of the Rights Issue and the Bonus Issue, we consider that the Rights Issue and the Bonus Issue are in the interests of the Company and the Shareholders as a whole. We are of the view that for the purpose of implementing the Rights Issue and the Bonus Issue, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Rights Issue, the Bonus Issue and the Whitewash Waiver, and after taking into account that:

– the proceeds from the Rights Issue is intended to satisfy the funding requirement of the development of the Sites in relation to the Proposed Acquisition, which will diversify the Group's investment portfolio and broaden its revenue base;

– the Rights Issue and the Bonus Issue would allow the Company to strengthen its capital base and help to improve the working capital position of the Group;

– the Bonus Warrants serve as an incentive for the Qualifying Shareholders to subscribe for the Rights Shares;

– the Rights Issue and the Bonus Issue would provide funding for investment in new business should any opportunities arise;

– all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and the Bonus Issue to take up their provisional allotments in full to maintain their respective shareholdings in the Company;

– the Subscription Price has been arrived at after arm's length negotiations between the Company and the Underwriters and the discount as represented by the Subscription Price is in line with the market practice;

– the Rights Issue will have positive impact on the net tangible assets and the liquidity of the Group and it will help decreasing the gearing ratio of the Group; and

– the Whitewash Waiver is a condition precedent to the Rights Issue and the Bonus Issue and if the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue and the Bonus Issue will not proceed, We consider that the terms of the Rights Issue, the Bonus Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committees to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Rights Issue, the Bonus Issue and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

The Bonus Warrants will be issued subject to and with benefit of an instrument by way of deed poll (the "Instrument") and they will be issued in registered form and will form one class and rank pari passu in all respects with each other.

The principal terms and conditions of the Bonus Warrants will be set out in the Warrant Certificates (as defined in the Instrument) and will include provisions to the effect set out below. Warrantholders (as defined in the Instrument) will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions of the Instrument, copies of which will be available at the principal place of business for the time being of the Company in Hong Kong.

1. EXERCISE OF SUBSCRIPTION RIGHTS

(A) The registered holder for the time being of a Bonus Warrant will have the rights (the "Subscription Rights") for each unit of the Bonus Warrants to subscribe in cash the whole or part (in integral multiples of HK$0.25) of the amount in respect of which the Warrant is issued for fully paid new Shares at an initial subscription price of HK$0.25 per Share (subject to the adjustments referred to below). The Subscription Rights attaching to the Bonus Warrants may be exercised during the subscription period, being the period of 18 calendar months from the date of the issue of the Bonus Warrants which is expected to be Wednesday, 29 June 2011. The business day falling during the Bonus Warrants Subscription Period on which any of the Subscription Rights are duly exercised is referred to in this summary as a "Subscription Date". Any Subscription Rights which have not been exercised during the Bonus Warrants Subscription Period will lapse and the relevant Warrant Certificates will cease to be valid for any purpose. Reference in this summary to "Shares" are to the existing Shares of the Company and all other (if any) Shares from time to time and for the time being ranking pari passu therewith.

(B) Each Warrant Certificate will contain a subscription form. In order to exercise his Subscription Rights, a Warrantholder must complete and sign the subscription form (which shall, once signed and completed, be irrevocable) and deliver the Warrant Certificate (and, if the subscription form used is not the form endorsed on the Warrant Certificate, the separate subscription form) to the Registrar (as defined in the Instrument), together with a remittance for the relevant subscription monies (or in a case of a partial exercise, the relevant portion of the subscription monies), for the new Shares in respect of which the Subscription Rights are being exercised. In each case compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.

(C) No fraction of a Share will be allotted but any balance representing fractions of the subscription monies paid on the exercise of the Subscription Rights will be refunded to the person or persons whose name(s) stand(s) in the register of Warrantholders as the holder(s) of the relevant Bonus Warrant, provided always that if the Subscription Rights comprised in two or more Warrant Certificates are exercised at the same time by the same Warrantholder then, for the purpose of determining whether any (and if so, what) fraction of a Share arises, the Subscription Rights represented by such Warrant Certificate shall be aggregated.

(D) The Company undertakes in the Instrument that Shares falling to be issued upon the exercise of the Subscription Rights will be issued and allotted, subject to any shorter period as prescribed or required by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date and will rank pari passu with the fully-paid Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the relevant Subscription Date and other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date.

(E) As soon as practicable after the relevant allotment of Shares (and, subject to any shorter period as prescribed by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date) there will be issued free of charge to the Warrantholder:

(i) a certificate (or certificates) for the relevant Shares in the name of such Warrantholder;

(ii) (if applicable) a balance Warrant Certificate in registered form in the name of such Warrantholder in respect of any Subscription Rights remaining unexercised; and

(iii) (if applicable) a refund cheque representing the fractional entitlement to Shares not allotted as mentioned in sub-paragraph (C) above.

The certificate(s) for Shares arising on the exercise of Subscription Rights, the balance Warrant Certificate (if any) and the refund cheque in respect of the fractional entitlements (if any) will be sent by post at the risk of such Warrantholder to the address of such Warrantholder or (in the case of a joint holding) to that one of them whose name stands first in the Register. If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Registrar to await collection by the relevant Warrantholder.

2. ADJUSTMENTS OF BONUS WARRANTS SUBSCRIPTION PRICE

The Instrument contains detailed provisions relating to the adjustment of the Bonus Warrants Subscription Price. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:

(A) The Bonus Warrants Subscription Price shall (except as mentioned in sub-paragraphs (B) and (C) below) be adjusted as provided in the Instrument in each of the following cases:

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

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

(iii) a Capital Distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of its Shares in their capacity as such;

(iv) a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(v) an offer or grant being made by the Company to Shareholders of new Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 90% of the market price (calculation as provided in the Instrument);

(vi) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per Share is less than 90% of the market price (calculated as provided in the Instrument), or the terms of any such issue being altered so that the said total Effective Consideration is less than 90% of the market price;

(vii) an issue being made wholly for cash of Shares (other than pursuant to an Employee Share Option Scheme (as defined in the Instrument)) at a price less than 90% of the market price (calculated as provided in the Instrument); and

(viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchases made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Bonus Warrants Subscription Price.

(B) Except as mentioned in sub-paragraph (C) below, no such adjustment as is referred to in sub-paragraphs (ii) to (vii) of sub-paragraph (A) above shall be made in respect of:

(i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;

(ii) an issue of Shares or other securities of the Company or any of its subsidiaries wholly or partly convertible into, or rights to acquire, Shares to directors or employees of the Company or any of its subsidiaries pursuant to an Employee Share Option Scheme;

(iii) an issue by the Company of Shares or by the Company or any of its subsidiaries of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(iv) an issue of fully paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) (or other profits or reserves) to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument (or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or rights to acquire, Shares); or

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount of not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the Instrument) of such Shares is not more than 110% of the amount of dividend which Shareholders could elect to or would otherwise receive in cash.

(C) Notwithstanding the provisions referred to in sub-paragraphs (A) and (B) above, in any circumstances where the Directors shall consider that an adjustment to the Bonus Warrants Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Bonus Warrants Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the said provisions, the Company may appoint either an approved financial adviser (as defined in the Instrument) or auditors of the Company to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved financial adviser or the auditors of the Company (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from such other date and/or time as shall be certified by such approved financial adviser or the auditors of the Company (as the case may be) to be in their opinion appropriate.

(D) Any adjustment to the Bonus Warrants Subscription Price shall be made to the nearest one-tenth of a cent so that any amount under half of one-tenth of a cent shall be rounded down and any amount of half of one-tenth of a cent or more shall be rounded up. No adjustment shall be made to the Bonus Warrants Subscription Price in any case in which the amount by which the same would be reduced would be less than one-tenth of a cent and any adjustment which would otherwise then be required shall not be carried forward. No adjustment may be made (except on a consolidation of Share into Shares of a larger nominal amount) which would increase the Bonus Warrants Subscription Price.

(E) Every adjustment to the Bonus Warrants Subscription Price will be certified by the auditors of the Company or an approved financial adviser in accordance with sub-paragraph (C) above and notice of each adjustment (giving the relevant particulars) will be given to the Warrantholders. In giving any certificate or making any adjustment hereunder, the auditors of the Company or the approved financial adviser shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest error, their decision shall be conclusive and binding on the Company and Warrantholders and all persons claiming through or under them respectively. Any such certificate of the auditors of the Company and/ or approved financial adviser will be available at the principal place of business for the time being of the Company in Hong Kong, where copies may be obtained without charge.

3. REGISTERED WARRANTS

The Bonus Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not except as ordered by a Court of competent jurisdiction or required by law be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

4. WINDING UP OF THE COMPANY

(A) In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit approving, a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to each Warrantholder and thereupon, every Warrantholder shall be entitled by irrevocable surrender of his Warrant Certificate(s) to the Company (such surrender to occur not later than two business days prior to the proposed shareholders' meeting referred to above) with the subscription form(s) duly completed, together with payment of the subscription monies or the relative portion thereof, to exercise the Subscription Rights represented by such Bonus Warrants and the Company shall as soon as practicable and in any event not later than the day immediately prior to the date of the proposed shareholders' meeting allot such number of Shares to the Warrantholder which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Bonus Warrants. The Company shall give notice to the Warrantholder of the passing of such resolution within 7 days after the passing thereof.

(B) If an effective resolution is passed during the Bonus Warrants Subscription Period for the voluntary winding up of the Company for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some persons designated by them for such purpose by special resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by special resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders.

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the commencement of the winding-up shall lapse and the Warrant Certificates will cease to be valid for any purpose.

5. TRANSFER, TRANSMISSION AND REGISTER

The Subscription Rights represented by the Warrant Certificate are transferable, in whole amounts or integral multiples of the Bonus Warrants Subscription Price for the time being in force, by instrument of transfer in any usual or common form or such other form as may be approved by the Directors, by an instrument of transfer executed under the hands by the authorized person(s). Where the transferor or the transferee is HKSCC Nominees Limited or its successor thereto (or such other company as may be approved by the board of Directors for this purpose), the transfers may be executed under the hands of authorised person(s) or by machine imprinted signature(s) on its behalf or of such person(s), as the case may be. For this purpose, the Company shall maintain the Register and the provisions of the bye-laws of the Company for the time being in relation to the registration, transfer and transmission of Shares shall apply, mutatis mutandi, to the registration, transfer and transmission of the Bonus Warrants and shall have full effect as if the same had been incorporated herein.

Persons who hold the Bonus Warrants and have not registered the Bonus Warrants in their own names and wish to exercise the Bonus Warrants may incur additional costs and expenses in connection with any expedited re-registration of the Bonus Warrants prior to the transfer or exercise of the Bonus Warrants, particularly during the period commencing ten business days prior to and including the last day for subscription.

Since the Bonus Warrants will be admitted to the Central Clearing and Settlement System ("CCASS"), so far as applicable laws or regulations of relevant regulatory authorities, terms of the instrument and circumstances permit, the Company may determine the last trading day of the Bonus Warrants to be a date at least three trading days before Friday, 28 December 2012.

6. CLOSURE OF REGISTER OF WARRANTHOLDERS

The registration of transfers may be suspended and the Register may be closed for such period as the Directors may from time to time direct, provided that the same shall not be closed for a period of more than 60 days in any one year. Any transfer or exercise of the Subscription Rights attached to the Bonus Warrants made while the Register is so closed shall, as between the Company and the person claiming under the relevant transfer of Bonus Warrants or, as the case may be, as between the Company and Warrantholder who has so exercised the Subscription Rights attached to his Bonus Warrants (but not otherwise), be considered as made immediately after the reopening of the Register.

7. PURCHASE AND CANCELLATION

The Company or any of its subsidiaries may at any time purchase Bonus Warrants:

(i) in the open market or by tender (available to all Warrantholders alike) at any price; or

(ii) by private treaty upon terms to be agreed between the parties, but the price of which shall in any event not exceeding 110% of the Exercise Monies (as defined in the Instrument),

but not otherwise.

All Bonus Warrants purchased as aforesaid shall be cancelled forthwith and may not be reissued or resold.

8. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS

(A) The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by special resolution of the provisions of the Instrument and/or the terms and conditions endorsed in the Warrant Certificate. A special resolution duly passed at any such meeting shall be binding on the Warrantholders, whether present or not.

(B) All or any of the rights for the time being attached to the Bonus Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up), be altered or abrogated (including but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the conditions endorsed on the Warrant Certificate and/or the Instrument) and the sanction of a special resolution shall be necessary and sufficient to effect such alteration or abrogation.

(C) Where the Warrantholder is a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise as if such person were an individual Warrantholder of the Company.

9. OVERSEAS WARRANTHOLDERS

If a Warrantholder has a registered address in any territory other than Hong Kong where, in the opinion of the Directors, the allotment of Shares to such Warrantholder upon exercise of any Subscription Rights would or might, in the absence of compliance with registration or any other special formalities in such territory, be unlawful or impracticable under the laws of such territory, then the Company shall as soon as practicable after exercise by such Warrantholder of any Subscription Rights either:

(a) allot the Shares which would otherwise have been allotted to such Warrantholder to one or more third parties selected by the Company; or

(b) allot such Shares to such Warrantholder and then, on his behalf, sell them to one or more third parties selected by the Company; in each case for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment or (as the case may be) allotment and sale, the Company shall pay to the relevant Warrantholder an amount equal to the consideration received by the Company therefor (but having deducted therefrom all brokerages, commissions, stamp duty, withholding tax and all other payments, charges or taxes incurred by the Company in respect thereof) by posting the relevant remittance to him at his risk.

10. REPLACEMENT OF WARRANT CERTIFICATES

If a Warrant Certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Registrar on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such scrip fee not exceeding the maximum fee as may from time to time be permitted by the Stock Exchange as the Company may determine. Mutilated or defaced Warrant Certificates must be surrendered before replacements will be issued.

In the case of lost Warrant Certificates, section 71A subsections (2), (3), (4), (6), (7) and (8) of the Company Ordinance (Chapter 32 of the Laws of Hong Kong) shall apply as if "shares" referred to herein included Bonus Warrants.

11. PROTECTION OF SUBSCRIPTION RIGHTS

The Instrument contains undertakings by and restrictions on the Company designed to protect the Subscription Rights.

12. CALL

If, at any time Bonus Warrants which have not been exercised carry rights to subscribe less than 10% in value of all Subscription Rights, the Company may, on giving not less than 3 months' notice, require the Warrantholders either to exercise their Subscription Rights represented or to allow them to lapse. On expiry of such notice, all unexercised Bonus Warrants will be automatically cancelled without any compensation to the holders of such Bonus Warrants.

13. FURTHER ISSUE

The Company shall subject to the Listing Rules from time to time be at liberty to issue further subscription warrants, including warrants ranking pari passu with the Bonus Warrants, however, the Warrantholders will not be entitled to participate in any distributions or further issues of securities by the Company as a result of them being Warrantholders.

14. NOTICES

(A) The Instrument contains provisions relating to notices to be given to the Warrantholders.

(B) Every Warrantholder shall register with the Company an address in Hong Kong or elsewhere to which notices can be sent and if any Warrantholder shall fail to do so, notice may be given to such Warrantholder by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence or, if there be none, by posting the same for 3 days at the principal place of business for the time being of the Company in Hong Kong.

(C) A notice may be given by delivery, prepaid letter (airmail in the case of an overseas address), facsimile or by way of announcement in accordance with the requirements of the Stock Exchange.

(D) All notices with respect to Bonus Warrants standing in the names of joint holders shall be given to whichever of such persons is named first in the Register and notice so given shall be sufficient notice to all the holders of such Bonus Warrants.

15. GOVERNING LAW

The Instrument and the Bonus Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results of the Group for each of the three years ended 31 December 2010 as extracted from the relevant published financial statements of the Group.

HLB Hodgson Impey Cheng, the auditors of the Group have not issued any qualified opinion on the Group's financial statements for the financial years ended 31 December 2008, 2009 and 2010.

Consolidated Income Statement

	For the year ended 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
		(Re-presented)	
Turnover	864,261	543,429	227,747
Cost of sales	(239,153)	(98,810)	(19,471)
Gross profit	625,108	444,619	208,276
Other revenue	25,293	10,104	7,920
Other income	27,802	55,088	43,987
Administrative expenses	(455,812)	(236,101)	(80,141)
Marketing and distribution expenses	(5,810)	(9,514)	(671)
Share-based payment expenses	(8,238)	(8,039)	(7,463)
Gain/(loss) arising on change in fair value of financial assets classified as held for trading	28,707	15,622	(14,877)
Gain/(loss) arising on change in fair value of investment properties	12,270	19,652	(11,930)
Impairment loss recognised in respect of goodwill	(8,975)	(40,278)	(13,646)
Impairment loss recognised in respect of intangible assets	(197,973)	–	–
Impairment loss recognised in respect of film rights	(1,339)	–	(9,760)
Profit from operations	41,033	251,153	121,695
Finance costs	(15,695)	(22,272)	(31,522)
Share of losses of associates	(1)	(14)	(3,303)
Gain/(loss) arising on change in fair value in respect of conversion options embedded in convertible notes receivable	882	(31,565)	–
Loss on disposal of subsidiaries	–	(30,059)	(6,170)
Loss on deemed disposal of interests in associates	–	–	(17,551)
Profit before taxation	26,219	167,243	63,149
Taxation (charge)/credit	(1,392)	(2,848)	2,441
Profit for the year	24,827	164,395	65,590
Attributable to:			
Owners of the Company	(8,083)	204,388	90,604
Non-controlling interests	32,910	(39,993)	(25,014)
	24,827	164,395	65,590
Dividend	–	20,290	–
(Loss)/earnings per Share			
– Basic (in HK cents)	(0.24)	22.04	14.42
– Diluted (in HK cents)	(0.24)	19.53	14.42
Dividend per Share	–	0.02	–

No exceptional item was noted during the above periods.

Consolidated Statement of Comprehensive Income

	For the year ended 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
		(Re-presented)	
Profit for the year	24,827	164,395	65,590
Other comprehensive income			
Disposal of subsidiaries	–	–	(11,141)
Winding up of subsidiaries	–	–	(476)
Exchange differences arising on translation of foreign operations	(171)	39	(146)
Share of other comprehensive income of associates	–	–	10,982
Fair value adjustment on available for sale financial assets	–	9,800	(32,235)
Other comprehensive income for the year	(171)	9,839	(33,016)
Total comprehensive income for the year	24,656	174,234	32,574
Total comprehensive income attributable to:			
Owners of the Company	(8,254)	214,227	58,899
Non-controlling interests	32,910	(39,993)	(26,325)
	24,656	174,234	32,574

Consolidated Statement of Financial Position

	At 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	721,381	773,254	494,983
Interests in leasehold land	464,731	484,333	502,524
Investment properties	73,580	61,310	49,930
Goodwill	–	8,975	24,391
Intangible assets	791,232	989,205	989,205
Available for sale financial assets	–	–	16,800
Convertible notes receivable	–	20,015	–
Interests in associates	7,985	–	–
	2,058,909	2,337,092	2,077,833
Current assets			
Inventories	1,657	1,091	399
Film rights	21,321	22,914	29,753
Films in progress	19,038	19,238	18,379
Trade receivables	69,337	105,428	68,770
Deposits, prepayments and other receivables	441,059	396,968	61,077
Conversion options embedded in convertible notes receivable	–	10,908	–
Held for trading investments	94,050	97,641	25,713
Loan to a minority shareholder	–	–	183,750
Amounts due from associates	13,714	16,435	–
Prepaid tax	180	1,100	632
Cash and bank balances	625,827	173,188	138,145
	1,286,183	844,911	526,618
Assets classified as held for sale	–	8,272	716
	1,286,183	853,183	527,334
Total assets	3,345,092	3,190,275	2,605,167
Capital and reserves			
Share capital	43,340	22,965	26,612
Reserves	2,259,435	2,052,157	1,392,099
Equity attributable to owners of the Company	2,302,775	2,075,122	1,418,711
Non-controlling interests	277,181	244,271	284,264
Total equity	2,579,956	2,319,393	1,702,975

	At 31 December		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current liabilities			
Bank borrowings – due after one year	450,000	178,275	280,906
Obligation under finance lease	201	305	–
Convertible notes	–	–	138,390
Deferred tax liabilities	88,063	86,682	88,317
	538,264	265,262	507,613
Current liabilities			
Bank overdraft	–	178,764	174,826
Trade payables	25,038	21,426	7,083
Deposits received, accruals and other payables	60,470	132,201	69,271
Bank borrowings – due within one year	50,000	232,631	102,561
Obligation under finance lease	96	96	–
Amount due to an associate	25,766	–	–
Amounts due to non-controlling interests	65,502	40,502	40,502
Tax payable	–	–	336
	226,872	605,620	394,579
Total liabilities	765,136	870,882	902,192
Total equity and liabilities	3,345,092	3,190,275	2,605,167
Net current assets	1,059,311	247,563	132,755
Total assets less current liabilities	3,118,220	2,584,655	2,210,588

2. LATEST ANNUAL FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group for the year ended 31 December 2010, together with the accompanying notes relating thereto and the comparative figures for the year ended 31 December 2009 as extracted from the annual report of the Company for the year ended 31 December 2010.

Consolidated Income Statement
For the year ended 31st December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Re-presented)
Turnover	7	864,261	543,429
Cost of sales		(239,153)	(98,810)
Gross profit		625,108	444,619
Other revenue	8	25,293	10,104
Other income	9	27,802	55,088
Administrative expenses		(455,812)	(236,101)
Marketing and distribution expenses		(5,810)	(9,514)
Share-based payment expenses		(8,238)	(8,039)
Gain arising on change in fair value of financial assets classified as held for trading		28,707	15,622
Gain arising on change in fair value of investment properties	19	12,270	19,652
Impairment loss recognised in respect of goodwill	21	(8,975)	(40,278)
Impairment loss recognised in respect of film rights	26	(1,339)	–
Impairment loss recognised in respect of intangible assets	22	(197,973)	–
Profit from operations		41,033	251,153
Finance costs	10	(15,695)	(22,272)
Share of losses of associates	24	(1)	(14)
Gain/(loss) arising on change in fair value in respect of conversion options embedded in convertible notes receivable		882	(31,565)
Loss on disposal of subsidiaries	44	–	(30,059)
Profit before taxation	11	26,219	167,243
Taxation charge	12	(1,392)	(2,848)
Profit for the year		24,827	164,395

	Notes	2010 *HK$'000*	2009 *HK$'000* (Re-presented)
Attributable to:			
Owners of the Company		(8,083)	204,388
Non-controlling interests		32,910	(39,993)
		24,827	164,395
(Loss)/earnings per share	14		
Basic		HKcents(0.24)	HKcents 22.04
Diluted		HKcents(0.24)	HKcents 19.53

Consolidated Statement of Comprehensive Income
For the year ended 31st December 2010

	2010 *HK$'000*	2009 *HK$'000* (Re-presented)
Profit for the year	24,827	164,395
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(171)	39
Fair value adjustment on available for sale financial assets	–	9,800
Other comprehensive income for the year	(171)	9,839
Total comprehensive income for the year	24,656	174,234
Total comprehensive income attributable to:		
Owners of the Company	(8,254)	214,227
Non-controlling interests	32,910	(39,993)
	24,656	174,234

Consolidated Statement of Financial Position

At 31st December 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000*
Non-current assets			
Property, plant and equipment	17	721,381	773,254
Interests in leasehold land	18	464,731	484,333
Investment properties	19	73,580	61,310
Goodwill	21	–	8,975
Intangible assets	22	791,232	989,205
Convertible notes receivable	23	–	20,015
Interests in associates	24	7,985	–
		2,058,909	2,337,092
Current assets			
Inventories	25	1,657	1,091
Film rights	26	21,321	22,914
Films in progress	27	19,038	19,238
Trade receivables	28	69,337	105,428
Deposits, prepayments and other receivables	29	441,059	396,968
Conversion options embedded in convertible notes receivable	23	–	10,908
Held for trading investments	30	94,050	97,641
Amounts due from associates	31	13,714	16,435
Prepaid tax		180	1,100
Cash and bank balances		625,827	173,188
		1,286,183	844,911
Assets classified as held for sale	33	–	8,272
		1,286,183	853,183
Total assets		3,345,092	3,190,275
Capital and reserves			
Share capital	34	43,340	22,965
Reserves		2,259,435	2,052,157
Equity attributable to owners of the Company		2,302,775	2,075,122
Non-controlling interests		277,181	244,271
Total equity		2,579,956	2,319,393

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	36	450,000	178,275
Obligation under finance lease	37	201	305
Convertible notes	38	–	–
Deferred tax liabilities	39	88,063	86,682
		538,264	265,262
Current liabilities			
Bank overdraft		–	178,764
Bank borrowings – due within one year	36	50,000	232,631
Obligation under finance lease	37	96	96
Trade payables	40	25,038	21,426
Deposits received, accruals and other payables	41	60,470	132,201
Amount due to an associate	42	25,766	–
Amounts due to non-controlling interests	42	65,502	40,502
		226,872	605,620
Total liabilities		765,136	870,882
Total equity and liabilities		3,345,092	3,190,275
Net current assets		1,059,311	247,563
Total assets less current liabilities		3,118,220	2,584,655

Statement of Financial Position
At 31st December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	20	1,965,158	2,048,957
Convertible notes receivable	23	–	20,015
		1,965,158	2,068,972
Current assets			
Amounts due from subsidiaries	20	166,174	105,075
Conversion options embedded in convertible notes receivable	23	–	10,908
Amounts due from associates	31	7,864	–
Deposits, prepayments and other receivables	29	804	468
Cash and bank balances		395,529	94,342
		570,371	210,793
Total assets		2,535,529	2,279,765
Capital and reserves			
Share capital	34	43,340	22,965
Reserves	35	2,394,525	2,104,868
Equity attributable to owners of the Company		2,437,865	2,127,833
Non-current liabilities			
Amounts due to subsidiaries	20	83,695	133,061
Convertible notes	38	–	–
		83,695	133,061
Current liabilities			
Deposits received, accruals and other payables	41	13,969	18,871
		13,969	18,871
Total liabilities		97,664	151,932
Total equity and liabilities		2,535,529	2,279,765
Net current assets		556,402	191,922
Total assets less current liabilities		2,521,560	2,260,894

Consolidated Statement of Changes in Equity

For the year ended 31st December 2010

The Group	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Convertible notes reserve	Properties revaluation reserve	Financial assets revaluation reserve	Capital reduction reserve	Retained earnings	Sub-total	Non-controlling 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*	*HK$'000*
		(note a)	*(note b)*	*(note c)*	*(note d)*	*(note e)*	*(note f)*	*(note g)*	*(note h)*	*(note i)*				
At 1st January 2009	26,612	100,649	878,319	1,020	–	53,666	32,665	5,330	(35,762)	316,008	40,204	1,418,711	284,264	1,702,975
Exchange alignment	–	–	–	39	–	–	–	–	–	–	–	39	–	39
Fair value adjustment on available for sale financial assets	–	–	–	–	–	–	–	–	9,800	–	–	9,800	–	9,800
Other comprehensive income for the year	–	–	–	39	–	–	–	–	9,800	–	–	9,839	–	9,839
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	–	204,388	204,388	(39,993)	164,395
Total comprehensive income for the year	–	–	–	39	–	–	–	–	9,800	–	204,388	214,227	(39,993)	174,234
Release on disposal of subsidiaries	–	–	–	–	–	–	–	–	25,962	–	–	25,962	–	25,962
Issue of shares under open offer and bonus issue	212,897	(100,282)	(59,392)	–	–	–	–	–	–	–	–	53,223	–	53,223
Issue of convertible notes	–	–	–	–	–	–	23,546	–	–	–	–	23,546	–	23,546
Recognition of deferred tax upon issue of convertible notes	–	–	–	–	–	–	(3,885)	–	–	–	–	(3,885)	–	(3,885)
Conversion of convertible notes	10,000	190,672	–	–	–	–	(23,414)	–	–	–	–	177,258	–	177,258
Released of deferred tax upon conversion of convertible notes	–	–	–	–	–	–	3,753	–	–	–	–	3,753	–	3,753
Redemption of convertible notes	–	–	–	–	–	–	(38,019)	–	–	–	(8,726)	(46,745)	–	(46,745)
Released of deferred tax upon redemption of convertible notes	–	–	–	–	–	–	5,354	–	–	–	–	5,354	–	5,354
Placement of shares	10,079	195,659	–	–	–	–	–	–	–	–	–	205,738	–	205,738
Share issuing expenses	–	(2,424)	–	–	–	–	–	–	–	–	–	(2,424)	–	(2,424)
Share-based payment expenses	–	–	–	–	–	8,039	–	–	–	–	–	8,039	–	8,039
Exercise of share options	491	16,460	–	–	–	(3,796)	–	–	–	–	–	13,155	–	13,155
Expiry of share options	–	–	–	–	–	(533)	–	–	–	–	533	–	–	–
Capital reduction	(237,114)	–	237,114	–	–	–	–	–	–	–	–	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	–	(20,790)	(20,790)	–	(20,790)
At 31st December 2009 and 1st January 2010	22,965	400,734	1,056,041	1,059	–	57,376	–	5,330	–	316,008	215,609	2,075,122	244,271	2,319,393
Exchange alignment	–	–	–	(171)	–	–	–	–	–	–	–	(171)	–	(171)
Other comprehensive income for the year	–	–	–	(171)	–	–	–	–	–	–	–	(171)	–	(171)
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	–	(8,083)	(8,083)	32,910	24,827
Total comprehensive income for the year	–	–	–	(171)	–	–	–	–	–	–	(8,083)	(8,254)	32,910	24,656
Share-based payment expenses	–	–	–	–	–	8,238	–	–	–	–	–	8,238	–	8,238
Exercise of share options	528	10,367	–	–	–	(1,393)	–	–	–	–	–	9,502	–	9,502
Placement of shares	5,400	70,200	–	–	–	–	–	–	–	–	–	75,600	–	75,600
Share issuing expenses	–	(1,899)	–	–	–	–	–	–	–	–	–	(1,899)	–	(1,899)
Expiry of share options	–	–	–	–	–	(4,243)	–	–	–	–	4,243	–	–	–
Issue of shares under rights issue	14,446	130,018	–	–	–	–	–	–	–	–	–	144,464	–	144,464
Exercise of listed warrants	1	1	–	–	–	–	–	–	–	–	–	2	–	2
Transfer to statutory reserve	–	–	–	–	259	–	–	–	–	–	(259)	–	–	–
Released on disposal of investment properties	–	–	–	–	–	–	–	(5,330)	–	–	5,330	–	–	–
At 31st December 2010	43,340	609,421	1,056,041	888	259	59,978	–	–	–	316,008	216,840	2,302,775	277,181	2,579,956

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the share premium 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 Group brought forward represents the balance transferred from the capital account due to the capital reduction effective on 10th September 2002 and various capital reduction subsequently. Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account 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.

(c) Exchange reserve represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

(d) In accordance with the provisions of Macau Commercial Code, the Company's subsidiaries incorporated in Macau are required to transfer a minimum of 25% of the annual net profits to a statutory reserve until that reserve equals 50% of the nominal value of their capital. The statutory reserve may not be distributed in the form of cash dividends or otherwise, during the life of the companies.

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

(f) Under Hong Kong Accounting Standard ("HKAS") 32 *Financial Instruments: Presentation*, 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 similar non-convertible debts 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 convertible notes are either converted (in which case it is transferred to share premium) or the convertible notes are redeemed (in which case it is released directly to retained earnings).

(g) The properties revaluation reserve relates to property reclassified from owner-occupied to investment properties. For such reclassifications, the accumulative increase in the fair value of the properties at the date of reclassification in excess of any previous impairment losses is included in the properties revaluation reserve.

(h) The financial assets revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investments have been disposed of or are determined to be impaired.

(i) The capital reduction reserve 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 Statement of Cash Flows

For the year ended 31st December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		26,219	167,243
Adjustments for:			
Interest expenses		15,695	22,272
Interest income		(3,177)	(2,950)
Depreciation and amortisation of property, plant and equipment and leasehold land		108,264	45,837
Gain arising on change in fair value of financial assets classified as held for trading		(28,707)	(15,622)
Gain arising on change in fair value of investment properties		(12,270)	(19,652)
Gain on redemption of convertible notes		–	(17,254)
Gain on early redemption of convertible notes receivables		(26,983)	–
(Gain)/loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable		(882)	31,565
Impairment loss on trade receivables		–	30
Impairment loss on deposits paid and other receivables		–	4,311
Impairment loss recognised in respect of goodwill		8,975	40,278
Impairment loss recognised in respect of film rights		1,339	–
Impairment loss recognised in respect of intangible assets		197,973	–
Loss/(gain) on disposal of property, plant and equipment		713	(9,760)
Loss on disposal of subsidiaries		–	30,059
Reversal of impairment loss on trade and other receivables		(14)	(119)
Reversal of impairment loss on amount due from associates		–	(25,179)
Share of losses of associates		1	14
Share-based payment expenses		8,238	8,039

	Notes	2010 HK$'000	2009 HK$'000
Operating cash flows before movements in working capital		295,384	259,112
Increase in inventories		(566)	(692)
Decrease in film rights		254	6,839
Decrease/(increase) in films in progress		200	(859)
Decrease/(increase) in trade receivables		36,091	(36,033)
Decrease in deposits, prepayments and other receivables		10,923	19,381
Decrease in amounts due from associates		2,721	8,744
Increase in trade payables		3,612	22,874
(Decrease)/increase in deposits received, accruals and other payables		(71,731)	25,972
Increase in amount due to an associate		25,766	–
Increase in amounts due to non-controlling interests		25,000	–
Cash generated from operations		327,654	305,338
Tax refund/(paid)		909	(676)
Net cash generated from operating activities		328,563	304,662
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,965	462
Acquisition of interests in associates	24	(1)	(14)
Advance to associates		(7,985)	–
Acquisition of subsidiaries (Net cash and cash equivalent)	43	–	560
Deposits paid for investment		(55,000)	(360,000)
Net proceeds from disposal of assets classified as held for sale		8,272	–
Proceeds from disposal of financial assets classified as held for trading		44,085	714
Proceeds from disposal of property, plant and equipment		804	11,200
Proceeds from disposal of subsidiaries	44	–	25,382
Purchase of financial assets classified as held for trading		(11,787)	(57,020)
Purchases of property, plant and equipment and leasehold land		(38,306)	(300,030)
Redemption of convertible notes receivable		60,000	–
Repayment from non-controlling interests		–	183,750
Subscription of convertible notes (including expenses)		–	(60,000)

	Notes	2010 HK$'000	2009 HK$'000
Net cash generated from/(used in) investing activities		2,047	(554,996)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(15,695)	(27,342)
Dividends paid		–	(20,790)
New bank loan raised		500,000	240,000
Proceeds from issue of shares		144,464	53,223
Proceeds from exercise of listed warrants		2	–
Proceeds from placing of shares		75,600	205,738
Proceeds from exercise of options		9,502	13,155
Proceeds from issue of convertible notes		–	200,000
Proceeds from inception of obligation under finance lease		–	482
Redemption of convertible notes		–	(168,000)
Repayment of obligation under finance lease		(104)	(81)
Repayment of bank loans		(410,906)	(212,561)
Share issuing expenses		(1,899)	(2,424)
Net cash generated from financing activities		300,964	281,400
Increase in cash and cash equivalents		631,574	31,066
Cash and cash equivalents at the beginning of the year		(5,576)	(36,681)
Effect of foreign exchange rate changes		(171)	39
Cash and cash equivalents at the end of the year			
Cash and cash equivalents	32	625,827	(5,576)

Notes to the Financial Statements

For the year ended 31st December 2010

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its issued 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, investing in operations which receive profit streams from the gaming promotion business and property and hotel investment.

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

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January 2010. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Amendments)	Additional Exemptions for first-time adopters
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 4 Amendment	Amendment to HK(IFRIC) – Int 4 Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(IFRIC) – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as disclosed below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current or prior accounting period.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January 2010 in accordance with relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

  The impact of adoption of HKFRS 3 (as revised in 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as an expense in profit or loss, whereas previously they would have been accounted as part of the cost of the acquisition. The acquisition costs in the current period were insignificant.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[6]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[6]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1st July 2010 and 1st January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1st January 2012
[3] Effective for annual periods beginning on or after 1st January 2011
[4] Effective for annual periods beginning on or after 1st February 2010
[5] Effective for annual periods beginning on or after 1st July 2010
[6] Effective for annual periods beginning on or after 1st July 2011
[7] Effective for annual periods beginning on or after 1st January 2013

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs but it is not yet in a position to state whether these new and revised HKFRSs would have a material impact on the results and the financial position of the Group.

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 HKFRSs, HKASs, and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures required by 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 instrument, which are carried at fair values.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1st January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1st January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Investments in subsidiaries are included in the Company's statement of financial position at cost, less any identified impairment loss.

(c) Business combinations

Business combinations that took place on or after 1st January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- 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* are measured in accordance with that standard.

Business combinations that took place prior to 1st January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

(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 statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment losses. 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 recognising its share of further losses. An additional share of loses is provided for 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1st January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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.

Goodwill arising on an acquisition of a subsidiary is presented separately in the statement of financial position. 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 consolidated 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 is included in the determination of the amount of profit or loss on disposal.

(f) Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with indefinite useful lives are tested for impairment annually and carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(g) Revenue recognition

Film 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 post-production service 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 from financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Revenue from hotel accommodation are recognised upon the provision of the accommodation services. Revenue from food and beverage sales and other ancillary services are recognised upon the provision of goods and services.

Revenue arising from service provided for gaming operations in mass market hall, slot machine hall and VIP rooms is recognised when the relevant services have been rendered and the Group is entitled to the share of gaming wins from the gaming operator.

Receive profit streams from the gaming promotion business is recognised when the right to receive profit is established.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less 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.

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as construction in progress. Construction in progress is stated 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 its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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	2% – 5%
Leasehold improvements	20% – 33%
Furniture and fixtures	10% – 50%
Machinery and equipment	18% – 33%
Motor vehicles	15% – 20%

No depreciation is provided on construction in progress.

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 consolidated income statement.

(i) Interests in leasehold land

Interests in leasehold land represent prepaid lease payment for leasehold land. Interests in leasehold land are stated at cost less 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. During the construction period, the amortisation charge provided for the interests in leasehold land is included as part of cost of construction in progress.

(j) 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 properties are included in the consolidated income statement for the period in which they arise.

Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

If an owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gives rise to a reversal of the previous impairment loss, the write-back is recognised in the consolidated income statement. On the subsequent sale or retirement of assets, the relevant revaluation reserve will be transferred directly to retained earnings.

An investment property is derecognised upon disposal or when the investment property is permanently withdrew from use and no future economic benefits are expected from its disposal. 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.

(k) 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 excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts 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 deferred tax 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 end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

(m) Non-current assets held for sale

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

(n) Inventories

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

(o) 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.

(p) 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.

(q) Financial Instruments

Financial assets and financial liabilities are recognised on the statement of financial position 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 the consolidated 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 ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL 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) on initial recognition 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 asset other than a financial asset held for trading may be designated as at FVTPL 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 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset (and is included) in the consolidated income statement. Fair value is determined in the manner described in note 5.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from subsidiaries, amounts due from associates, time deposits, cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available for sale financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

(ii) on initial recognition 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 FVTPL 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 FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated income statement. Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings, obligation under finance lease, amount due to an associate and amounts due to non-controlling interest are subsequently measured at amortised cost, using the effective interest rate method.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital and share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible 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 recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible 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 payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

iii. Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(r) 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.

(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 end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. 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 other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

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 Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(t) Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The Group as lessor

Rental income from operating leases is recognised in consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(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.

The employees employed by the Group's subsidiaries in Macau are members of the government-managed retirement benefits schemes operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the Macau government is to make the required contributions under the schemes.

(iii) *Share-based payment expenses*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

(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.

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

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

At each end of the reporting period, 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whether there is an indication that they may be impaired.

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

If the recoverable amount of an asset 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 in profit or loss.

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 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 in profit or loss.

(x) Provision

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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 judgments in applying accounting policies

The following are the critical judgments, 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 goodwill and intangible assets*

The Group performs annual tests on whether there has been impairment of goodwill and intangible assets in accordance with the accounting policy stated in note 3(e), 3(f) and 3(w). 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 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 receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(c) *Useful lives of property, plant and equipment*

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

(d) *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 judgment 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 end of the reporting period, 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 end of the reporting period and makes allowance for any films in progress that productions no longer proceed.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss	94,050	108,549
Loans and receivables (including cash and bank balances)	717,960	320,944
Financial liabilities		
Amortised cost	660,156	768,395

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, borrowings, trade and other receivables, amounts due from associates, conversion options embedded in convertible notes receivable, trade payables, accruals and other payables, amounts due to an associate/non-controlling interests, obligation under finance lease and 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 Hong Kong and Macau and majority of transactions are dominated in Hong Kong dollars ("HK$") and Macau Pataca ("MOP"). The Group is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against MOP. 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at reporting date are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Assets		
MOP	179,790	113,408
Liabilities		
MOP	647,173	560,733

Sensitivity analysis on foreign currency risk

The following table details the Group's sensitivity to a 5% increase and decrease in the HK$ against the MOP. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the relevant currencies strengthen 5% against the HK$. For a 5% weakening of the relevant currencies against the HK$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2010	**2009**
	HK$'000	*HK$'000*
Impact of MOP		
Profit or loss	23,369	22,366

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Price risk

The Group's equity investments classified as held for trading investments in financial assets at fair value through profit or loss which are measured at fair value at each end of the reporting period and expose the Group to equity price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. In addition, the Group 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 2010 would increase/decrease by HK$4,703,000 (2009: HK$5,427,000). This is mainly due to the changes in fair value of financial assets at fair value through profit and loss.

(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 and borrowings. Bank borrowings at variable rates expose the Group to fair value interest rate risk (see note 36 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.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's post tax profit for the year ended 31st December 2010 would decrease/increase by HK$2,500,000 (2009: HK$2,948,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk

As at 31st December 2010, 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 and financial guarantees is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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.

As at 31st December 2010, the Group had banking facilities amounting to HK$536,000,000 (2009: HK$535,600,000).

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

		At 31st December 2010				
	Weighted average effective interest rate	**Within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank Borrowings	3.5%	51,750	465,750	–	517,500	500,000
Trade payables	–	25,038	–	–	25,038	25,038
Deposits received, accruals and other payables	–	60,470	–	–	60,470	60,470
Obligation under finance lease	5.99%	125	271	–	396	297
Amount due to an associate	–	25,766	–	–	25,766	25,766
Amounts due to non-controlling interests	–	65,502	–	–	65,502	65,502
Total		228,651	466,021	–	694,672	677,073

	Weighted average effective interest rate	At 31st December 2009 Within 1 year HK$'000	Within 2-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Bank overdraft	3.05%	184,217	–	–	184,217	178,764
Bank Borrowings						
– current	3.29%	241,314	–	–	241,314	232,631
– non-current	3.24%	–	183,082	–	183,082	178,275
Trade payables	–	21,426	–	–	21,426	21,426
Deposits received, accruals and other payables	–	132,201	–	–	132,201	132,201
Obligation under finance lease	5.99%	125	396	–	521	401
Amounts due to non-controlling interests	–	40,502	–	–	40,502	40,502
Total		619,785	183,478	–	803,263	784,200

(c) Fair value of financial instruments

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

The amendments to HKFRS 7 Financial Instruments: Disclosures, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

As at 31st December 2010 and 2009, the financial instruments of the Group and the Company carried at fair value included conversion options embedded in convertible notes receivable and held for trading investments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1, level 2 and level 3 based on the degree to which the fair value is observable.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2010				
Held for trading investments	94,050	–	–	94,050
At 31st December 2009				
Conversion options embedded in convertible notes receivable	–	–	10,908	10,908
Held for trading investments	97,641	–	–	97,641
	97,641	–	10,908	108,549

There were no transfers between Levels 1, 2 and 3 in the current year.

Reconciliation of Level 3 fair value measurement of financial assets

	Conversion options embedded in convertible notes receivable	
	2010	**2009**
	HK$'000	*HK$'000*
At 1st January	10,908	
Gain/(loss) recognised in profit or loss	882	(31,565)
Subscription of convertible notes	–	42,473
Redemption	(11,790)	–
At 31st December	–	10,908

The table above only includes financial assets. The gain for the current year relating to this financial asset has been recognised in the consolidated income statement. The financial asset has been redeemed during the year.

(d) 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 overdraft, bank borrowings, obligation under finance lease and convertible notes and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As a part of this review, the directors of the Company 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 Company, 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 50%. The gearing ratios as at 31st December 2010 and 2009 are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Total Debt *(i)*	500,297	590,071
Less: Cash and bank balances	(625,827)	(173,188)
Net (cash)/debt	(125,530)	416,883
Equity *(ii)*	2,302,775	2,075,122
Net debt to equity ratio	N/A	20%
Total debt to equity ratio	22%	28%

Notes:

(i) Debt comprises bank overdraft, bank borrowings, obligation under finance lease and convertible notes as detailed in notes 32, 36, 37 and 38 respectively.

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

6. SEGMENT INFORMATION

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than unallocated assets.

In a manner consistent with the way in which information is reported internally to chief operating decision maker (the "CODM") for the purpose of resources allocation and performance assessment, the Group is currently organised into the following operating segments:

For film distribution operations, the CODM regularly analyses film distribution revenue on the basis of individual film. For segment reporting under HKFRS 8, financial information of these films has been aggregated into a single operating segment named "film distribution operations".

For hotel and gaming service operations, the CODM regularly reviews the performance of Hotel Lan Kwai Fong Macau on the basis of revenue generated by it. For segment reporting under HKFRS 8, financial information of this hotel has been aggregated into a single operating segment named "hotel and gaming service operations".

For gaming promotion operations, the CODM regularly reviews the investment in the operation which receives profit streams from the gaming promotion business. For segment reporting under HKFRS 8, financial information of this operation has been aggregated into a single operating segment named "gaming promotion operations".

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

Film distribution operations	–	Production and distribution of motion pictures and television drama series and provision of other film related services
Hotel and gaming service operations	–	Provision of hotel services and gaming operation services in Hotel Lan Kwai Fong Macau
Gaming promotion operations	–	Investing in operations which receive profit streams from the gaming promotion business

Segment information about these businesses is presented below:

(a) An analysis of the Group's revenue and results by operating segments

	Segment revenue		Segment results	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Film distribution operations	1,317	26,580	(520)	(11,738)
Hotel and gaming service operations	725,130	222,043	64,333	(76,635)
Gaming promotion operations	137,814	294,806	(70,349)	292,710
	864,261	543,429	(6,536)	204,337
Reconciliation from segment results to profit before taxation				
Unallocated corporate income			34,249	65,192
Change in fair value of financial assets classified as held for trading			28,707	15,622
Change in fair value of investment properties			12,270	19,652
Impairment loss recognised in respect of goodwill			–	(24,862)
Unallocated corporate expenses			(42,471)	(112,698)
Profit before taxation			26,219	167,243

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the both years.

Segment results represent the profit earned by each segment without allocation of central administration costs, change on fair value of investment in trading securities and investment properties and income tax expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

(b) **An analysis of the Group's financial position by operating segments**

	2010	2009
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
– Film distribution operations	60,011	73,621
– Hotel and gaming service operations	1,248,717	1,354,038
– Gaming promotion operations	801,144	1,022,182
Total segment assets	2,109,872	2,449,841
Unallocated assets	1,235,220	740,434
	3,345,092	3,190,275

	2010	2009
	HK$'000	*HK$'000*
LIABILITIES		
Segment liabilities		
– Film distribution operations	21,215	42,552
– Hotel and gaming service operations	624,648	735,732
– Gaming promotion operations	10	10
Total segment liabilities	645,873	778,294
Unallocated liabilities	119,263	92,588
	765,136	870,882

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than interests in associates, investment properties, goodwill, convertible notes receivable, deposits for investment, conversion options embedded in convertible notes receivable, held for trading investments, amounts due from associates, prepaid tax, cash and bank balances, assets classified as held for sale and partial property, plant and equipment and leasehold land for central administrative purposes; and

- all liabilities are allocated to reportable segments, other than convertible notes , partial deposits received, accruals and other payables, deferred tax liabilities and amount due to an associate.

(c) Other segment information

	Film distribution operations		Hotel and gaming service operations		Gaming promotion operations		Unallocated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION										
Amortisation of film rights	254	20,590	–	–	–	–	–	–	254	20,590
Amortisation of interests in leasehold land	80	80	19,763	7,599	–	–	–	–	19,843	7,679
Depreciation of property, plant and equipment	729	1,048	87,692	37,110	–	–	–	–	88,421	38,158
Impairment loss recognised in respect of film rights	1,339	–	–	–	–	–	–	–	1,339	–
Impairment loss recognised in respect of intangible assets	–	–	–	–	197,973	–	–	–	197,973	–
Impairment loss recognised in respect of goodwill	–	15,416	–	–	8,975	–	–	24,862	8,975	40,278

(d) Information about major customers

Included in revenue arising from hotel and gaming service operations of HK$725,130,000 (2009:HK$222,043,000) are revenue of approximately HK$659,773,000 (2009: HK$199,460,000) which arose from sales to the Group's largest customer. Included in revenue arising from gaming promotion operations of HK$137,814,000 (2009:HK$294,806,000) are revenue arose from sales to one of the Group's largest customer.

No other customers contributed 10% or more to the Group's revenue for both 2010 and 2009.

(e) Revenue from major products and services

	2010	2009
	HK$'000	*HK$'000*
Film distribution fee income	1,317	20,073
Film production service income	–	6,009
Other film related service income	–	498
Hotel room income	52,426	18,611
Food and beverage sales	12,931	3,972
Service income from table gaming operations	653,696	197,027
Service income from slot machine operations	6,077	2,433
Receive profit streams from gaming promotion business	137,814	294,806
	864,261	543,429

(f) Geographical information

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

	Revenue from external customers		Non-current assets*	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	1,087	24,779	77,769	66,112
Macau	862,944	516,849	1,973,155	2,250,965
Worldwide other than Hong Kong and Macau	230	1,801	–	–
	864,261	543,429	2,050,924	2,317,077

* Non-current assets excluding interests in associates and convertible notes receivables.

7. TURNOVER

	2010 *HK$'000*	2009 *HK$'000*
Film distribution fee income	1,317	20,073
Film production service income	–	6,009
Service income	–	498
Hotel room income	52,426	18,611
Food and beverage sales	12,931	3,972
Service income from table gaming operations	653,696	197,027
Service income from slot machine operations	6,077	2,433
Receive profit streams from gaming promotion business	137,814	294,806
	864,261	543,429

8. OTHER REVENUE

	2010 *HK$'000*	2009 *HK$'000*
Bank interest income	1,965	345
Imputed interest income from convertible notes receivable	1,212	2,488
Rental income	17	456
Management fee income	2,560	4,430
Other ancillary hotel revenue	19,539	2,385
	25,293	10,104

9. OTHER INCOME

	2010 *HK$'000*	2009 *HK$'000*
Reversal of impairment loss on trade and other receivables	14	119
Reversal of impairment loss on amount due from former associates	–	25,179
Gain on redemption of convertible notes	–	17,254
Gain on early redemption of convertible notes receivable	26,983	–
Gain on disposal of property, plant and equipment	–	9,760
Net foreign exchange gain	595	151
Others	210	2,625
	27,802	55,088

10. FINANCE COSTS

	2010 *HK$'000*	2009 *HK$'000*
Imputed interest on convertible notes wholly repayable within five years	–	5,359
Interest on bank borrowing wholly repayable within five years	15,664	19,520
Interest on other loan wholly repayable within five years	–	3,973
Interest on finance lease	31	24
	15,695	28,876
Less: Amount capitalised in the construction in progress	–	(6,604)
	15,695	22,272

11. PROFIT BEFORE TAXATION

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of film rights (included in cost of sales)	254	20,590
Amortisation of interests in leasehold land	19,843	7,679
Auditors' remuneration	1,330	928
Cost of inventories (included in cost of sales)	5,048	2,821
Depreciation of property, plant and equipment	88,421	38,158
Employee benefit expenses *(note 15)*	102,334	77,651
Loss on disposal of property, plant and equipment	713	–
Operating lease rental in respect of rented premises	1,487	2,314

12. TAXATION CHARGE

	2010	2009
	HK$'000	*HK$'000*
The taxation charge is as follow:		
Current tax in other jurisdictions:		
(Under)/over provision in prior years	(11)	128
	(11)	128
Deferred tax:		
Current year	(1,381)	(2,976)
	(1,392)	(2,848)

No provision for Hong Kong Profits Tax has been made for both years 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.

No Macau Complementary Tax has been provided as assessable profit for the year was set off against the tax losses brought forward from previous years or was exempt for tax liability.

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

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

	2010		2009	
	HK$'000	*%*	*HK$'000*	*%*
Profit before taxation	26,219	–	167,243	–
Taxation at domestic income tax rate	(4,326)	(16.5)	(27,595)	(16.5)
Tax effect of share of results of associates	–	–	2	0.1
Tax effect of expenses not deductible for tax purpose	(36,665)	(139.8)	(43,926)	(26.3)
Tax effect of income not taxable for tax purpose	27,900	106.4	65,947	39.4
Tax effect of estimated tax losses not recognised	(5,746)	(21.9)	(2,296)	(1.4)
Tax effect of utilisation of estimated tax losses previously not recognised	14,465	55.2	5,020	3.0
Tax effect of exemption for tax liability in Macau Complementary Tax	10	0.1	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,970	11.3	–	–
Tax charge for the year	(1,392)	(5.2)	(2,848)	(1.7)

13. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
2008 final paid		
– HK$0.02 per share on 1,039,509,368 shares	–	20,790

The directors of the Company do not propose the payment of dividend for the year ended 31st December 2010 and 2009.

14. (LOSS)/EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
(Loss)/earnings attributable to owners of the Company for the purpose of basic (loss)/earnings per share	(8,083)	204,388
Add: Interest on convertible notes (net of tax)	–	1,616
(Loss)/earnings attributable to owners of the Company for the purpose of diluted (loss)/earnings per share	(8,083)	206,004

	2010	2009
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	3,400,123,287	927,546,128
Effect of dilutive potential ordinary shares:		
Share options	–	9,430,638
Convertible notes	–	118,031,723
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	3,400,123,287	1,055,008,489

The weighted average number of ordinary shares for the year ended 31st December 2010 and 31st December 2009 for the purpose of basis and diluted (loss)/earnings per share has been adjusted and restated respectively resulting from rights issue completed on 11th August 2010.

The computation of diluted loss per share did not assume the subscription of the outstanding warrants and the exercise of the share options of the Company since their subscription/exercise would result in a decrease in loss per share and thus anti-dilutive for the year ended 31st December 2010.

15. EMPLOYEE BENEFIT EXPENSES

	2010	2009
	HK$'000	*HK$'000*
Directors' remuneration	7,395	5,655
Directors' fee	360	360
Salaries and other allowances	71,506	58,597
Share-based payment	8,238	8,039
Retirement benefits scheme contributions	1,504	642
Staff welfare expenses	13,331	4,358
	102,334	77,651

(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$8,170,000 (2009: HK$6,855,000). The remuneration of each director of the Company for the year ended 31st December 2010 and 2009 is as below:

Name of director	Fees		Salaries and other allowances		Retirement benefits scheme contributions		Share-based payment		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	3,450	2,600	12	12	–	–	3,462	2,612
Ms. Chen Ming Yin, Tiffany	–	–	3,170	2,340	12	12	–	–	3,182	2,352
Ms. Li Yuk Sheung	–	–	775	715	12	12	379	804	1,166	1,531
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Leung Hok Man	120	120	–	–	–	–	–	–	120	120
	360	360	7,395	5,655	36	36	379	804	8,170	6,855

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

	Number of directors 2010	2009
Nil to HK$1,000,000	3	3
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	–	1
Over HK$3,000,000	2	–
	6	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 (2009: two) directors of the Company whose emoluments are reflected in note (a) above and amounted to HK$6,644,000 (2009: HK$4,964,000). The emoluments payable to the remaining three individuals (2009: three) during the year were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other allowances	5,049	3,179
Retirement benefits scheme contributions	36	36
Share-based payment	1,316	2,215
	6,401	5,430

The aggregated emoluments of each of these remaining three (2009: three) highest paid individuals fell within the following bands:

	Number of individuals 2010	2009
HK$1,500,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$2,500,000	1	1
HK$2,500,001 to HK$3,000,000	1	–
	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) The staffs employed by the Group's subsidiaries in Macau are members of the government-managed retirement benefits schemes operated by the Macau Government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the Macau Government is to make the required contributions under the schemes.

(c) During the year, the retirement benefits schemes contributions net of forfeited contributions of HK$1,000 (2009: HK$5,000) amounted to approximately HK$1,359,000 (2009: HK$642,000).

17. PROPERTY, PLANT AND EQUIPMENT

The Group	Construction in progress *HK$'000*	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost							
At 1st January 2009	488,646	7,243	1,251	11,318	2,850	3,669	514,977
Additions	302,876	–	–	91	14,179	–	317,146
Acquisition of subsidiaries	–	–	–	–	3	83	86
Disposals of subsidiaries	–	–	–	–	(3)	(83)	(86)
Transfer upon completion	(791,522)	280,456	293,047	218,019	–	–	–
Disposals	–	(148)	(687)	(4,599)	(65)	(176)	(5,675)
At 31st December 2009 and 1st January 2010	–	287,551	293,611	224,829	16,964	3,493	826,448
Additions	–	2,233	5,365	28,979	1,488	–	38,065
Disposals	–	–	(180)	(3,792)	(171)	–	(4,143)
At 31st December 2010	–	289,784	298,796	250,016	18,281	3,493	860,370
Accumulated depreciation							
At 1st January 2009	–	3,062	1,017	10,572	2,718	2,625	19,994
Charge for the year	–	3,719	14,112	17,780	2,041	506	38,158
Eliminated on disposals	–	(148)	(105)	(4,458)	(64)	(176)	(4,951)
Eliminated on disposals of subsidiaries	–	–	–	–	–	(7)	(7)
At 31st December 2009 and 1st January 2010	–	6,633	15,024	23,894	4,695	2,948	53,194
Charge for the year	–	8,121	38,601	36,145	5,094	460	88,421
Eliminated on disposals	–	–	(21)	(2,434)	(171)	–	(2,626)
At 31st December 2010	–	14,754	53,604	57,605	9,618	3,408	138,989
Net book value							
At 31st December 2010	–	275,030	245,192	192,411	8,663	85	721,381
At 31st December 2009	–	280,918	278,587	200,935	12,269	545	773,254

Included as additions in construction in progress for the year ended 31st December 2010 was interest capitalised of nil (2009: HK$6,604,000). At 31st December 2010, buildings of approximately HK$274,198,000 (2009: HK$279,877,000) have been pledged to secure banking facilities granted to the Group.

18. INTERESTS IN LEASEHOLD LAND

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost		
At 1st January	521,734	521,734
Additions	241	–
At 31st December	521,975	521,734
Accumulated amortisation		
At 1st January	37,401	19,210
Charge for the year	19,843	18,191
At 31st December	57,244	37,401
Net book value		
At 31st December	464,731	484,333

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

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Land in Hong Kong, held on medium-term leases	2,907	2,987
Land in Macau, held on medium-term leases	461,824	481,346
	464,731	484,333

At 31st December 2010, interests in leasehold land of approximately HK$461,824,000 (2009: HK$481,346,000) have been pledged to secure banking facilities granted to the Group.

Amortisation expense on prepaid lease payments of nil (2009: HK$10,512,000) has been capitalised to construction in progress under property, plant and equipment for the year. Amortisation expenses on prepaid lease payments of HK$19,843,000 (2009: HK$7,679,000) has been charged to the consolidated income statement for the year.

19. INVESTMENT PROPERTIES

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1st January	61,310	49,930
Transfer to assets classified as held for sale	–	(8,272)
Increase in fair value	12,270	19,652
At 31st December	73,580	61,310

The fair values of the Group's investment properties at 31st December 2010 and 2009 have been arrived at on the basis of a valuation carried out at that date by Grant Sherman Appraisal Limited, independent qualified professional valuers not connected to the Group. Grant Sherman Appraisal Limited are members of the Hong Kong Institute of Valuers, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in relevant market.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The aggregate fair value of investment properties of nil (2009: HK$61,310,000) 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:

	2010	**2009**
	HK$'000	*HK$'000*
Investment properties in Hong Kong held on medium-term leases	73,580	61,310

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,028,888	1,028,888
Impairment loss recognised	(30,299)	(30,299)
	998,589	998,589
Amounts due from subsidiaries	2,096,070	2,039,167
Impairment loss recognised	(1,129,501)	(988,799)
	966,569	1,050,368
	1,965,158	2,048,957

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

Other amounts due from/to subsidiaries of the Company classified under current assets/liabilities accordingly. In the opinion of the directors of the Company, the carrying amounts of amounts due from/to subsidiaries as at 31st December 2010 approximately 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 2010 are set out in note 49.

21. GOODWILL

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost		
At 1st January	117,678	117,678
Additions *(note 43)*	–	24,862
Disposals of subsidiaries	–	(24,862)
At 31st December	117,678	117,678
Impairment		
At 1st January	108,703	93,287
Impairment loss recognised	8,975	40,278
Eliminated upon disposals of subsidiaries	–	(24,862)
At 31st December	117,678	108,703
Carrying amount		
At 31st December	–	8,975

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to the cash generating units ("CGU") identified according to business. The carrying amount of goodwill (net of accumulated impairment losses) as at 31st December 2010 is allocated as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Gaming promotion business	–	8,975
Film production	–	–
	–	8,975

For the year ended 31st December 2010, the directors of the Company assessed the recoverable amount of the CGU of gaming promotion business with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that goodwill associated with the CGU of the gaming promotion business was impaired by HK$8,975,000 (2009: nil).

The recoverable amount of the CGU of gaming promotion business was assessed by reference to value-in-use calculation based on a five year projection of the relevant cash-generating unit with a 2% growth rate. This growth rate does not exceed the long term average growth rate for the market in which the CGU of gaming promotion business operates. A discount rate of 17.45% per annum for gaming promotion business 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.

For the year ended 31st December 2009, the Group assessed the recoverable amount of the CGU of film production and determined that goodwill associated with the CGU of film production was impaired by HK$15,416,000. The recoverable amount of the CGU of film production business was assessed by reference to its value-in-use. The major factor contributing to the impairment of the CGU of film production business was the uncertainty regarding the number of film productions by the Group and the expected cash generated in the projected future years due to the Group's significant reduction in its film production in recent years.

For the year ended 31st December 2009, the goodwill of approximately HK$24,862,000 arising from the acquisition of subsidiaries as disclosed in note 43 was fully impaired in the year of acquisition.

22. INTANGIBLE ASSETS

The Group	**Rights in sharing of profit streams** *HK$'000*
Cost	
At 1st January 2009, 31st December 2009, 1st January 2010 and 31st December 2010	989,205
Impairment	
At 1st January 2009, 31st December 2009 and 1st January 2010	–
Impairment loss recognised	197,973
At 31st December 2010	197,973
Carrying amount	
At 31st December 2010	791,232
At 31st December 2009	989,205

The intangible assets represent the rights in sharing of profit streams from gaming promotion business at one of the VIP room in a casino in Macau for an indefinite period of time. Such intangible assets are carried at cost less accumulated impairment.

The junket licences associated with the rights in sharing the profit streams is renewable annually by the Macau Government. The directors of the Company are not aware of any expected impediment with respect to the renewal of the junket licences and consider that the possibility of failing in licence renewal is remote. Therefore, the directors of the Company consider that the intangible assets are treated as having indefinite lives.

As at 31st December 2010, the directors of the Company have assessed the recoverable amount of intangible assets by reference to the valuation report issued by Grant Sherman Apprasial Limited, a firm of independent qualified professional valuers which valued the rights in sharing of profit streams using the discounted cash flow method and determined that intangible assets associated with gaming promotion business was impaired by approximately HK$197,973,000 (2009: nil).

23. CONVERTIBLE NOTES RECEIVABLE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE

The Group and the Company	Convertible notes receivable *HK$'000*	Conversion options embedded in convertible notes receivable *HK$'000*
At 1st January 2009	–	–
Subscription of convertible notes *(note a)*	17,527	42,473
Imputed interest income	2,488	–
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	–	(31,565)
At 31st December 2009 and 1st January 2010	20,015	10,908
Imputed interest income	1,212	–
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable *(note b)*	–	882
Redemption of convertible notes receivable *(note b)*	(21,227)	(11,790)
At 31st December 2010	–	–

Notes:

(a) On 26th November 2008, the Company entered into a subscription agreement with KH Investment Holdings Limited (formerly known as "China Star Film Group Limited") ("KH Investment") in which the Company shall subscribe and KH Investment shall issue convertible notes in the principal amount of HK$60,000,000 in five tranches of HK$12,000,000 each. The subscription was completed and executed by way of Deed Poll on 29th January 2009.

The effective interest rate of the convertible notes receivable was approximately 15%.

(b) On 26th May 2010, the directors of the Company assessed the fair value of the conversion options embedded in convertible notes receivable by reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers which valued the fair value using the binomial option pricing model and determined that a gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable was approximately HK$882,000.

On 26th May 2010, KH Investment redeemed all of the convertible notes for a consideration of HK$60,000,000. The difference between the consideration and the carrying amount represented a gain of approximately HK$26,983,000 credited to the consolidated income statement.

24. INTERESTS IN ASSOCIATES

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Share of net assets of associates *(note a)*	–	–
Amounts due from associates *(note b)*	7,985	–
	7,985	–

(a) Share of net assets of associates

	2010	**2009**
	HK$'000	*HK$'000*
At 1st January	–	–
Share of losses of associates *(note b)*	(1)	(14)
Cost of investment	1	14
At 31st December	–	–

The Group has not recognised losses amounting to HK$2,956,000 (2009: HK$1,362,000) for the associates for the year ended 31st December 2010. The accumulated losses not recognised were HK$4,318,000 (2009: HK$1,362,000).

(b) Amounts due from associates 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 end of the reporting period and the amounts are therefore shown as non-current.

(c) Details of the Company's associates as at 31st December 2010 are set out in note 50.

	2010	**2009**
	HK$'000	*HK$'000*
Total assets	63,957	51,057
Total liabilities	(81,524)	(56,649)
	(17,567)	(5,592)
Turnover	17,921	8,042
Loss before taxation	(12,026)	(5,615)
Loss after taxation attributable to the Group	(1)	(14)

25. INVENTORIES

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Food materials and supplies	1,504	937
Finished goods	153	154
	1,657	1,091

26. FILM RIGHTS

The Group	*HK$'000*
Cost	
At 1st January 2009	310,797
Additions	13,751
Disposals	(23,629)
At 31st December 2009, 1st January 2010 and 31st December 2010	300,919
Amortisation and impairment	
At 1st January 2009	281,044
Amortisation for the year	20,590
Disposals	(23,629)
At 31st December 2009 and 1st January 2010	278,005
Amortisation for the year	254
Impairment loss recognised	1,339
At 31st December 2010	279,598
Carrying amount	
At 31st December 2010	21,321
At 31st December 2009	22,914

As at 31st December 2010, the directors of the Company assessed the recoverable amount of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent professional valuers and determined that impairment loss of approximately HK$1,339,000 (2009:nil) 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 19.33% 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.

27. FILMS IN PROGRESS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Films in progress	19,038	19,238

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

28. TRADE RECEIVABLES

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

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
0 to 30 days	64,152	86,269
31 to 60 days	609	7,763
61 to 90 days	–	4,518
91 to 180 days	–	1,817
Over 180 days	5,733	6,225
	70,494	106,592
Less: Impairment loss on trade receivables	(1,157)	(1,164)
	69,337	105,428

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

61 – 90 days	–	4,518
Over 90 days	4,576	6,878
Total	4,576	11,396

Movement of impairment loss on trade receivables:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1st January	1,164	1,361
Impairment loss recognised	–	30
Written off	(7)	(227)
At 31st December	1,157	1,164

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$4,576,000 (2009: HK$11,396,000) 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 consider 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 provision for impairment.

29. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits for investment	415,000	360,000	–	–
Other deposits	15,230	12,894	–	–
Prepayments	9,732	18,196	712	423
Other receivables	1,097	5,878	92	45
	441,059	396,968	804	468

Included in deposits for investment of HK$415,000,000, amount of HK$360,000,000 represented the cash deposit paid by Bestjump Holdings Limited, a wholly owned subsidiary of the Company, pursuant to the sale and purchase agreement entered with Ms. Chen Ming Yin, Tiffany, an executive director and a substantial shareholder of the Company, in respect of the acquisition of the entire equity interest of Modern Vision (Asia) Limited and Reform Base Holdings Limited. Details of the transaction are set out in note 48(a).

Included in deposits for investment of HK$415,000,000, amount of HK$55,000,000 represented the cash deposit paid by Triumph Top Limited, a wholly owned subsidiary of the Company, pursuant to a conditional agreement entered with Sociedade de Turismo e Diversões de Macau, S.A., an associate of a director of a subsidiary and a connected person of the Company, in respect of the acquisition of the property leasehold rights under the leasehold granted by the Macau Government over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") (and the inherent transfer of the legal title of the Sites) at a consideration of HK$550,000,000. Details of the transaction are set out in note 48(b).

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	
	2010	**2009**
	HK$'000	*HK$'000*
Over 90 days	158	5,878

The directors of the Company believe that no provision for impairment is necessary in respect of these balances as the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

30. HELD FOR TRADING INVESTMENTS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong, at fair value	94,050	97,641

At the end of the reporting period, all financial assets at fair value through profit or loss are stated at fair value. Fair values of those listed securities have been determined by reference to the quoted market bid prices available on the Stock Exchange.

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

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

32. CASH AND CASH EQUIVALENTS

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 bank balances approximate to their fair values.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at 31st December 2010 as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cash and bank balances	625,827	173,188
Bank overdraft	–	(178,764)
	625,827	(5,576)

Bank overdraft carried interest at market rates which ranged from 3.25% to 4.25% per annum for the year ended 31st December 2009.

33. ASSETS CLASSIFIED AS HELD FOR SALE

On 2nd November 2009, the Group entered into agreement to dispose certain of its investment properties at a consideration of HK$8,272,000 (net of expenses). Accordingly, the carrying values of these investment properties were classified as assets held for sale as at 31st December 2009.

34. SHARE CAPITAL

	Number of shares		Amount	
	2010	**2009**	**2010**	**2009**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At 1st January	50,000,000	2,000,000	500,000	100,000
Increase in authorised share capital *(note d)*	–	8,000,000	–	400,000
	50,000,000	10,000,000	500,000	500,000
Share consolidation *(note f (i))*	–	(9,500,000)	–	–
Share subdivision *(note f (iii))*	–	49,500,000	–	–
At 31st December	50,000,000	50,000,000	500,000	500,000
Issued and fully paid:				
At 1st January	2,296,496	532,243	22,965	26,612
Placement of shares *(note a, g and h)*	540,000	1,007,900	5,400	10,079
Issue of shares under rights issue *(note b)*	1,444,643	–	14,446	–
Exercise of share options *(note c and j)*	52,790	49,087	528	491
Issue of shares under open offer and bonus issue *(note e)*	–	4,257,944	–	212,897
Share consolidation *(note f (i))*	–	(4,550,678)	–	–
Capital reduction *(note f (ii))*	–	–	–	(237,114)
Conversion of convertible notes *(note i)*	–	1,000,000	–	10,000
Exercise of listed warrants	4	–	1	–
At 31st December	4,333,933	2,296,496	43,340	22,965

Notes:

For the year ended 31st December 2010

(a) On 11th February 2010, the Company allotted and issued an aggregate 540,000,000 new shares of HK$0.01 each to independent investors at a price of HK$0.14 per share. The net proceeds of approximately HK$75,542,000 were used for the Group's investment projects in Macau and general working capital of the Group.

(b) On 11th August 2010, the Company allotted and issued 1,444,643,184 rights shares of the Company of HK$0.01 each per share at a subscription price of HK$0.1 each on the basis of one rights share for every two shares held on 20th July 2010 by way of rights issue. The estimated net proceeds were approximately HK$141,460,000, of which approximately HK$100,460,000 were intended to be used for reducing the Group's bank borrowings and approximately HK$41,000,000 was intended to be used for financing hotel operation of the Group or general working capital of the Group. On 9th February 2011, the Company announced that the Company intended to change the use of proceeds of the rights issue and to apply the net proceeds of approximately HK$100,460,000 to satisfy part of the total consideration for the Acquisition. HK$41,000,000 were used for financing hotel operation of the Group and general working capital of the Group as intended.

(c) During the year ended 31st December 2010, certain option holders exercised their option rights to subscribe for an aggregate of 52,790,000 shares of the Company at HK$0.01 each per share at exercise price of HK$0.18 per share (before adjustment due to completion of rights issue during the year). The net proceeds from the exercise of option rights amounted to HK$9,502,200.

For the year ended 31st December 2009

(d) Pursuant to an ordinary resolution passed in a special general meeting of the Company held on 23rd January 2009, the authorised share capital of the Company was increased from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 shares of HK$0.05 each by creation of an additional 8,000,000,000 shares of HK$0.05 each.

(e) On 26th February 2009, the Company allotted and issued 1,064,486,080 offer shares of the Company of HK$0.05 per share at a subscription price of HK$0.05 each on the basis of two offer shares for every existing shares held on 23rd January 2009 by way of open offer and allotted and issued 3,193,458,240 new shares on the basis of three bonus shares for every one offer share taken up under the open offer of the Company. The estimated net proceeds of approximately HK$52,000,000 were used for subscription of convertible notes issued by KH Investment.

(f) At a special general meeting of the Company held on 30th April 2009, a special resolution was passed to approve the following changes to the capital of the Company (the "2009 Capital Reorganisation"):

(i) Share consolidation: every twenty existing issued and unissued shares of par value of HK$0.05 each in the share capital of the Company be consolidated into one consolidated share of HK$1.00 each (the "Combined Share");

(ii) Capital reduction: (a) the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.99 on each of the issued Combined Shares such that the nominal value of each issued Combined Share will be reduced from HK$1.00 to HK$0.01; and (b) the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and

(iii) Share subdivision: each of the authorised but unissued Combined Shares of HK$1.00 each be subdivided into one hundred shares of HK$0.01 each of the Company.

The 2009 Capital Reorganisation was effected on 4th May 2009.

(g) On 11th June 2009, the Company allotted and issued an aggregate of 800,000,000 new shares of HK$0.01 each to independent investors at a price of HK$0.20 per share. The net proceeds of approximately HK$158,000,000 were used to finance the hotel operations and for general working capital of the Group.

(h) On 29th July 2009, the Company allotted and issued an aggregate of 207,900,000 new shares of HK$0.01 each to independent investors at a price of HK$0.22 per share. The net proceeds of approximately HK$45,238,000 were used for general working capital of the Group.

(i) On 21st September 2009, the Company allotted and issued convertible notes in the principal amount of HK$200,000,000 at an initial conversion price of HK$0.20 per share to Eternity Investment Limited (formerly known as China Star Investment Holdings Limited) ("Eternity"). These convertible notes were fully converted into 1,000,000,000 shares at the conversion price of HK$0.20 per share during the year ended 31st December 2009.

(j) During the year ended 31st December 2009, certain option holders exercised their option rights to subscribe for an aggregate of 49,087,000 shares at exercise price of HK$0.268 per share. The net proceeds from the exercise of option rights amounted to approximately HK$13,155,000.

Warrants

On 26th April 2010, the board proposed to issue bonus warrants to the shareholders on the basis of one warrant for every five shares of the Company held on 8th June 2010. Total amount of approximately HK$111,526,000 warrants ("Warrants") were issued on 15th June 2010 at an initial subscription price of HK$0.193 per share (subject to adjustment) and exercisable at any time during the period commencing on 15th June 2010 to 14th June 2012 (both days inclusive). The subscription price was adjusted to HK$0.185 per share due to the completion of rights issue of the Company on 11th August 2010.

During the year, 4,205 new shares were issued on the conversion of the Warrants, of which 4,000 shares and 205 shares were converted at the subscription price of HK$0.193 per share and HK$0.185 per share respectively. As at 31st December 2010, the Company had approximately HK$111,526,000 Warrants outstanding. The exercise in full of the Warrants would result in the issue of approximately 602,841,000 shares of the Company.

35. RESERVES

The Company	Share premium HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Convertible notes reserve HK$'000 (note d)	Capital reduction reserve HK$'000 (note e)	Retained earnings HK$'000	Total HK$'000
At 1st January 2009	100,649	899,243	53,666	32,665	316,008	21,986	1,424,217
Profit for the year	–	–	–	–	–	260,782	260,782
Issue of shares under open offer and bonus issue	(100,282)	(59,392)	–	–	–	–	(159,674)
Issue of convertible notes	–	–	–	23,546	–	–	23,546
Recognition of deferred tax upon issue of convertible notes	–	–	–	(3,885)	–	–	(3,885)
Conversion of convertible notes	190,672	–	–	(23,414)	–	–	167,258
Released of deferred tax upon conversion of convertible notes	–	–	–	3,753	–	–	3,753
Redemption of convertible notes	–	–	–	(38,019)	–	(8,726)	(46,745)
Released of deferred tax upon redemption of convertible notes	–	–	–	5,354	–	–	5,354
Placement of shares	195,659	–	–	–	–	–	195,659
Share issuing expenses	(2,424)	–	–	–	–	–	(2,424)
Share-based payment expenses	–	–	8,039	–	–	–	8,039
Exercise of share options	16,460	–	(3,796)	–	–	–	12,664
Expiry of share options	–	–	(533)	–	–	533	–
Capital reduction	–	237,114	–	–	–	–	237,114
Dividend paid	–	–	–	–	–	(20,790)	(20,790)
At 31st December 2009 and 1st January 2010	400,734	1,076,965	57,376	–	316,008	253,785	2,104,868
Profit for the year	–	–	–	–	–	74,125	74,125
Share-based payment expenses	–	–	8,238	–	–	–	8,238
Exercise of shares options	10,367	–	(1,393)	–	–	–	8,974
Placement of shares	70,200	–	–	–	–	–	70,200
Share issuing expenses	(1,899)	–	–	–	–	–	(1,899)
Expiry of share options	–	–	(4,243)	–	–	4,243	–
Issue of shares under rights issue	130,018	–	–	–	–	–	130,018
Exercise of listed warrants	1	–	–	–	–	–	1
At 31st December 2010	609,421	1,076,965	59,978	–	316,008	332,153	2,394,525

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 brought forward represents the balance transferred from the capital account due to the capital reduction effective on 10th September 2002 and various capital reduction subsequently.

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) Share-based payment reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share options over the relevant vesting periods, the total of which is based on the fair value of the share options at grant date. The amount for each period is determined by spreading the fair value of the share 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.

(d) 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 similar non-convertible debts 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 convertible notes are either converted (in which case it is transferred to share premium) or the convertible notes are redeemed (in which case it is released directly to retained earnings).

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

36. BANK BORROWINGS

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Bank loans:		
– Secured	500,000	340,906
– Unsecured	–	70,000
	500,000	410,906
The maturity of the above borrowings is as follow:		
Within one year	50,000	232,631
Between one and two years	50,000	103,007
Between two and five years	400,000	75,268
Over five years	–	–
	500,000	410,906
Less: Amount due within one year shown under current liabilities	(50,000)	(232,631)
Amount due after one year	450,000	178,275

As at 31st December 2010, the Group had secured bank term loan borrowings of HK$500,000,000. The secured bank term loan is secured by the Group's leasehold land and buildings with carrying amount of approximately HK$461,824,000 and HK$274,198,000 respectively. The secured bank term loan is interest bearing at 3.50% per annum (Hong Kong Prime Rate (5.25%) less margin (1.75%)) and repayable within 5 years by 19 equal consecutive quarterly installments of HK$12,500,000 each and a final repayment of HK$262,500,000 at the maturity date of the loan.

As at 31st December 2009, bank loans comprised a mortgage loan which beared interest at commercial rates, term loan of HK$275,000,000 ("Term Loan I") which beared interest at 2.0% per annum below the bank's best lending rate, term loan of HK$60,000,000 ("Term Loan II") which beared interest at 2.2% per annum above 1 month HIBOR and unsecured term loan of HK$70,000,000 ("Term Loan III") which beared interest at 3.0% per annum above 1 month HIBOR. The mortgage loan was secured by the Group's investment properties with carrying value of approximately HK$61,310,000 and was repayable in installments over a period of ten years. Term Loan I and Term Loan II were secured by the Group's leasehold land and buildings with carrying values of approximately HK$481,346,000 and HK$279,877,000 respectively. Term Loan I was repayable by 18 equal consecutive quarterly installments of HK$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term Loan II and Term Loan III were repayable by 12 equal consecutive monthly installments commencing from first month after date of drawdown. Term Loan I and the mortgage loan were early repaid and Term Loan II and Term Loan III were fully repaid for the year ended 31st December 2010.

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 approximate to their fair values.

37. OBLIGATION UNDER FINANCE LEASE

	The Group Minimum lease payments		Present value of minimum lease payments	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance lease:				
Within one year	125	125	96	96
In the second to fifth years	271	396	201	305
	396	521	297	401
Less: Future finance charges	(99)	(120)	–	–
	297	401	297	401
Less: Amount due for settlement within one year			(96)	(96)
Amount due after one year			201	305

It is the Group's policy to lease certain of its machinery and equipment under finance lease. The average lease term is 5 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligation under finance lease is secured by the lessor's charge over the leased assets.

38. CONVERTIBLE NOTES

On 21st September 2009, the Company issued unsecured convertible notes in the principal amount of HK$200,000,000 (the "China Star Investment Convertible Notes") to Eternity. China Star Investment Convertible Notes are interest bearing at prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and will be matured on 30th September 2012. Eternity may convert the whole or part (in multiple of HK$1,000,000) of the China Star Investment Convertible Notes into shares of the Company at an initial conversion price of HK$0.20 per share (subject to adjustment) during the conversion period. China Star Investment Convertible Notes were converted into 1,000,000,000 ordinary shares of the Company at initial conversion price of HK$0.20 each for the year ended 31st December 2009.

On 18th March 2008, the Company issued unsecured convertible notes in the principal amount of HK$384,000,000 (the "Lucky State Convertible Notes") to Lucky State Group Limited ("Lucky State Group") as part of consideration for the Best Mind Acquisition. The Lucky State Convertible Notes were interest bearing at 5% per annum and will be matured on 17th March 2018. Lucky State Group may convert the whole or part (in multiple of HK$1,000,000) of the Lucky State Convertible Notes into shares of the Company at an initial conversion price of HK$0.30 per share (subject to adjustment) from 16th August 2009 to 17th March 2018. The Lucky State Convertible Notes were fully redempted for the year ended 31st December 2009.

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, was included in owners' equity named as convertible notes reserve.

The Group and the Company	Lucky State Lucky State Convertible *Notes* *HK$'000*	China Star Investment Convertible *Notes* *HK$'000*	Total *HK$'000*
At 1st January 2009	138,390	–	138,390
Proceeds of issue	–	200,000	200,000
Equity component	–	(23,546)	(23,546)
Liability component	138,390	176,454	314,844
Interest charged	3,425	1,934	5,359
Interest paid	(2,695)	(1,130)	(3,825)
Conversion	–	(177,258)	(177,258)
Redemption	(139,120)	–	(139,120)
At 31st December 2009, 1st January 2010 and 31st December 2010	–	–	–

The effective interest rate on the liability component of the China Star Investment Convertible Notes and Lucky State Convertible Notes were approximately 9.61% and 7.75% respectively.

39. DEFERRED TAX LIABILITIES

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

The Group	Fair value adjustment on acquisition of subsidiaries *HK$'000*	Convertible notes *HK$'000*	Fair value changes of investment properties *HK$'000*	Total *HK$'000*
At 1st January 2009	80,888	4,878	2,551	88,317
Issue of convertible notes	–	3,885	–	3,885
Redemption of convertible notes	–	(4,743)	–	(4,743)
Conversion of convertible notes	–	(3,753)	–	(3,753)
(Credit)/charge to the consolidated income statement	–	(267)	3,243	2,976
At 31st December 2009 and 1st January 2010	80,888	–	5,794	86,682
Released upon disposal of investment properties	–	–	(643)	(643)
Charge to the consolidated income statement	–	–	2,024	2,024
At 31st December 2010	80,888	–	7,175	88,063

At 31st December 2010, the Group had unused estimated tax losses of approximately HK$425,445,000 (2009: HK$478,288,000) 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$102,347,000 (2009: HK$93,186,000) due to the unpredictability of future profit streams.

40. TRADE PAYABLES

The aging analysis of the trade creditors is as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
0 to 30 days	14,267	6,247
31 to 60 days	2,444	3,614
61 to 90 days	233	101
91 to 180 days	917	1,845
Over 180 days	7,177	9,619
	25,038	21,426

41. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	16,917	15,805	10,000	10,000
Accruals	40,951	88,831	3,230	8,156
Other payables	2,602	27,565	739	715
	60,470	132,201	13,969	18,871

42. AMOUNTS DUE TO AN ASSOCIATE/NON-CONTROLLING INTERESTS

The amounts due to an associate/non-controlling interests of the Group are unsecured, interest free and repayable on demand.

43. ACQUISITION OF SUBSIDIARIES

For the year ended 31st December 2009

On 30th June 2009, the Group acquired the remaining 51% equity interest in China Star Management Limited ("CSML") and Anglo Market International Limited ("AMIL") at a total consideration of HK$2. Together with the existing 49% interest in CSML and AMIL held by the Group, CSML and AMIL became wholly owned subsidiaries of the Company on 30th June 2009.

Details of net liabilities of CSML and AMIL acquired and goodwill are as follows:

	Carrying amount before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net liabilities acquired:			
Property, plant and equipment	86	–	86
Trade receivables	2,215	–	2,215
Deposits paid, prepayments and other receivables	9,655	–	9,655
Cash at bank and in hand	560	–	560
Deposits received, accruals and other payables	(37,378)	–	(37,378)
	(24,862)	–	(24,862)
Goodwill			24,862
Total consideration at fair value			–
Total consideration at fair value satisfied by:			
Cash consideration paid			–
Net cash inflow arising from the acquisition:			
Cash consideration paid			–
Cash at bank and in hand acquired			560
			560

For the year ended 31st December 2009, CSML and AMIL contributed approximately HK$146,000 and HK$252,000 respectively to the Group's turnover and contributed approximately HK$323,000 and HK$133,000 respectively to the Group's profit.

44. DISPOSAL OF SUBSIDIARIES

For the year ended 31st December 2009

On 8th June 2009, the Group disposed Bingo Chance Limited ("BCL"), a directly wholly owned subsidiary of the Company at a consideration of HK$22,960,000. On 31st July 2009, the Group disposed its entire equity interests in CSML and AMIL to Dance Star Group Limited, a wholly owned subsidiary of KH Investment Holdings Limited (formally known as "China Star Film Group Limited"), at a total consideration of approximately HK$3,138,000.

Details of the net assets disposed of are as follows:

	BCL	CSML	AMIL	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Available for sale financial assets	26,600	–	–	–	26,600
Release of financial assets revaluation reserve	25,962	–	–	–	25,962
Property, plant and equipment	–	79	–	–	79
Amount due from AMIL	–	643	–	(643)	–
Trade receivables	–	912	648	–	1,560
Deposits, prepayments and other receivables	–	9,512	679	–	10,191
Cash and bank balances	–	321	395	–	716
Amount due to CSML	–	–	(643)	643	–
Deposits received, accruals and other payables	–	(7,101)	(1,850)	–	(8,951)
	52,562	4,366	(771)	–	56,157
Non-controlling interest	–	–	–	–	–
	52,562	4,366	(771)	–	56,157
Loss on disposal of subsidiaries					(30,059)
					26,098
Satisfied by:					
Cash consideration					26,098
Net cash outflow from disposals:					
Cash consideration received					26,098
Bank balance and cash disposed of					(716)
					25,382

For the year ended 31st December 2009, BCL, CSML and AMIL contributed approximately nil, HK$146,000 and HK$252,000 to the Group's turnover and contributed loss of approximately HK$74,000 and profit of approximately HK$323,000 and HK$133,000 to Group's profit respectively.

45. LEASE COMMITMENTS

The Group as lessee

At 31st December 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Within one year	1,491	963
In the second to fifth year inclusive	1,219	1,128
	2,710	2,091

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.

46. CAPITAL COMMITMENTS

The Group had the following outstanding commitments at the end of the reporting period:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for:		
Construction in progress	–	1,049
Acquisition of properties	–	1,180
Acquisition of property leasehold rights	495,000	–
Acquisition of subsidiaries *(note 48(a))*	540,000	540,000
Capital contribution of joint venture company *(note 51(a))*	30,000	–
	1,065,000	542,229

47. 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.

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 (including the Old 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) at the date of this annual report was 288,928,636, which represented approximately 5.88% of the issued share capital of the Company at the date of this annual report.

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

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

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

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

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

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

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

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

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

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

				Number of share options												
Category of Participants	Name of scheme	Exercisable period#	Exercise price per share HK$	Outstanding as at 01.01.2009	Lapsed/ Expired during 2009	Adjustment during 2009	Granted during 2009 (note i)	Exercised during 2009	Transfer between category during 2009	Outstanding as at 31.12.2009 and 01.01.2010	Expired during 2010	Adjustment during 2010*	Granted during 2010 (note i)	Exercise during 2010	Transfer between category during 2010	Outstanding as at 31.12.2010
Substantial shareholders and directors of the Company	Old Option Scheme	02.06.2000 – 01.06 2010	311.26	45,326	–	(34,416)	–	–	–	10,910	(10,910)	–	–	–	–	–
		28.03.2000 – 27.03.2010	642.26	100,108	–	(76,012)	–	–	–	24,096	(24,096)	–	–	–	–	–
	New Option Scheme	16.07.2002 – 15.07.2012	62.852*	24,042	–	(18,256)	–	–	–	5,786	–	260	–	–	–	6,046
		17.07.2003 – 16.07.2013	20.670*	49,612	–	(37,670)	–	–	–	11,942	–	538	–	–	–	12,480
				219,088	–	(166,354)	–	–	–	52,734	(35,006)	798	–	–	–	18,526
Director of the Company***	New Option Scheme	16.07.2002 – 15.07.2012	62.852*	120,457	–	(91,464)	–	–	–	28,993	–	1,305	–	–	–	30,298
		17.07.2003 – 16.07.2013	20.670*	248,068	–	(188,359)	–	–	–	59,709	–	2,687	–	–	–	62,396
		17.07.2009 – 16.07.2010	0.268	–	–	–	10,395,000	–	–	10,395,000	(10,395,000)	–	–	–	–	–
		13.05.2010 – 12.05.2011	0.144*	–	–	–	–	–	–	–	–	832,275	18,495,000	–	–	19,327,275
				368,525	–	(279,823)	10,395,000	–	–	10,483,702	(10,395,000)	836,267	18,495,000	–	–	19,419,969
Employees of the Group	Old Option Scheme	05.01.1999 – 04.01.2009	46.16	4	(4)	–	–	–	–	–	–	–	–	–	–	–
		28.03.2000 – 27.03.2010	642.26	26,067	–	(19,793)	–	–	–	6,274	(6,274)	–	–	–	–	–
		02.06.2000 – 01.06.2010	311.26	45,326	–	(34,417)	–	–	–	10,909	(10,909)	–	–	–	–	–
	New Option Scheme	16.07.2002 – 15.07.2012	62.852*	240,915	–	(182,927)	–	–	–	57,988	–	6,523	–	–	86,982	151,493
		17.07.2003 – 16.07.2013	20.670*	248,068	–	(188,359)	–	–	–	59,709	–	9,236	–	–	145,549	214,494
		13.12.2004 – 12.12.2014	19.043*	325,691	–	(247,298)	–	–	78,393	156,786	–	17,556	–	–	233,350	407,692
		04.02.2005 – 03.02.2015	19.713*	1,986,713	–	(1,508,517)	–	–	36,846	515,042	–	28,239	–	–	112,493	655,774
		30.12.2005 – 29.12.2015	8.861*	718,148	–	(545,292)	–	–	–	172,856	–	10,130	–	–	52,262	235,248
		21.11.2006 – 20.11.2016	10.144*	1,302,762	–	(989,191)	–	–	–	313,571	–	17,638	–	–	78,393	409,602
		25.05.2007 – 24.05.2017	15.388*	1,779,356	–	(1,351,070)	–	–	138,364	566,650	–	44,178	–	–	415,092	1,025,920
		27.06.2007 – 26.06.2017	15.311*	1,011,269	–	(767,859)	–	–	133,921	377,331	–	29,032	–	–	267,842	674,205
		23.10.2007 – 22.10.2017	7.273*	5,243,000	–	(3,981,023)	–	–	330,719	1,592,696	–	101,435	–	–	661,438	2,355,569
		21.08.2008 – 20.08.2018	0.938*	21,395,000	–	(16,245,274)	–	–	737,738	5,887,464	–	379,424	–	–	2,544,174	8,811,062
		17.07.2009 – 16.07.2010	0.268	–	–	–	63,839,000	(19,378,000)	–	44,461,000	(44,461,000)	–	–	–	–	–
		07.01.2010 – 06.01.2011	0.172*	–	–	–	–	–	–	–	–	1,392,075	71,165,000	(40,230,000)	–	32,327,075
		13.05.2010 – 12.05.2011	0.144*	–	–	–	–	–	–	–	–	5,038,515	111,967,000	–	–	117,005,515
				34,322,319	(4)	(26,061,020)	63,839,000	(19,378,000)	1,455,981	54,178,276	(44,478,183)	7,073,981	183,132,000	(40,230,000)	4,597,575	164,273,649
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	62.852*	481,828	–	(365,852)	–	–	–	115,976	–	1,305	–	–	(86,982)	30,299
		17.07.2003 – 16.07.2013	20.670*	765,916	–	(581,562)	–	–	–	184,354	–	1,746	–	–	(145,549)	40,551
		13.12.2004 – 12.12.2014	19.043*	1,608,911	–	(1,221,650)	–	–	(78,393)	308,868	–	3,398	–	–	(233,350)	78,916
		04.02.2005 – 03.02.2015	19.713*	1,716,932	(114,977)Δ	(1,303,670)	–	–	(36,846)	261,439	–	6,702	–	–	(112,493)	155,648
		30.12.2005 – 29.12.2015	8.861*	1,346,187	–	(1,022,163)	–	–	–	324,024	–	12,229	–	–	(52,262)	283,991
		21.11.2006 – 20.11.2016	10.144*	977,072	–	(741,893)	–	–	–	235,179	–	7,055	–	–	(78,393)	163,841
		25.05.2007 – 24.05.2017	15.388*	3,905,030	–	(2,965,098)	–	–	(138,364)	801,568	–	17,391	–	–	(415,092)	403,867
		27.06.2007 – 26.06.2017	15.311*	1,669,164	–	(1,267,401)	–	–	(133,921)	267,842	–	–	–	–	(267,842)	–
		23.10.2007 – 22.10.2017	7.273*	6,027,000	–	(4,576,315)	–	–	(330,719)	1,119,966	–	20,634	–	–	(661,438)	479,162
		21.08.2008 – 20.08.2018	0.938*	22,515,000	(1,068,698)Δ	(17,095,692)	–	–	(737,738)	3,612,872	–	48,091	–	–	(2,544,174)	1,116,789
		17.07.2009 – 16.07.2010	0.268	–	–	–	29,709,000	(29,709,000)	–	–	–	–	–	–	–	–
		07.01.2010 – 06.01.2011	0.172*	–	–	–	–	–	–	–	–	2,066,400	58,480,000	(12,560,000)	–	47,986,400
		13.05.2010 – 12.05.2011	0.144*	–	–	–	–	–	–	–	–	4,700,925	104,465,000	–	–	109,165,925
				41,013,040	(1,183,675)	(31,141,296)	29,709,000	(29,709,000)	(1,455,981)	7,232,088	–	6,885,876	162,945,000	(12,560,000)	(4,597,575)	159,905,389
				75,922,972	(1,183,679)	(57,648,493)	103,943,000	(49,087,000)	–	71,946,800	(54,908,189)	14,796,922	364,572,000	(52,790,000)	–	343,617,533
Weighted average exercise price				7.82	2.76		0.268	0.268		2.15	0.75		0.15	0.17		0.49

The following share options granted under the New Option Scheme were exercised in the current year:

Exercise date	Category of Participants	Number of share options exercised	Share price at exercise date
3rd August 2009	Employees of the Group	19,378,000	HK$0.258
28th July 2009	Other participants	29,709,000	HK$0.267
		49,087,000	
8th January 2010	Employees of the Group	40,230,000	HK$0.17
8th January 2010	Other participants	12,560,000	HK$0.17
		52,790,000	

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

\# The exercisable period commenced on the date of grant of the relevant share options.

Δ Share options lapsed during the year.

Notes:

(i) The closing prices of the Company's shares immediately before the dates of grant of share options on 13th May 2010, 7th January 2010 and 17th July 2009 were HK$0.149, 0.178 and 0.260 per share respectively.

(ii) No share option was cancelled for the year ended 31st December 2010 (2009: nil).

Share-based payment expenses

Following to the adoption of HKFRS 2 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 share options is measured based on Binomial Option Pricing Model. The variables input into the model are as follows:

	Share options granted on		
	13th May 2010	7th January 2010	17th July 2009
Weighted average share price at measurement date (HK$)	0.150	0.176	0.260
Weighted average exercise price (HK$)	0.150	0.180	0.268
Expected volatility (expressed as weighted average volatility)	52.68%	59.58%	123.98%
Number of years for share option life (expressed as weighted average life)	1	1	1
Expected dividends	–	–	–
Risk-free interest rate	0.16%	0.16%	0.06%
Weighted average fair value at measurement date (HK$)	0.0205	0.0264	0.0773

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.

48. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) On 29th April 2009, Bestjump Holdings Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Ms Chen Ming Yin, Tiffany, an executive director and a substantial shareholder of the Company, in respect of the acquisition (the "Acquisition I") of the entire equity interest of Modern Vision (Asia) Limited and Reform Base Holdings Limited (collectively referred as to the "Target Companies") and outstanding loans in an aggregate amount of HK$750,810,000 due by the Targeted Companies with a total consideration of HK$900,000,000 (subjected to adjustment) (the "Consideration"). The Consideration shall be satisfied by cash deposit of HK$360,000,000, HK$350,000,000 convertible notes to be issued by the Company and the balance of HK$191,000,000 in cash or by the issue of promissory note upon completion. The Consideration is subject to adjustment in case the total gross floor area granted by Macau Government is less than the gross floor area previously published in the Macau Official Gazette. The major assets of the Target Companies are their aggregate 75% equity interest in a Macau incorporated entity which owned 100% interest in a lot of land, namely Lote C7 do Plano de Urbanizacao da Baia de Paria Grande, located in Nam van Lakes Zone, at Avenida Doutor Stanley Ho. The Acquisition I is regarded as a connected transaction pursuant to chapter 14A of the Listing Rules. Details of the transaction were set out in the Company's circular dated 17th August 2009.

The independent non-executive directors confirm that the terms of the agreement of the Acquisition I are fair and reasonable and the Acquisition I is in the interests of the Company and its shareholders as a whole. The Acquisition I was approved by independent shareholders on 3rd September 2009 but has not been completed up to reporting date and an investment deposit of HK$360,000,000 is classified as prepayment, deposits and other receivables in the consolidated financial statements of the Group.

(b) On 23rd December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company (the "Purchaser"), the Company, Sociedade de Turismo e Diversões de Macau, S.A. (the "Vendor") and Mr. Heung Wah Keung, a director of the Company entered into a conditional agreement pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the property leasehold right held by the Vendor under the leasehold granted by the Macau Government over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") (and the inherent transfer to the Purchaser of the legal title of the Sites) at a consideration of HK$550,000,000 (the "Acquisition"). The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under the Listing Rules and thus is subject to the approval of the independent shareholders of the Company in a special general meeting to be convened by the Company. Details of the Acquisition are set out in the Company's announcement dated 7th January 2011.

(c) On 11th March 2009, the Group entered into a loan facility agreement with Eternity pursuant to which the Group was granted loan facility of up to HK$200,000,000. The Group subsequently has drawn the loan of HK$200,000,000 ("Loan Advance"). On 23rd July 2009, the Company and Eternity entered into a subscription agreement pursuant to which the Company has agreed to issue and Eternity has agreed to subscribe or procure subscription for a 3-year convertible note in the principal amount of HK$200,000,000, the subscription price of which shall be satisfied by setting off against the Loan Advance. The China Star Investment Convertible Notes was subscribed on 21st September 2009 and fully converted into 1,000,000,000 shares of the Company on October and December 2009. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany were common directors of the Company and Eternity as at 11th March 2009 and 23rd July 2009, and resigned as directors of Eternity with effect from 1st February 2010.

During the year ended 31st December 2009, the Group had paid interest expenses and recorded imputed interest expenses amounted to approximately HK$3,973,000 and HK$1,934,000 in respect of the Loan Advance and the China Star Investment Convertible Notes respectively.

(d) During the year, the Group entered into the following transactions with its and related companies:

	2010	2009
	HK$'000	*HK$'000*
Income received from associates:		
Rental income and utilities fee reimbursement	5,249	1,306
Management fee income	160	–
Expenses paid to associates:		
Entertainment and staff messing paid	11,679	4,876
Income received from companies with common directors:		
Management fee income *(note 1)*	2,400	4,430
Imputed interest income from convertible notes receivable *(note 2)*	–	2,488
Loss on disposal of subsidiaries *(note 2)*	–	457

Notes:

1. Management fee income was charged at a rate mutually agreed between the Group and the related company by reference to sharing of office premises and supplies, and manpower in provision of administrative services. Mr. Heung Wah Keung was a common director of the Company and the related company, and resigned as a director of the related company with effect from 28th October 2010.

2. Mr. Heung Wah Keung was a common director of the Company and KH Investment, and resigned as a director of KH Investment with effect from 21st January 2010.

(e) During the year ended 31st December 2009, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany provided personal guarantees to bank to secure mortgage loan granted to the Group. No fee was paid to them by the Group.

(f) 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:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other allowances	10,086	8,398
Retirement benefits scheme contributions	64	72
Share-based payment	1,505	3,024
	11,655	11,494

49. 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/quota capital held	Proportion of nominal value of issued capital/quota capital held by the Company %	Issued and fully paid share capital/ quota capital	Principal activities
Best Combo Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Best Mind International Inc. *(note b)*	Incorporated	British Virgin Islands	Ordinary	100	100 shares of US$1 each	Investing in operations which receive profit streams from the gaming promotion business
Bestjump Holdings Limited	Incorporated	British Virgin Islands	Ordinary	100	1 ordinary share of	Investment holding US$1
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of cable right
Charm Faith Holdings Limited *(note d)*	Incorporated	British Virgin Islands	Ordinary	50	100 ordinary shares of US$1 each	Investment holding
China Star Entertainment (BVI) Limited	Incorporated	British Virgin Islands	Ordinary	100	200 shares of US$1 each	Investment holding

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares/quota capital held	Proportion of nominal value of issued capital/quota capital held by the Company %	Issued and fully paid share capital/ quota capital	Principal activities
China Star Entertainment Holding Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each and 1,000,000 non-voting deferred shares of HK$1 each *(note c)*	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	1000	1,000,000 ordinary shares of HK$1 each	Distribution of video rights and investment holding
China Star International Distribution Limited *(note a)*	Incorporated	British Virgin Islands	Ordinary	100	8,001 shares of US$1 each	Distribution of motion pictures and television drama series
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of management services and investment holding
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights
China Star Production Services Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Provision of film 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)*	Incorporated	Netherlands	Ordinary	100	400 ordinary shares of Dutch Guilders 100 each	Distribution of motion pictures and television drama series
Classic Management & Services Company Limited *(note b and d)*	Incorporated	Macau	Quota capital	50	MOP100,000	Provision of casino management service

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares/quota capital held	Proportion of nominal value of issued capital/quota capital held by the Company %	Issued and fully paid share capital/ quota capital	Principal activities
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Gold Choice International Limited	Incorporated	Hong Kong	Ordinary	100	1 ordinary share of HK$1	Film Production
Hotel Lan Kwai Fong (Macau) Limited *(note b&d)*	Incorporated	Macau	Quota capital	50	MOP500,000	Provision of hotel services in Macau and property investment, and investment holding
Newrich (H.K.) 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
Triumph Top Limited	Incorporated	British Virgin Islands	Ordinary	100	1 ordinary share of US$1	Investment Holding

Notes:

(a) Operating internationally.

(b) Operating in Macau.

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

(d) One of the common shareholder of Hotel Lan Kwai Fong (Macau) Limited and Charm Faith Holdings Limited who holding 49% voting power has agreed to follow the voting and management decision of the Company. Therefore, Hotel Lan Kwai Fong (Macau) Limited and Charm Faith Holdings Limited and their direct investment, Classic Management & Services Company Limited are considered as subsidiaries of the Company.

Best Combo Limited, Best Mind International Inc., 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 debt securities outstanding at the end of the year or at any time during the year.

50. PARTICULARS OF 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.

Name of associate	Form of business structure	Country/place of incorporation/ formation	Class of shares/quota capital held	Proportion of nominal value of issued capital/quota capital held by the Group %	Issued and fully paid share capital/ quota capital	Principal activities
Avatar Limited* (formally known as Dr. Chauchard's Spa Limited)	Incorporated	Macau	Quota capital	26.67	MOP60,000	Spa operations
Merit Noble Company Limited*	Incorporated	Macau	Quota capital	24.5	MOP30,000	Provision of catering services
Noble Million Limited	Incorporated	Hong Kong	Ordinary	50.0	1 ordinary share of HK$1	Investment holding

* Operating in Macau

51. EVENTS AFTER THE REPORTING PERIOD

(a) On 8th December 2010, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company, KH Investment and China Star Film Group Limited (the "JV Company") entered into a conditional joint venture agreement (the "JV Agreement") relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, CSBVI agreed to subscribe and the JV Company agreed to issue and allot 30 shares of the JV Company at a price of HK$1,000,000 per share for a total consideration of HK$30,000,000 and CSBVI will beneficially interested in 50% of the JV Company after the completion of the JV Agreement. The shares of the JV Company was issued and alloted on 7th January 2011.

(b) On 14th January 2011, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 577,855,000 new Shares of HK$0.01 each to independent investors at a price of HK$0.07 per Share. 577,855,000 new Shares was issued on 27th January 2011 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 30th June 2010. The net proceeds of approximately HK$39,930,000 were intended to be used for part of the consideration for the Acquisition.

(c) On 9th February 2011, the board of directors of the Company announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation ("Capital Reorganisation") of the Company comprising:

(i) share consolidation that every 10 issued and unissued existing Shares of HK$0.01 each be consolidated into 1 consolidated share of HK$0.10 each of the Company ("Consolidated Shares");

(ii) capital reduction that (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK$0.10 to HK$0.01; (ii) the authorized share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK$0.10 each to HK$0.01 each resulting in the reduction of the authorized share capital of the Company from HK$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK$50,000,000 divided into 5,000,000,000 new Shares of HK$0.01 each; and (iii) the credit arising from the reduction of issued share capital of the Company be transferred to the contributed surplus account of the Company; and

(iii) capital increase that the authorized share capital of the Company be increased from HK$50,000,000 divided into 5,000,000,000 new Shares of HK$0.01 each to HK$500,000,000 divided into 50,000,000,000 new Shares of HK$0.01 each. The Capital Reorganisation was not yet completed up to the reporting date.

(d) On 21st January 2011, the Company and Eternity entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK$650,000,000 in two tranches at their face value. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK$649,500,000 will be used for financing the Acquisition, the development of the Sites and/or the general working capital of the Group.

52. COMPARATIVE FIGURES

Certain comparative figures of the previous year have been re-presented to conform with the current year's presentation.

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th March 2011.

3. STATEMENT OF INDEBTEDNESS

INDEBTEDNESS OF THE GROUP

Borrowings

As at the close of business on 31 March 2011, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$564,746,000 which comprised of (i) bank borrowing of HK$487,500,000 which are secured by the leasehold land and buildings of the Group, bank deposits and quota capital of a subsidiary and guaranteed as to 50% by the Company, as to 49% by a director of the subsidiary and 1% by other shareholder of the subsidiary indebted to this borrowing; (ii) amounts due to non-controlling interests of approximately HK$65,502,000 which are unsecured, interest-free and repayable on demand; (iii) amount due to an associate of approximately HK$11,471,000 which is unsecured, interest-free and repayable on demand; and (iv) obligation under financial lease of approximately HK$273,000.

Contingent liabilities

As at 31 March 2011, the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK$265,500,000, 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 31 March 2011, 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.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements and for the period up to twelve months from the date of this circular in the absence of unforeseen circumstances.

5. MATERIAL CHANGE

There has been no material change in the financial or trading position or outlook of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS

A. Business review for the year ended 31 December 2008

Business Overview

For the year ended 31st December 2008, the Group's turnover increased by 191% to approximately HK$227,747,000 (2007: HK$78,351,000). Profit from operations and profit for the year amounted to approximately HK$121,695,000 and HK$65,590,000 respectively as compared to loss from operations and loss for the year of HK$65,910,000 and HK$103,807,000 respectively for last year. The turnaround of the current year's result was mainly attributable to contribution from the sharing of profit streams from investments in gaming and entertainment business in Macau after the acquisition of the entire equity interest in Best Mind International Inc. ("Best Mind"). The profit attributable to equity holders of the Company for the year ended 31st December 2008 was HK$90,604,000, representing a 198% improvement over loss of HK$92,547,000 in the last year.

For the year ended 31st December 2008, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$77,330,000, a 50% increase from HK$51,585,000 as compared to the last corresponding year. The increase was mainly attributable to an impairment on amount due from associates of HK$25,179,000 for the year.

Finance costs for the year ended 31st December 2008 amounted to HK$31,522,000, an 146% increase from HK$12,827,000 as compared to the year ended 31st December 2007. The substantial increase in finance costs was attributable to the issue of an aggregate principal amount of HK$384,000,000 unsecured convertible notes ("Convertible Notes") as part of the consideration for the acquisition of Best Mind. In accordance with Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants, interest expenses of HK$13,729,000 for the Convertible Notes were calculated using the prevailing market interest rate of similar instruments of 7.75% per annum, instead of the actual coupon rate of 5% per annum.

Liquidity and financial resources

As at 31st December 2008, the Group had total assets of approximately HK$2,605,167,000 and a net current assets of approximately HK$132,755,000, representing a current ratio of 1.3 (2007: 1.6). The Group had cash and bank balances of approximately HK$138,145,000 (2007: HK$203,837,000, of which HK$181,102,000 classified as assets held for sale). As at 31st December 2008, the Group had total borrowings of HK$696,683,000 comprising a bank overdraft of HK$174,826,000, a bank mortgage loan of HK$8,467,000, a secured bank term loan of HK$375,000,000 and an outstanding convertible notes with liabilities component of HK$138,390,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of HK$40,880,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 61 monthly instalments. The bank overdraft facility and the term loan were secured by the Group's leasehold land, building and construction in progress with carrying value of approximately HK$991,034,000 (2007: HK$794,813,000, classified as assets held for sale). The term loan was repayable by 18 equal consecutive quarterly installments of HK$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. The overdraft facility was repayable on demand and reviewed annually by the bank. The outstanding convertible notes were unsecured, interest bearing at coupon rate of 5% per annum and will mature on 17th May 2012. The convertible notes carry the right to convert into Shares at an adjusted conversion price of HK$3.0 per share as of 31st December 2008. As at 31st December 2008, KHL, a subsidiary of the Company had banking facilities amounting to HK$575,000,000 which were utilised to the extent of HK$549,826,000. The Group's gearing remained reasonable during the year with total debts of HK$696,683,000 against shareholders' funds of HK$1,418,711,000. This represents a gearing ratio, calculated on the basis of the Group's total borrowings over shareholders' fund of 49%.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Patacas and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedging activity was considered necessary. As at 31st December 2008, the Group had no contingent liability.

Employees

As at 31st December 2008, the Group employed 93 staffs (2007: 78 staffs). The Directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

B. Business review for the year ended 31 December 2009

Business Overview

For the year ended 31st December 2009, the Group's turnover increased by 139% to approximately HK$543,429,000 (2008: HK$227,747,000). Profit from operations and profit for the year amounted to approximately HK$251,153,000 and HK$164,395,000 respectively as compared to HK$121,695,000 and HK$65,590,000 respectively for the year ended 31 December 2008. The profit attributable to owners of the Company for the year ended 31st December 2009 was HK$204,388,000, representing a 126% improvement over HK$90,604,000 in the year ended 31 December 2008.

For the year ended 31st December 2009, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$254,518,000, a 229% increase from HK$77,330,000 as compared to corresponding year. The increase was mainly attributable to the operations of the hotel and gaming service operations during the year. Employee benefit expenses increased from HK$32,774,000 to HK$77,651,000 with respect to the increase in the number of employees in Lan Kwai Fong after its grand opening in August 2009.

Liquidity and financial resources

As at 31st December 2009, the Group had total assets of approximately HK$3,190,275,000 and a net current assets of HK$247,563,000, representing a current ratio of 1.4 (2008: 1.3). The Group had cash and cash balances of approximately HK$173,188,000 (2008: HK$138,145,000). As at 31st December 2009, the Group had total borrowings of HK$590,071,000 comprising a bank mortgage loan of HK$5,906,000, a secured bank overdraft of HK$178,764,000, a secured bank term loan of HK$275,000,000 ("Term Loan I"), a secure bank term loan of HK$60,000,000 ("Term Loan II"), an unsecured bank term loan of HK$70,000,000 ("Term Loan III") and obligation under finance lease of HK$401,000. The bank mortgage loan is secured by the Group's investment properties with carrying value of HK$61,310,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 49 monthly instalments. The bank overdraft facility, Term Loan I and Term Loan II are secured by the Group's leasehold land, buildings and construction in progress with an aggregate carrying values of approximately HK$761,223,000 (2008: HK$991,034,000). The bank overdraft facility is interest bearing at 1% per annum below the bank's best lending rate, repayable on demand and reviewed by the bank annually. Term Loan I is interest bearing at 2.0% per annum below the bank's best lending rate, repayable by 18 equal consecutive quarterly installments of HK$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term Loan II and Term Loan III are interest bearing at 2.2% and 3% per annum respectively over 1-month HIBOR, repayable by 12 equal consecutive monthly installments of HK$10,000,000 each commencing from the first month after the date of drawdown. As at 31st December 2009, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK$535,600,000 which were utilised to the extent of HK$513,764,000. The Group's gearing remained low during the year with total debts of HK$590,071,000 against owners' equity of HK$2,075,122,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 28%.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2009, the Group had no contingent liability.

Employees

As at 31st December 2009, the Group employed 526 staffs (2008: 93 staffs). The Directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

C. Business review for the year ended 31 December 2010

Business Overview

For the year ended 31st December 2010, the Group's turnover increased by 59% to approximately HK$864,261,000 (2009: HK$543,429,000). Profit from operations and profit for the year amounted to approximately HK$41,033,000 and HK$24,827,000 respectively as compared to HK$251,153,000 and HK$164,395,000 respectively for last year. The substantial decrease was mainly attributable to an aggregate impairment losses of HK$206,948,000 recognised in respect of intangible assets of HK$197,973,000 and goodwill of HK$8,975,000 during the interim review of the Group as at 30th June 2010 with regard to the decrease in sharing of profit streams from investments in gaming promotion business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming promotors at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. As at 31st December 2010, the Group did not identify further impairment losses. Taking out the effect of the impairment losses recognised, the Group's profit from operations and profit for the year would amounted to approximately HK$247,981,000 and HK$231,775,000 respectively. The loss attributable to owners of the Company for the year ended 31st December 2010 was HK$8,083,000, representing a 104% decrease over profit of HK$204,388,000 in the last year.

For the year ended 31st December 2010, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$347,548,000, a 83% increase from HK$190,264,000 as compared to the last corresponding year. The increase was mainly attributable to the full operations of Lan Kwai Fong during the year as compared to 5 months in the last corresponding year. Employee benefit expenses increased 32% from HK$77,651,000 to HK$102,334,000 for the same reason.

Liquidity and Financial Resources

As at 31st December 2010, the Group had total assets of approximately HK$3,345,092,000 and net current assets of HK$1,059,311,000, representing a current ratio of 5.7 (2009: 1.4). The Group had cash and cash balances of approximately HK$625,827,000 (2009: HK$173,188,000). As at 31st December 2010, the Group had total borrowings of HK$500,000,000 which comprised a secured bank term loan ("Term Loan"). The Term Loan is interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 19 equal consecutive quarterly installments of HK$12,500,000 each commencing from the third month after the date of the first loan drawdown and a final repayment for the remaining balance. As at 31st December 2010, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK$536,000,000 which were utilised to the extent of HK$500,000,000. The Group's gearing was low during the year with total debts of HK$500,000,000 against owners' equity of HK$2,302,775,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 22% (2009: 28%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2010, the Group had no contingent liability.

Employees

As at 31st December 2010, the Group employed 556 staffs (2010: 526 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the rights issue of not less than 1,473,536,625 shares of the Company (the "Share") and not more than 1,684,106,889 Shares at a price of HK$0.25 each on the basis of three rights Shares for every one Share held (the Rights Issue") on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue and the capital reorganisation of the Company which were disclosed in the announcements of the Company dated 9 February 2011 and 28 February 2011 and the circular of the Company dated 7 March 2011 (the "Capital Reorganisation") had been completed on 31 December 2010.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Rights Issue been completed as at 31 December 2010 or any other future date.

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 and adjusted for the effect of the Rights Issue.

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010	**Estimated net proceeds from the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 immediately after completion of the Rights Issue**
	(Note 1)	*(Note 2)*	
	HK$'000	*HK$'000*	*HK$'000*
Based on 1,473,536,625 Shares to be issued	1,471,184	363,529	1,834,713
Based on 1,684,106,889 Shares to be issued	1,471,184	414,855	1,886,039
Consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 prior to effect of the Capital Reorganisation and completion of the Rights issue *(Note 3)*			HK$0.34
Consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 after effect of the Capital Reorganisation and prior to completion of the Rights Issue *(Note 4)*			HK$3.40
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 immediately after effect of the Capital Reorganisation and completion of the Rights Issue based on 1,473,536,625 Shares to be issued *(Note 5)*			HK$0.96
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 immediately after effect of the Capital Reorganisation and completion of the Rights Issue based on 1,684,106,889 Shares to be issued *(Note 6)*			HK$0.89

Notes:

1. The amount represents the consolidated net assets of the Group attributable to owners of the Company as at 31 December 2010 of approximately HK$2,302,775,000 less intangible assets, being intangible assets of approximately HK$791,232,000, film rights of approximately HK$21,321,000 and films in progress of approximately HK$19,038,000. These figures were extracted from the audited consolidated statement of financial position of the Group as at 31 December 2010 as set out in the annual report of the Company for the year ended 31 December 2010.

2. The estimated net proceeds from the Rights Issue of approximately HK$363,529,000 are based on 1,473,536,625 Shares to be issued at HK$0.25 per Share and after deduction of estimated related expenses of approximately HK$4,855,000, including underwriting commission, legal and professional fees and other related expenses.

   The estimated net proceeds from the Rights Issue of approximately HK$414,855,000 are based on 1,684,106,889 Shares to be issued at HK$0.25 per Adjusted Share and after deduction of estimated related expenses of approximately HK$6,172,000, including underwriting commission, legal and professional fees and other related expenses.

3. The consolidated net tangible assets of the Group attributable to owners of the Company per Share prior to effect of the Capital Reorganisation and completion of the Rights Issue is based on 4,333,933,757 Shares in issue as at 31 December 2010.

4. The consolidated net tangible assets of the Group attributable to owners of the Company per Share after effect of the Capital Reorganisation and prior to completion of Rights Issue is based on 433,393,375 Shares in issue as at 31 December 2010.

5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after effect of the Capital Reorganisation and completion of the Rights Issue and on the basis of 1,906,930,000 Shares in issue or to be issued, comprising 433,393,375 Shares in issue as at 31 December 2010 and 1,473,536,625 Shares to be issued.

6. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after effect of the Capital Reorganisation and completion of the Rights Issue and on the basis of 2,117,500,264 Shares in issue or to be issued, comprising 433,393,375 Shares in issue as at 31 December 2010 and 1,684,106,889 Shares to be issued.

7. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2010.

8. The above adjustments do not take into account of the following transaction subsequent to 31 December 2010:

   - approximately HK$39,930,000 received from 577,855,000 Shares (equivalent to 57,785,500 Shares after effect of the Capital Reorganisation) issued upon completion of placing on 27 January 2011.

   If the effect of this transaction was taken into account,

   - the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue based on 1,473,536,625 Shares to be issued would have been approximately HK$0.95, which is based on 1,964,715,500 Shares in issue or to be issued.

   - the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue based on 1,684,106,889 Shares to be issued would have been approximately HK$0.89, which is based on 2,175,285,764 Shares in issue or to be issued.

2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of the report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group set out in this appendix.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

20 May 2011

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 statement of adjusted consolidated net tangible assets of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") attributable to owners of the Company, which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the proposed rights issue upon the Capital Reorganisation becoming effective of not less than 1,473,536,625 shares of the Company and not more than 1,684,106,889 shares at a price of HK$0.25 each on the basis of three rights shares for every one share held might have affected the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company presented for inclusion in Section 1 of Appendix III to the circular issued by the Company dated 20 May 2011 (the "Circular"). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is set out on pages 146 to 148 of Appendix III to the Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company 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 statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company 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 explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company 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 future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

Opinion

In our opinion:

- the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been properly compiled 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 unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of the letter and valuation certificate received from Grant Sherman Appraisal Limited in connection with its opinion of the market value of the Properties of the Group in Hong Kong as at 31 March 2011 prepared for the purpose of incorporation in this circular.

GRANT SHERMAN APPRAISAL LIMITED

Room 1701 on 17/F Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

20 May 2011

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

Dear Sirs,

In accordance with your instructions for us to value the property interests held by China Star Entertainment Limited ("the Company") or its subsidiaries (together referred to as "the Group") located in Hong Kong, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such interests as at 31 March 2011 (the "Valuation Date").

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

We have valued the property interests by comparison approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors and Rule 11 of the Codes on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission.

Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the property value.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In course of our valuations of the property interest, we have neither verified nor taken into account any tax liability in Hong Kong. As advised by the Company, types of potential tax liability include stamp duty and profits tax for properties located in Hong Kong. According to the information provided by the management of the Group, all the properties located in Hong Kong are held by the Group for owner occupation. As such, the Group has no plan to sell any or all the properties and it is unlikely that the potential tax liability will be crystallized in the near future.

We have caused searches to be made on the title of the properties, however, we have not scrutinized the original title documents. In course of our valuation, we have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as statutory notices, easements, tenure, occupancy, floor areas, identification of the properties and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have relied on the Company's confirmation that no material fact has been omitted from the information so supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interiors of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. No structual survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible.

We enclose herewith the summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai
MRICS MHKIS RPS(GP)
Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Property interests held by the Group for owner occupation in Hong Kong

	Property	**Market Value as at 31 March 2011** *(HK$)*
1.	Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement No.160 Waterloo Road Kowloon Tong Hong Kong	HK$76,850,000
2.	Units 9 and 10 on 6th Floor Leader Industrial Centre Nos. 57-59 Au Pui Wan Street Shatin New Territories	HK$1,980,000
3.	Unit D on 11th Floor Unison Industrial Centre Nos. 27-31 Au Pui Wan Street Shatin New Territories	HK$8,479,000
	Total	HK$87,309,000

VALUATION CERTIFICATE

	Property	Description and Tenure	Market value as at 31 March 2011
1.	Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement No.160 Waterloo Road Kowloon Tong Hong Kong 1/4th shares of and in New Kowloon Inland Lot No.4093	The property comprises a duplex residential flat on the second and third floors, the roof over it and a portion including two car-parking spaces on the basement level of a 3-storey(plus a car parking basement level) residential building completed in about 1998. The property has a total saleable floor area of about 3,900 sq ft and a roof area of about 1,500 sq ft. The property is currently occupied by the Company for staff quarter. The property is held under the government lease due to expiry on 30 June, 2047. The Government rent payable for New Kowloon Inland Lot No. 4093 is $2,520 per annum.	HK$76,850,000

Notes:

(i) The registered owner of the property is Newrich (H.K.) Limited, a wholly-owned subsidiary of the Company registered vide Memorial No.UB8575284 dated 17 December, 2001.

(ii) The property is subject to a mortgage in favour of Hang Seng Bank Limited vide Memorial No.UB8575285 dated 17 December, 2001.

VALUATION CERTIFICATE

	Property	Description and Tenure	Market value as at 31 March 2011
2.	Units 9 and 10 on 6th Floor Leader Industrial Centre Nos.57-59 Au Pui Wan Street Shatin, New Territories 6/1637th shares of and in Sha Tin Town Lot No.175	The property comprises two contiguous workshops on the 6th floor of a 16-storey industrial building completed in 1987. The workshops have a total saleable floor area of approximately 1,060 sq ft. It is currently occupied by the Company for storage. The property is held under New Grant No. 11782 and due to expiry on 30 June, 2047. The Government rent payable for Sha Tin Town Lot No. 175 is $300 per annum.	HK$1,980,000

Notes:

(i) The registered owner of the property is China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No. 05080402100022 dated 7 July, 2005.

(ii) According to the land search record from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

VALUATION CERTIFICATE

	Property	Description and Tenure	Market value as at 31 March 2011
3.	Unit D on 11th Floor Unison Industrial Centre Nos. 27-31 Au Pui Wan Street Shatin New Territories 14/920th shares of and in Sha Tin Town Lot No.67	The property comprises an industrial unit on the 11th floor of a 17-storey industrial building completed in about 1982. The workshop has a total saleable floor area of approximately 5,122 sq.ft. It is currently occupied by the Company for storage. The property is held under New Grant No. 11250 for a term of 99 years and statutorily extended to 30 June, 2047. The Government rent payable for Sha Tin Town Lot No. 67 is $300 per annum.	HK$8,479,000

Notes:

(i) The registered owner of the property is Star Laser Disc Limited (former name of China Star Laser Disc Company Limited), a wholly-owned subsidiary of the Company, registered vide Memorial No.689895 dated 15 March, 1993.

(ii) According to the land search record from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

The following is the text of the letter and valuation certificates received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Properties of the Group in Macau as at 31 March 2011 prepared for the purpose of incorporation in this circular.

DTZ 戴德梁行

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

20 May 2011

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

Dear Sirs,

We refer to your instructions for us to carry out market valuations of the properties which are held by China Star Entertainment Limited and/or its subsidiaries (together the "Group") in Macau. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the properties as at 31 March 2011 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

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

We have valued the properties on market value basis by making reference to comparable sales transactions as available in the relevant market and where appropriate by capitalising the rental income derived from the existing tenancies with due provision for any reversionary income potential of the properties.

In valuing the properties, we have complied with the requirement set out in Chapter 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited, the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors and Rule 11 of the Codes on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission.

As advised by the Group, types of potential tax liability include stamp duty and profits tax for properties located in Macau. According to the information provided by the Group, all the properties located in Macau are held by the Group for owner occupation. As such, the Group has no plan to sell any or all the properties and it is unlikely that the potential tax liability will be crystallized in the near future.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of property, particulars of occupancy, floor areas, floor plans, trading accounts, number of guest rooms and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the properties but have caused searches to be made at the Land Registry in Macau. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties. However, no structural survey has been made and we are unable to report on their structural conditions. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong Dollars. The exchange rate adopted in our valuations for the properties is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor (GP)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 25 years of experience in valuation of properties in Hong Kong and Macau.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 31 March 2011 *HK$*
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	1,200,000,000
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	20,000,000
	Total:	1,220,000,000

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	The property comprises an 18-storey hotel block plus a basement. The property was completed in about 1992 and was renovated in August 2009. It was erected on a rectangular piece of land with a registered site area of approximately 4,504 sq.m. (48,481 sq.ft.). The accommodation of the subject hotel is as follows: **Floor** — **Accommodation** Basement — 34 car parking spaces and back of house facilities. Ground — Hotel entrance and commercial areas. 1st — Commercial areas. 2nd — Commercial areas. 3rd — Hotel reception lobby, front desk, restaurants, cafe and lounge. 4th — Restaurant and kitchens. 5th — Hotel office and back of house facilities. 6th to 16th — 209 hotel guest rooms. 17th — Commercial areas. The total gross floor area of the property is approximately 25,299.7 sq.m. (272,326 sq.ft.) (inclusive of area of basement).	As at the date of valuation, the property was operated as a hotel. Portion of the property with a total floor area of approximately 1,503.34 sq.m. (16,182 sq.ft.) was let on various tenancies with the latest term due to expire in August 2018 at a total monthly rent of about HK$420,000.	HK$1,200,000,000

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011
	The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 October 1989. In undertaking our valuation, we have assumed that after the expiry, the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.		

Notes:

(1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada, a wholly-owned subsidiary of China Star Entertainment Limited.

(2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Industrial and Commercial Bank of China (Macau) Limited.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	The property comprises a total of 16 domestic units in two 15-storey residential buildings which are erected upon a 3-level commercial and car parking podium completed in about 1991. The total saleable area of the property is approximately 859.66 sq.m. (9,253 sq.ft.). The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 March 1986. In undertaking our valuation, we have assumed that after the expiry, the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.	As at the date of valuation, the property was occupied by the Group as staff quarters.	HK$20,000,000

Notes:

(1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada, a wholly-owned subsidiary of China Star Entertainment Limited.

(2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Industrial and Commercial Bank of China (Macau) Limited.

1. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of HWKFE jointly and severally accepts full responsibilities for the accuracy of the information contained in this circular (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) assuming none of the EOEW are exercised before Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants; and (iii) assuming the EOEW are exercised in full before Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants, is as follows:

(i) As at the Latest Practicable Date

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid share capital or credited as fully paid:		
491,179,000	Shares	4,911,790.00

(ii) Assuming none of the EOEW are exercised before Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid share capital or credited as fully paid:		
491,179,000	Shares	4,911,790.00
1,473,537,000	Rights Shares to be issued	14,735,370.00
294,707,400	Bonus Warrants Shares to be issued	2,947,074.00
2,259,423,400	Shares	22,594,234.00

(iii) Assuming the EOEW are exercised in full before Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid share capital or credited as fully paid:		
491,179,000	Shares	4,911,790.00
45,640,212	Shares to be issued assuming full exercised of the EOEW	456,402.12
1,610,457,636	Rights Shares to be issued	16,104,576.36
322,091,527	Bonus Warrants Shares to be issued	3,220,915.27
2,469,368,375	Shares	24,693,683.75

Save as disclosed above and the Irrevocable Undertakings, as at the Latest Practicable Date, the Company had no options, warrants and conversion rights convertible into shares of the Company. There were 577,856,243 Original Shares issued since 31 December 2010, being the end of the last financial year.

No capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. All the Rights Shares which will be in issue upon completion of the Rights Issue and the Bonus Warrants Shares to be allotted and issued upon exercise of the subscription rights attached to the Bonus Warrants will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue regards to all rights as to dividends, voting and return of capital.

The issued Shares are listed and traded on the Stock Exchange. None of the Shares is listed, or dealt in, on any other exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

3. PROFILES OF DIRECTORS

Executive Directors

Mr. HEUNG Wah Keung, aged 62, is the Chairman of the Company. He is the husband of Ms. Chen Ming Yin, Tiffany, Vice Chairman of the Company. He has over 30 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 the vice-chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive director of the Company in 1996.

Ms. CHEN Ming Yin, Tiffany, aged 54, is the Vice Chairman of the Company. She is the wife of Mr. Heung Wah Keung and has over 25 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. 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.

Ms. LI Yuk Sheung, aged 43, 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.

Independent Non-executive Directors

Mr. HUNG Cho Sing, aged 70, 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 by the HKSAR Government as a member of the Hong Kong Film Development Council since 2007. He was also appointed as a director of the China Film Association since 2009. Mr. Hung was appointed as a non-executive Director in 1996.

Mr. HO Wai Chi, Paul, aged 60, 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. LEUNG Hok Man, aged 48, is an independent non-executive Director. Mr Leung studied 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 practice in the field of intellectual property laws. 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.

4. CORPORATE INFORMATION

Board of Directors	*Executive Directors* Mr. Heung Wah Keung Ms. Chen Ming Yin, Tiffany Ms. Li Yuk Sheung
	Independent Non-executive Directors Mr. Hung Cho Sing Mr. Ho Wai Chi, Paul Mr. Leung Hok Man
	Audit Committee Mr. Hung Cho Sing Mr. Ho Wai Chi, Paul Mr. Leung Hok Man
	Remuneration Committee Ms. Chen Ming Yin, Tiffany Mr. Hung Cho Sing Mr. Leung Hok Man
	Nomination Committee Mr. Heung Wah Keung Mr. Hung Cho Sing Mr. Leung Hok Man
Registered office	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
Head office and principal place of business in Hong Kong	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Company secretary	Ms. Wong Shuk Han, Dorothy

Authorised representatives	Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany
Auditors	HLB Hodgson lmpey Cheng
Principal registrar and transfer office	Butterfield Fulcrum Group (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 Industrial and Commercial Bank of China (Macau) Limited Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited
Stock code	326
Website	www.chinastar.com.hk www.irasia.com/listco/hk/chinastar

5. PARTIES INVOLVED IN THE RIGHTS ISSUE AND THE BONUS ISSUE

Underwriters	Mansion House Securities (F.E.) Limited Heung Wah Keung Family Endowment Limited
Financial adviser to the Company	Nuada Limited 17/F, BLINK 111 Bonham Strand Sheung Wan Hong Kong
Independent Financial Adviser	Goldin Financial Limited 23rd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong

Legal advisers to the Company	*As to Bermuda Law:* Appleby 2206-19 Jardine House 1 Connaught Place Central, Hong Kong *As to Hong Kong Law:* Michael Li & Co 14/F, Printing House, 6 Duddell Street, Central, Hong Kong
Auditors	HLB Hodgson Impey Cheng 31/F., Gloucester Tower, The Landmark 11 Pedder Street Central, Hong Kong
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

6. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months preceding the date of the Announcement and up to the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
30 September 2010	0.97
29 October 2010	0.95
30 November 2010	0.82
23 December 2010	0.79
21 January 2011	0.73
28 February 2011	0.49
29 March 2011 (Last Trading Date)	0.55
29 April 2011	0.45
Latest Practicable Date	0.29

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$1.03 and HK$0.285 on 21 October 2010 and 17 May 2011 respectively.

7. DIRECTORS' 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 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	898,699,702 *(Note a)*	247,803,824 *(Note b)*	1,146,503,526	233.41
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 *(Note a)*	247,803,824 *(Note b)*	1,146,503,526	233.41
Ms. Li Yuk Sheung	Beneficial owner	–	9,268	9,268	0.00

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 898,686,000 Shares (including 24,671,500 Shares and 874,014,500 Shares undertake and underwritten under the arrangement of the Rights Issue) by HWKFE and as to 13,702 Shares by Dorest.

(b) These underlying Shares comprised (i) outstanding options of the Company which are held as to 926 Share Options by Mr. Heung and as to 926 Share Options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the Share Options of each other; and (ii) HWKFE Warrants and Dorest Warrants; and (iii) Chen Conversion Bonds and (iv) 174,802,900 Bonus Warrants to be issued to HWKFE in respect of the Rights Shares undertake or underwritten by HWKFE under the Rights Issue.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in any Shares, options, warrants, derivatives or securities carrying conversion or subscription rights into Shares.

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

(b) Directors' interests in assets of the Company

Save for 2009 Proposed Acquisition, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

Save for Ms. Chen, 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 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

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

(c) Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies: (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the offer period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Name	Capacity	Number of Shares or underlying Shares held	Approximate % of interest held
Eternity	Beneficial owner/ Interests of controlled corporation	1,134,921,978	50.54
Riche (BVI) Limited	Interests of controlled corporation	322,421,978	14.36
Simple View	Beneficial owner	322,421,978	14.36
HWKFE	Beneficial owner	1,076,485,066	219.16

All interests stated above represent long positions.

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 which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

Interests in HWKFE

As at the Latest Practicable Date, the Group did not have any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of HWKFE or its associates.

As at the Latest Practicable Date, the entire issued share capital of HWKFE was beneficially owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and none of the other Directors had any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of HWKFE or its associates.

Dealings in securities of the Company

During the Relevant Period, none of the Directors or any member of the Concert Group had any dealings in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Company.

Dealings in securities of HWKFE

During the Relevant Period, none of the Directors or the Company had any dealings in the shares or any options, warrants, derivatives or securities carrying conversion or subscription rights into shares of HWKFE.

Interests in other members of the Group

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10 per cent. or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

Name of subsidiary	Name of shareholder	Approximate shareholding
Charm Faith Holdings Limited	Most Famous Enterprises Limited	49%
Classic Management & Service Company Limited	Most Famous Enterprises Limited	49%
Hotel Lan Kwai Fong (Macau) Limited	Most Famous Enterprises Limited	49%
Turbo International Co. Ltd.	Long Shong Pictures (H.K.) Limited	40%
Winner's Entertainment Limited	Wong Han Sau, Cecillia	49%

Interests of experts in the Group

None of the experts named in the paragraph headed "Qualification of experts" in this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

Interests in assets

None of the experts named in the paragraph headed "Qualification of experts" in this appendix 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 any member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

Interest in competing business

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Miscellaneous

As at the Latest Practicable Date:

(a) no shares, options, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Nuada Limited or Mansion House or Goldin Financial or by any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;

(b) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over Shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to such securities which may be an inducement to deal or refrain from dealing) with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;

(c) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over Shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to such securities which may be an inducement to deal or refrain from dealing) with any member of the Concert Group;

(d) no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was managed on a discretionary basis by fund managers connected with the Company;

(e) none of the Company, any Director or any member of the Concert Group had borrowed or lent any Shares, options, warrants, derivatives or securities carrying conversion or subscription rights into Shares;

(f) none of the members of the Concert Group had borrowed or lent any Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares;

(g) no benefit has been or would be given to any Director as compensation for loss of office or otherwise in connection with the Rights Issue and/or the Whitewash Waiver;

(h) save for the Underwriting Agreement, there was (i) no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Concert Group and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Rights Issue and/or the Whitewash Waiver; and (ii) no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Rights Issue and/or the Whitewash Waiver or otherwise connected with the Rights Issue and/or the Whitewash Waiver;

(i) save for the Underwriting Agreement, no material contracts had been entered into by HWKFE in which any Director had a material personal interest;

(j) save for the Underwriting Agreement, there was no agreement or arrangement to which HWKFE was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Rights Issue;

(k) save as disclosed in this section, no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by any member of the Concert Group; and

(l) no shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by any persons who, prior to the posting of this circular irrevocably committed themselves or undertake to vote for or against the Rights Issue and/or the Whitewash Waiver.

(m) save for Mr. Heung and Ms. Chen who are required to abstain from voting, none of the Directors hold Shares and, therefore, would not vote at the SGM.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by members of the Group within the two years preceding 18 April 2011 (being the date of the Announcement) and up to the Latest Practicable Date and are or may be material:

(a) the conditional placing agreement dated 12 May 2009 entered into between the Company and Kingston Securities Limited relating to the placing of up to a maximum of 800,000,000 new Original Shares (by a maximum of eight tranches in which each tranche shall not be less than 100,000,000 new Shares, save for the last tranche) on a fully underwritten basis to independent investors at a price of HK$0.2 per Original Share;

(b) the conditional sale and purchase agreement dated 8 June 2009 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Elite Plan Investments Limited relating to the disposal of the entire issued share capital of Bingo Chance Limited at a total consideration of HK$22,960,000;

(c) the conditional sale and purchase agreement in respect of the 2009 Proposed Acquisition;

(d) the conditional placing agreement dated 16 July 2009 entered into between the Company and Kingston Securities Limited in relation to a placing of 207,900,000 new Original Shares on a fully underwritten basis to professional investors at a price of HK$0.22 per Original Share;

(e) the conditional subscription agreement dated 23 July 2009 entered into between the Company and China Star Investment Holdings Limited in relation to the proposed subscription of a convertible bond in the principal amount of HK$200 million at an initial conversion price of HK$0.20 per Original Share;

(f) the subscription agreement dated 4 January 2010 entered into between the Company and Skylight Property Ltd. in relation to a subscription of 540,000,000 new Original Shares at an subscription price of HK$0.14 per Original Share;

(g) the warrant instrument dated 15 June 2010 signed by the Company relating to the issue of warrant on the basis of one warrant for every five Shares held at 8 June 2010 at an initial subscription price of HK$0.193 per Original Share;

(h) the underwriting agreement dated 8 July 2010 entered into between the Company and Kingston Securities Limited relating to the issue of not less than 1,444,643,184 rights Original Shares and not more than 1,925,410,126 rights Original Shares at a subscription price of HK$0.10 each on the basis of one rights Share for every two existing Shares held on 20 July 2010;

(i) a joint venture agreement dated 8 December 2010 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited relating to formation of a joint venture company which is engaged in production and distribution of films at a total capital contribution of HK$60 million;

(j) the conditional agreement in respect of the Proposed Acquisition;

(k) the conditional placing agreement dated 14 January 2011 entered into between the Company and Kingston Securities Limited in relation to a placing of up to 577,855,000 new Original Shares on a best effort basis at a price of HK$0.07 per Original Share;

(l) the conditional subscription agreement in respect of the Proposed Subscription; and

(m) the Underwriting Agreement.

10. LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

11. QUALIFICATION OF EXPERTS

The qualifications of the experts who have given opinions in this circular are as follows:

Name	Qualification
HLB Hodgson Impey Cheng	Certified Public Accountants
Goldin Financial	a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance
Grant Sherman Appraisal Limited	Independent Professional Valuer
DTZ Debenham Tie Leung Limited	Independent Professional Valuer

12. CONSENTS

The experts named in the paragraph headed "Qualification of experts" in this appendix have given and have not withdrawn their respective written consents to the issue of this circular with copies of their reports or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Nuada Limited, the financial adviser to the Company, has given and has not withdrawn its consent to the publication of its name in this circular.

13. EXPENSES

The estimated expenses in connection with the Rights Issue and the Bonus Issue, including the underwriting commission, the financial advisory fees, printing, registration, translation, legal and accountancy charges and other related expenses are estimated to amount to approximately HK$4.9 million and will be payable by the Company.

14. GENERAL

(a) The registered office of HWKFE is Portcullis Trustnet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands and its correspondence address in Hong Kong is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(b) The address of Simple View is Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(c) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(d) 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.

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

(f) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriters and any other person whereby the Shares to be acquired under the Rights Issue will be transferred, charged or pledged to any other persons.

(g) The address of Goldin Financial is at 23/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

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

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) 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 during normal business hours from 10:00 a.m. to 6:00 p.m.; (ii) on the website of the SFC (www.sfc.hk); or (iii) on the Company's website up to and including Monday, 30 May 2011 being the date of the SGM:

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

(b) the memorandum and articles of association of HWKFE;

(c) the annual reports of the Company for each of the two years ended 31 December 2010 and 2009;

(d) the letter from Goldin Financial the text of which is set out on pages 36 to 53 of this circular;

(e) the letter from the Independent Board Committee the text of which is set out on page 35 of this circular;

(f) the letter from the Board the text of which is set out on pages 11 to 34 of this circular;

(g) the accountants' report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group issued by HLB Hodgson Impey Cheng, the text of which is set out in Appendix II to this circular;

(h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

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

(j) the Companies Act.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 972)

NOTICE IS HEREBY GIVEN that a special general meeting (the "Meeting") of China Star Entertainment Limited (the "Company") will be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 4:00 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) for the purpose of considering and, if thought fit, passing with or without modification the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) the Rights Issue (as defined below) and the transactions contemplated thereunder be and are hereby approved:

For the purpose of this resolution, "**Rights Issue**" means the proposed issue of not less than 1,473,536,625 Shares (as defined below) and not more than 1,684,106,889 Shares (the "**Rights Shares**") proposed to be offered to the qualifying shareholders of the Company whose names appear on the date by reference to which entitlement under the Rights Issue will be determined (other than those shareholders with addresses on the register of members of the Company outside Hong Kong whom the Directors, after making enquiries, consider their exclusion from the Rights Issue to be necessary or expedient) by way of rights issue on the basis of three Rights Shares for every one Share, with the proposed issue (the "**Bonus Issue**") of the bonus warrants (the "**Bonus Warrants**") on the basis of one Bonus Warrant for every five Rights Shares taken up, and "**Shares**" means the ordinary share(s) of HK$0.01 each in the capital of the Company upon the proposed capital reorganisation of the Company involving the consolidation of every ten existing shares of the Company into one consolidated share of the Company becoming effective;

(b) any director (the "**Director**") of the Company be and is hereby authorised to allot and issue the Rights Shares pursuant to and in connection with the Rights Issue;

(c) the Bonus Issue and the transactions contemplated thereunder be and are hereby approved;

(d) any Director be and is hereby authorised to issue the Bonus Warrants pursuant to and in connection with the Bonus Issue;

(e) any Director be and is hereby authorised to allot and issue the new Shares pursuant to the exercise of the subscription rights attached to the Bonus Warrant(s) to the relevant holder(s) of the Bonus Warrant(s);

(f) the entering into the underwriting agreement (the "**Underwriting Agreement**") (a copy of which is produced to the Meeting marked "A" and signed by the Chairman of the Meeting for the purpose of identification) dated 29 March 2011 (as supplemented by the supplemental agreement dated 18 April 2011) by the Company with Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited (the "HWKFE") in relation to the Rights Issue and the Bonus Issue be and is hereby approved, confirmed and ratified;

(g) subject to the Executive (as defined in the circular of the Company dated 20 May 2011 (the "Circular")) granting to the Concert Group (as defined in the Circular) and parties acting in concert with them the Whitewash Waiver (as defined in the Circular) and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on dispensations from Rules 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Concert Group and parties acting in concert with them to make a mandatory general offer to the shareholders of the Company to acquire shares in the Company other than those already owned or agreed to be acquired by the Concert Group and parties acting in concert with it (the terms of which is set out in the Circular (a copy of which is produced to the Meeting marked "B" and signed by the Chairman of the Meeting for the purpose of identification)) be and is hereby approved;

(h) any Director be and is hereby authorised to do all such things and acts, including but not limited to the execution of all such documents under seal where applicable, as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to the Rights Issue, the Bonus Issue, the Underwriting Agreement and the transactions contemplated thereunder."

By Order of the Board
China Star Entertainment Limited
Wong Shuk Han, Dorothy
Company Secretary

Hong Kong, 20 May 2011

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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

Notes:

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

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

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

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

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