THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this document 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 securities in China Star Entertainment Limited, you should at once hand this document together with the accompanying Acceptance Form 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.

This document should be read in conjunction with the accompanying Acceptance Form, the contents of which form part of the terms of the Offer contained therein.

All capitalised terms used in this cover page have the same meanings as defined in this document.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 1056)

(i) PROPOSED CONDITIONAL CASH OFFER BY GET NICE SECURITIES LIMITED ON BEHALF OF CHINA STAR ENTERTAINMENT LIMITED TO REPURCHASE UP TO 887,901,665 SHARES IN CHINA STAR ENTERTAINMENT LIMITED; (ii) APPLICATION FOR WHITEWASH WAIVER; (iii) POSSIBLE BONUS ISSUE AND ISSUE OF BONUS CBS TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT; (iv) PROPOSED AMENDMENTS TO THE BYE-LAWS AND (v) NOTICE OF SGM

Financial Adviser to the Company

Nuada Limited

Corporate Finance Advisory

Joint Independent Financial Advisers to the Independent Board Committee

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

大有融資有限公司
MESSIS CAPITAL LIMITED

A letter from the Board and a letter from Get Nice are set out on pages 8 to 28 and pages 29 to 38 of the Circular respectively.

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 39 and 40 of the Circular. A letter from the Independent Financial Advisers to the Independent Board Committee, containing its recommendations in respect of the Offer and Whitewash Waiver, is set out on pages 41 to 63 of the 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, Thursday, 25 October 2012 at 12:00 noon is set out on pages 260 to 265 of the 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 procedures for acceptance of the Offer and related information are set out in Appendix I to the Circular and in the accompanying Acceptance Form. Acceptances of the Offer should be received by the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. (Hong Kong time) on Friday, 9 November 2012 or such later time(s) and, or date(s) as the Company may determine and announce in accordance with the requirements of the Takeovers Code.

Shareholders and potential investors should note that the Offer is subject to fulfillment of conditions under the Offer. It may or may not become unconditional in all respects and the Offer may lapse. The Possible Bonus Issue is conditional on the Offer becoming or being declared unconditional in all respects and the Possible Bonus Issue may or may not be made, and if made, it would be after the Offer is closed and would be subject to fulfillment of conditions and may not become unconditional in all respects.

28 September 2012

CONTENTS

The timetable set out below is indicative only and may be subject to change. Any changes to the timetable will be announced by the Company.

	2012
Offer Period begins	Tuesday, 5 June
Despatch of the Circular	Friday, 28 September
Latest time for the holders of the Share Options and the Warrants II to exercise the relevant subscription rights for Shares in order to be entitled to attend and vote at the SGM	4:30 p.m. on Wednesday, 17 October
Latest time to lodge transfer of Shares in order to be entitled to attend and vote at the SGM	4:30 p.m. on Friday, 19 October
Latest time to lodge form of proxy for the SGM	12:00 noon on Tuesday, 23 October
Closure of register of members of the Company *(Note 1)*	Monday, 22 October to Thursday, 25 October
Record date for determination of entitlements to attend and vote at the SGM	Thursday, 25 October
SGM *(Note 2)*	12:00 noon on Thursday, 25 October
Announcement of the results of the SGM and whether the Offer has become unconditional in all respects	Not later than 7:00 p.m. on Thursday, 25 October
Latest time for the holders of the Share Options and the Warrants II to exercise the relevant subscription rights for Shares in order to accept the Offer	4:30 p.m. Wednesday, 31 October
Latest Acceptance Time *(Note 3)*	4:00 p.m. on Friday, 9 November
Closing date of the Offer *(Note 3)*	Friday, 9 November
Announcement of the results of the Offer *(Note 4)*	Not later than 7:00 p.m. on Friday, 9 November
Latest date for despatch of cheques to the Accepting Shareholders *(Note 5)*	Tuesday, 20 November

Notes:

1. The Register will be closed from Monday, 22 October 2012 to Thursday, 25 October 2012, both days inclusive, during which period no transfer of Shares will be effected.

2. The SGM will be convened on Thursday, 25 October 2012 at 12:00 noon.

3. In accordance with the Takeovers Code, the Offer must initially be opened for acceptance for at least 21 days following the date on which the Circular was posted. The expected latest time and date for acceptance of the Offer is 4:00 p.m. on Friday, 9 November 2012 unless the Offer is extended in accordance with the Takeovers Code.

   In any announcement of an extension of the Offer, either the next closing date must be stated or a statement may be made that the Offer will remain open until further notice. In the latter case, at least 14 days' notice by way of announcement will be given, before the Offer is closed, to those Shareholders who have not accepted the Offer.

   Where the Offer becomes or is declared unconditional in all respects, the Offer will remain open for acceptance for a period of not less than 14 days thereafter and at least 14 days notice by way of announcement must be given before the Offer is closed to those Shareholders who have not accept the Offer. An announcement will be made when the Offer becomes unconditional in all respects.

4. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on Friday, 9 November 2012 and any subsequent closing date (if any) stating whether or not the Offer has been revised or extended, has expired or has become or been declared unconditional in all respects.

5. Subject to the Offer becomes or is declared unconditional in all respects, pursuant to Rule 20.1 of the Takeovers Code, the Shares represented by acceptances of the Offer shall be paid for by the Company as soon as possible but in any event within 7 business days of the later of the date on which the Offer becomes, or is declared, unconditional in all respects and the date of receipt of a valid Acceptance Form accompanied by the Title Documents.

All references to times and dates in the Circular are references to Hong Kong local times and dates.

Dates or deadlines specified above may be varied or extended by the Company 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. Further information relating to acceptance, extensions and revisions has been disclosed in Appendix I to the Circular.

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

"Acceptance Form(s)"	the form(s) of acceptance and transfer of Shares to the Shareholders accompanying the Circular for acceptance of the Offer
"Accepting Shareholder(s)"	Shareholder(s) who accept(s) the Offer by submitting the Acceptance Form(s)
"acting in concert"	has the meaning ascribed to it under the Codes
"Announcement"	the announcement dated 4 June 2012 issued by the Company in relation to, among others, the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws
"Board"	the board of Directors
"Bonus CB(s)"	the new convertible bond(s) to be constituted by the Deed Poll and to be issued by the Company pursuant to the Possible Bonus Issue to Shareholders electing to receive such new convertible bond(s) in lieu of their entitlements to the Bonus Shares
"Bonus CB Holder(s)"	holder(s) of the Bonus CB(s)
"Bonus Share(s)"	new Share(s) to be issued pursuant to the Possible Bonus Issue
"Business Day"	any day (excluding a Saturday or Sunday and any day on which a tropical cyclone warning signal no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. to 5:00 p.m.) on which banks are generally open for business in Hong Kong
"Bye-laws"	the bye-laws of the Company
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Circular"	the circular to the Shareholders (comprising the offer document, the notice of SGM and the proxy form for voting at the SGM) in connection with, among other things, the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws
"Codes"	the Takeovers Code and the Repurchase Code

"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Companies Act"	the Companies Act 1981 of Bermuda (as amended)
"Company"	China Star Entertainment Limited, an exempted company incorporated in Bermuda with limited liability and 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, Twin Success, Victory Peace and Eternity Finance and their respective associates and parties acting in concert (has the same meaning ascribed to it under the Takeovers Code) with any of them
"Deed Poll"	the deed poll and any other documents (as from time to time altered in accordance with the Deed Poll) to be executed by the Company in order to provide for and to protect the rights and interests of the Bonus CB Holders
"Directors"	the directors of the Company
"DTZ"	DTZ Debenham Tie Leung Limited, an independent professional valuer
"Donvex"	Donvex Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity; and one of the independent financial advisers appointed to advise the Independent Board Committee regarding the terms of the Offer and the Whitewash Waiver
"Dorest"	Dorest Company Limited, an investment holding company 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 are under a charging order imposed by the liquidator of C.A. Pacific Finance Limited which is in liquidation
"Eternity"	Eternity Investment Limited (stock code: 764), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange and the largest single shareholder of which is Twin Success holding approximately 29.61% of its issued share capital as at the Latest Practicable Date

"Eternity Finance"	Eternity Finance Group Limited (formerly known as Wingo Consultants Limited), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"Get Nice"	Get Nice Securities Limited, a corporation licensed to conduct type 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
"Grant Sherman"	Grant Sherman Appraisal Limited, an independent professional valuer
"Group"	the Company together with its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HWKFE"	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Mr. Heung and as to 50% by Ms. Chen
"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors who have no interest or conflict of interest in the Offer and the Whitewash Waiver, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, which has been formed to advise the Independent Shareholders in respect of the Offer and the Whitewash Waiver
"Independent Financial Advisers"	Donvex and Messis
"Independent Shareholders"	Shareholders other than the Concert Group and those who are involved in or interested in the Offer and the Whitewash Waiver other than being as ordinary Shareholders

"Irrevocable Undertakings"	the irrevocable undertakings to the Company given by HWKFE, Mr. Heung, Ms. Chen, Eternity, Mr. Lei, Simple View, Victory Peace and Eternity Finance on 4 June 2012, details of which are set out in the paragraph headed "The Irrevocable Undertakings" in the "Letter from the Board" of the Circular
"Investor Participant"	a person admitted to participate in CCASS as an investor participant
"Issued CBs"	the convertible bonds in the aggregate principal amount of HK$350.00 million carrying rights entitling the holders thereof to convert their principal amount into 972,222,222 new Shares at an adjusted conversion price of HK$0.36 per Share (subject to further adjustment, if required)
"Last Trading Day"	2 May 2012, being the last trading day prior to suspension of trading in the Shares pending the publication of the Announcement
"Latest Acceptance Time"	the latest time for receipt by the Registrar of the Acceptance Forms submitted by the Shareholders, being 4:00 p.m. on Friday, 9 November 2012, or such later date as the Company may announce in accordance with the requirements of the Takeovers Code
"Latest Practicable Date"	Tuesday, 25 September 2012, being the latest practicable date prior to the despatch of the Circular for the purpose of ascertaining certain information contained in the Circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 December 2012, or such later date the Company may extend
"Messis"	Messis Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity; and one of the independent financial advisers appointed to advise the Independent Board Committee regarding the terms of the Offer and the Whitewash Waiver
"Mr. Heung"	Mr. Heung Wah Keung, an executive Director, a substantial Shareholder and the spouse of Ms. Chen
"Mr. Lei"	Mr. Lei Hong Wai, an employee of the Company, the chairman of the board of directors of Eternity, an executive director of Eternity and a substantial shareholder of Eternity by virtue of his 50% shareholding interest in Twin Success

"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive Director, a substantial Shareholder and the spouse of Mr. Heung
"Offer"	the conditional cash offer to be made by Get Nice on behalf of the Company to repurchase for cancellation up to 887,901,665 Shares at the Offer Price from the Shareholders (other than the Undertaking Parties)
"Offer Period"	has the meaning ascribed to it under the Takeovers Code and commencing from the date of the Announcement
"Offer Price"	HK$0.35 per Share
"Other Nominees"	the nominees, depositories, trustees or custodians or any third parties other than HKSCC Nominees
"Overseas Shareholder(s)"	Shareholder(s) whose address(es) as shown on the Register are outside Hong Kong
"Possible Bonus Issue"	possible issue of Bonus Shares by the Company on the basis of up to four Bonus Shares for every one existing Share held by the Shareholders whose names appear on the Register on the record date for ascertaining their entitlements
"Register"	the register of members of the Company
"Registrar"	Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
"Relevant Period"	the period from 4 December 2011, being the date falling six months before the date of the Announcement, up to and including the Latest Practicable Date
"Repurchase Code"	the Hong Kong Code on Share Repurchases
"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 Thursday, 25 October 2012 at 12:00 noon to consider and approve the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws

"Share(s)"	ordinary share(s) of HK$0.01 each in the issued and unissued share capital of the Company
"Shareholder(s)"	holder(s) of the issued Share(s)
"Share Options"	share options granted by the Company outstanding from time to time (being 3,013,112 outstanding share options exercisable into 3,013,112 new Shares as at the date of the Announcement or 2,976,198 outstanding share options exercisable into 2,976,198 new Shares as at the Latest Practicable Date)
"Simple View"	Simple View Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Title Document(s)"	the relevant Share certificate(s) and, or transfer receipt(s) and, or any document(s) of title with respect to the ownership of the Share(s) (and, or, any satisfactory indemnity or indemnities required in respect thereof)
"Twin Success"	Twin Success International Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned as to 50% by Mr. Lei, as to 25% by Mr. Cheung Kwok Wai, an executive director of Eternity, and as to 25% by Mr. Cheung Kwok Fan, a non-executive director of Eternity, and a substantial shareholder of Eternity
"Undertaking Parties"	HWKFE, Mr. Heung, Ms. Chen, Eternity, Mr. Lei, Simple View, Victory Peace and Eternity Finance, being parties who provided the Irrevocable Undertakings to the Company
"Unissued CBs"	the convertible bonds in principal amount of HK$300.00 million to be issued by the Company to Eternity, which is subject to conditions precedent and yet to be completed, details of which are set out in the announcement dated 9 February 2011 jointly issued by the Company and Eternity and the circular of the Company dated 1 April 2011
"Victory Peace"	Victory Peace Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity

"Warrants I"	the outstanding listed warrants (warrant code: 972) in an aggregate principal amount of HK$111,523,192.33 as at the date of Announcement entitling the holders thereof to subscribe for 133,560,709 new Shares at an adjusted subscription price of HK$0.835 per Share (subject to further adjustment, if required) and exercisable at any time during the period from 15 June 2010 to 14 June 2012 (both days inclusive) pursuant to the warrant instrument issued by the Company on 15 June 2010. Such warrant has expired on 14 June 2012. Details are set out in the Company's announcement dated 10 May 2012 and the Company's circular dated 11 May 2012
"Warrants II"	the outstanding listed warrants (warrant code: 1056) in an aggregate principal amount of HK$56,210,615.34 entitling the holders thereof to subscribe for 271,548,866 new Shares at an adjusted subscription price of HK$0.207 per Share (subject to further adjustment, if required) as at the Latest Practicable Date and exercisable at any time during the period from 29 June 2011 to 28 December 2012 (both days inclusive) pursuant to the warrant instrument issued by the Company on 29 June 2011
"Whitewash Waiver"	the waiver by the Executive under Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the HWKFE to make a general offer to the Shareholders for all issued shares and other securities of the Company not already owned or agreed to be acquired by HWKFE and parties acting in concert with it as a result of the Offer
"%"	per cent.

The following is the full text of a letter from the Board for the purpose of inclusion in the Circular.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

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. Tang Chak Lam, Gilbert

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

28 September 2012

To the Shareholders and the holders of Warrants II and for information only, the holders of Share Options and Issued CBs

Dear Sir or Madam,

(i) PROPOSED CONDITIONAL CASH OFFER BY GET NICE SECURITIES LIMITED ON BEHALF OF CHINA STAR ENTERTAINMENT LIMITED TO REPURCHASE UP TO 887,901,665 SHARES IN CHINA STAR ENTERTAINMENT LIMITED;
(ii) APPLICATION FOR WHITEWASH WAIVER;
(iii) POSSIBLE BONUS ISSUE AND ISSUE OF BONUS CBS TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT;
(iv) PROPOSED AMENDMENTS TO THE BYE-LAWS AND
(v) NOTICE OF SGM

INTRODUCTION

It was announced in the Announcement that the Offer would be made by Get Nice on behalf of the Company to repurchase for cancellation up to 790,055,284 Shares (assuming none of the Share Options, the Warrants I, the Warrants II and the Issued CBs are exercised or converted on or before the closing of the Offer), representing approximately 40.21% of the issued share capital of the Company as at the date of the Announcement, or 982,830,877 Shares (assuming all of the Share Options, the Warrants I and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer), representing approximately 45.55% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options, the Warrants I and the Warrants II (except for those held by the Undertaking Parties), at the Offer Price of HK$0.35 per Share. The Offer will be available for acceptance in respect of the Shares held by the Shareholders, the Offer is made in full compliance with the Codes.

As at the date of the Announcement, the Company had 1,964,721,284 in issue. After the date of the Announcement and up to the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, of which 82,142 Shares have been issued and allotted to the holders of the Warrants I and 84,378,880 Shares have been issued and allotted to the holders of the Warrants II, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Share as at the Latest Practicable Date.

As (i) the Warrants I and 36,914 Share Options have expired on 14 June 2012 and 15 July 2012 respectively; and (ii) the Issued CBs in an aggregate principal amount of HK$350.00 million and the Unissued CBs in an aggregate principal amount of HK$300.00 million will not be exercised or converted before the closing or lapse or termination of the Offer pursuant to the Irrevocable Undertakings given by the holders thereof, the maximum number of Shares to be repurchased and cancelled pursuant to the Offer would be 887,901,665 Shares (assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer), representing approximately 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options and the Warrants II (except for those held by the Undertaking Parties).

As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company and HWKFE, being one of the members of the Concert Group, held 898,686,000 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Upon completion of the Offer, the number of Shares held by HWKFE will remain unchanged, but its shareholding may increase from 43.86% to 76.50% (assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full on or before the closing of the Offer), thereby resulting in an increase by more than 2% in the relevant 12-month period under Rule 26.1 of the Takeovers Code. Accordingly, HWKFE would be obliged to make an unconditional mandatory offer under Rule 26.1 of the Takeovers Code for all issued shares and other securities of the Company not already owned, controlled or agreed to be acquired by HWKFE and parties acting in concert with it, unless, among others, the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll.

As a result of the Offer, it is possible that all Shares held by public Shareholders may be less than 25% of the Company's total issued share capital. Assuming the Offer becomes unconditional in all respects and the Shares held by public Shareholders are less than 25% of the Company's total issued share capital, the Company will take steps to ensure that sufficient Shares are held in the hands of the public as required under Rule 8.08(1)(a) of the Listing Rules, including but not limited to the Possible Bonus Issue.

If the Possible Bonus Issue is finally determined to be adopted by the Board as the method or one of the methods to be used to restore the minimum public float of the Company following the closing of the Offer, as the case may be, the Board will make a Possible Bonus Issue of up to a maximum of four Bonus Shares for every one existing Share held by the Shareholders, whose names appear on the Register on the record date for the Possible Bonus Issue, credited as fully-paid, and each eligible Shareholder will be given the option to elect to receive the Bonus CBs in lieu of all (or part) of its entitlement to the Bonus Shares under the Possible Bonus Issue.

As the Possible Bonus Issue, if made, will involve the issue of the Bonus CBs, in order to enable the Company to issue the Bonus CBs and new Shares or other securities to the Bonus CB Holders, whether upon conversion of the Bonus CBs or otherwise, and the distribution of the surplus assets of the Company to the Bonus CB Holders in the event of an involuntary winding up of the Company, in accordance with the Deed Poll and the terms and conditions of the Bonus CBs, the Board proposes that certain amendments be made to the Bye-laws. Such amendments to the Bye-laws will be conditional upon the Offer becoming or being declared unconditional in all respects.

This letter sets out, among other things, the details of the Offer, the Whitewash Waiver, the Possible Bonus Issue, the proposed amendments to the Bye-laws and the notice of SGM. Further details of the Offer and the Bonus CBs pursuant to the Possible Bonus Issue are set out in Appendix I and Appendix II to the Circular respectively.

The Concert Group are considered to have interest in the Offer and the Whitewash Waiver which is different from the interests of all other Shareholders. Accordingly, the Concert Group are required to abstain from voting for the resolutions approving the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws at the SGM.

PROPOSED CONDITIONAL CASH OFFER TO REPURCHASE SHARES

Principal Terms of the Offer

The principal terms of the Offer are as follows:

(i) Get Nice will make the Offer to the Shareholders on behalf of the Company to repurchase for cancellation up to 887,901,665 Shares at the Offer Price of HK$0.35 per Share;

(ii) Shareholders may accept the Offer in respect of their holdings of Shares at the Offer Price up to their entire holdings;

(iii) the duly completed Acceptance Forms duly received by or on behalf of the Company will become irrevocable and cannot be withdrawn unless the Company is unable to comply with any of the requirements of Rule 19, pursuant to Rule 19.2 of the Takeovers Code, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements of Rule 19 can be met;

(iv) the Offer Price will be paid in cash;

(v) Shares will be repurchased free of commission, levies and dealing charges, save that the amount of stamp duty (ad valorem stamp duty is calculated at a rate of HK$1 for every HK$1,000 or part thereof of the market value of the Shares to be repurchased under the Offer or the consideration payable by the Company in respect of relevant acceptances of the Offer, whichever is the higher) due on Shares repurchased attributable to the seller will be deducted from the amount payable to the Accepting Shareholders and the Company will arrange payment of such stamp duty on behalf of the Accepting Shareholders;

(vi) all Shares repurchased will be treated as cancelled and will not be entitled to any dividend declared for any record date set subsequent to the date of their cancellation. The issued share capital of the Company shall be diminished by the nominal value of the Shares repurchased accordingly; and

(vii) acceptance of the Offer by any Shareholder will, subject to the Offer becoming unconditional in all respects, constitute a warranty by such Shareholder that all Shares sold by such Shareholder under the Offer are free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on the date of their cancellation.

Other Terms of the Offer

Shareholders can tender their Shares for acceptance once the Offer is open for acceptance. If the Offer becomes or is declared unconditional in all respects, Shareholders will be able to tender their Shares for acceptance under the Offer for a period of not less than 14 days thereafter and at least 14 days notice by way of announcement must be given before the Offer is closed to those Shareholders who have not accept the Offer. The Offer, if extended, will be done in accordance with the Takeovers Code.

The Offer will not extend to the holders of the Share Options and the Warrants II pursuant to the share option scheme and warrant instrument of the Company, and the Offer will not extend to the holders of the Issued CBs and the Unissued CBs, if issued, pursuant to the relevant instruments. The Offer will be made to the holders of Shares that are acquired through exercise of the subscription rights attaching to the Share Options or the subscription rights attaching to the Warrants II on or before the latest time for the holders of the Share Options and the Warrants II to exercise the relevant subscription rights for Shares in order to accept the Offer (which is expected to be 4:30 p.m. on Wednesday, 31 October 2012). The Offer is not conditional upon any minimum number of acceptances of the Offer. All Shares repurchased under the Offer will be cancelled.

Conditions of the Offer

The Offer will be conditional upon the fulfillment of the following conditions:

(a) the passing of an ordinary resolution by the Independent Shareholders by way of poll to approve the Offer and the Whitewash Waiver at the SGM;

(b) the Executive having granted a Whitewash Waiver to HWKFE;

(c) the filing of the Circular and the Acceptance Form for the Offer with the Registrar of Companies in Bermuda in accordance with the Companies Act, if required, and with the Companies Registry of Hong Kong in compliance with the Companies Ordinance and all legal and other requirements under the Codes and the Listing Rules in connection with the Offer at the time when the Offer becomes unconditional; and

(d) the consents, permissions and approvals required in connection with the Offer being obtained or having been obtained from the Registrar of Companies in Bermuda, if required, and the Securities and Futures Commission, the Stock Exchange and the Companies Registry of Hong Kong and other relevant jurisdictions, if required at the time when the Offer becomes unconditional.

None of the above conditions can be waived. If any of the above conditions cannot be fulfilled on or before the Long Stop Date, the Offer will lapse.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

The Irrevocable Undertakings

Pursuant to the Irrevocable Undertakings,

(a) HWKFE has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 898,686,000 Shares held by HWKFE; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$5,453,021 and the Warrants II in an aggregate principal amount of HK$43,700,725 held by HWKFE, before the closing or lapse or termination of the Offer;

(b) Mr. Heung has irrevocably and unconditionally undertaken to the Company that he will not (i) acquire any Shares; and (ii) exercise any of the subscription rights attaching to the 1,567 Share Options held by him, before the closing or lapse or termination of the Offer;

(c) Ms. Chen has irrevocably and unconditionally undertaken to the Company that she will not (i) acquire any Shares; and (ii) exercise any of the subscription rights attaching to the 1,567 Share Options held by her, before the closing or lapse or termination of the Offer;

(d) Mr. Lei has irrevocably and unconditionally undertaken to the Company that he will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 7,980,000 Shares held by him; (iv) exercise any of the subscription rights attaching to the 273,277 Share Options held by him; and (v) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$513,380 and the Warrants II in an aggregate principal amount of HK$299,250 held by him, before the closing or lapse or termination of the Offer;

(e) Simple View has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 200,000,000 Shares held by it; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants II in an aggregate principal amount of HK$10,000,000 held by it, before the closing or lapse or termination of the Offer;

(f) Victory Peace has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 68,000,000 Shares held by it; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$26,248,000 held by it, before the closing or lapse or termination of the Offer;

(g) Eternity Finance has irrevocably and unconditionally undertaken to the Company that it will not (i) acquire any Shares; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attaching to the Issued CBs in an aggregate principal amount of HK$350.00 million held by it, before the closing or lapse or termination of the Offer; and (iii) require the Company to extend any Offer notwithstanding the terms of the Issued CBs; and

(h) Eternity has irrevocably and unconditionally undertaken to the Company that it will not (i) acquire any Shares; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attaching to the Unissued CBs in an aggregate principal amount of HK$300.00 million, if issued, before the closing or lapse or termination of the Offer; and (iii) require the Company to extend any Offer notwithstanding the terms of the Unissued CBs, if issued.

As Mr. Heung and Ms. Chen have been the executive Directors and their controlled corporations have been the largest Shareholder since 1996, they have no intention to dispose of their shareholding stake in the Company. Accordingly, HWKFE gives its irrevocable and unconditional undertaking for not accepting the Offer.

HWKFE, its ultimate beneficial owners and parties acting in concert with any of them confirmed that none of them has (i) acquired any Shares; (ii) disposed of and/or transferred any of the Shares held by them; (iii) exercised any of the subscription rights attaching to the Share Options held by them; and (iv) disposed of and/or transferred and/or exercised any of the subscription rights attaching to the Warrants I and the Warrants II held by them during the period from the date of the Announcement and up to the Latest Practicable Date.

Having regarded (i) the acquisition of the property leasehold rights in Macau by the Group in 2011; (ii) the acquisition of the remaining equity interests in Hotel Lan Kwai Fong (Macau) Limited and Classic Management & Services Company Limited by the Group in 2012; and (iii) the continuous improvement of core profit of the Group for the past financial years, the board of directors of Eternity considers that the Offer Price is less than the net asset value per Share as at 31 December 2011. In addition, the board of directors of Eternity believes that the Offer, if materialises, will lead to an enhancement of the NAV per Share (as defined under the section headed "Reasons for and benefit of the Offer" in this letter below) and/or earnings per Share. As such, the board of directors of Eternity intends to hold the Shares for a longer time. Accordingly, Simple View and Victory Peace give their irrevocable and unconditional undertakings for not accepting the Offer.

Dorest, being one of the members of the Concert Group, held 13,702 Shares, representing approximately 0.0007% of the existing issued share capital of the Company. Dorest is legally and beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. Dorest owed C.A. Pacific Finance Limited a debt and C.A. Pacific Finance Limited is in liquidation. The Shares held by Dorest are subject to a charging order filed by the liquidator of C.A. Pacific Finance Limited in January 2009. Dorest has not received any updated information relating to the status of the charging order from January 2009 up to the Latest Practicable Date. Accordingly, Dorest is the registered holder of the 13,702 Shares and has a beneficial interest in such Shares. Dorest has the voting right in respect of those Shares. Save for the 13,702 Shares, no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) is held by Dorest during the Relevant Period and up to the Latest Practicable Date. Dorest, being one of the members of the Concert Group, will abstain from voting for the relevant resolutions approving the Offer and the Whitewash Waiver. Mr. Heung and Ms. Chen have indicated to the Company that Dorest has no intention to accept the Offer.

As at the Latest Practicable Date, Ms. Li Yuk Sheung, being one of the Directors, beneficially interested in 10,558 Share Options exercisable into 10,558 new Shares, has no intention to exercise the subscription right attaching to the Share Options and to accept the Offer. Mr. Heung and Ms. Chen have indicated to the Company that they will not accept the Offer. Save for Mr. Heung, Ms. Chen and Ms. Li Yuk Sheung and the Concert Group, there is no other Directors (including the independent non-executive Directors) and/or parties acting in concert with any of them who have interests in any Shares, Share Options and/or Warrants II.

Save for the Concert Group, the relevant members of which has respectively given the relevant Irrevocable Undertakings, there is no other person holding 10% or more of the voting rights of the Company.

The Offer Price

The Offer Price of HK$0.35 per Share values the entire existing issued share of the Company of 2,049,182,306 Shares as at the Latest Practicable Date at approximately HK$717.21 million.

The Offer Price represents:

(a) a premium of approximately 78.57% over the closing price of HK$0.196 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 76.77% over the average closing price of approximately HK$0.198 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a premium of approximately 72.41% over the average closing price of approximately HK$0.203 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 69.08% over the average closing price of approximately HK$0.207 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 64.07% to the unaudited net asset value of approximately HK$0.974 per Share which is calculated based on the equity attributable to owners of the Company of HK$1,978.71 million as at 30 June 2012 over 2,032,491,487 Shares in issue as at 30 June 2012; and

(f) a premium of approximately 2.94% over the closing price of HK$0.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Consideration for the Offer

As at the Latest Practicable Date, there are

(i) 2,049,182,306 Shares in issue, of which 1,174,679,702 Shares are held by the Concert Group and the remaining 874,502,604 Shares are held by the Independent Shareholders;

(ii) 2,976,198 Share Options, of which 270,262 Share Options are held by the Concert Group, 10,558 Share Options are held by a Director, 2,229,487 Share Options are held by employees of the Company and the remaining 465,891 Share Options are held by other participants of the share option scheme of the Company, entitling the holders thereof to subscribe for an aggregate of 2,976,198 new Shares;

(iii) the Warrants II in an aggregate principal amount of HK$56,210,615.34, of which HK$53,999,975.00 are held by the Concert Group and the remaining HK$2,210,640.34 are held by other holders of Warrants II, entitling the holders thereof to subscribe for an aggregate of 271,548,866 new Shares at an adjusted subscription price of HK$0.207 per Share (subject to further adjustment, if required); and

(iv) the Issued CBs in an aggregate principal amount of HK$350.00 million, carrying rights entitling Eternity Finance to convert their principal amount into 972,222,222 new Shares at an adjusted conversion price of HK$0.36 per Share (subject to further adjustment, if required).

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

Assuming none of the Share Options, the Warrants II and Issued CBs are exercised or converted on or before the closing of the Offer, there would be 874,516,306 Shares (being the Shares held by public Shareholders and Dorest) under the Offer, representing approximately 42.67% of the issued share capital of the Company as at the Latest Practicable Date, and the consideration for the Offer would be approximately HK$306.08 million if the Offer is accepted in full.

Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer, the Shares in issue would increase from 2,049,182,306 Shares as at the Latest Practicable Date to 2,062,567,665 Shares upon full exercise of all of the Share Options and the Warrants II and there would be 887,901,665 Shares (being the Shares held by public Shareholders and Dorest) under the Offer, representing approximately 43.05% of the enlarged issued share capital of the Company. The Company would receive an aggregate cash proceeds of approximately HK$95.48 million from the exercise of the Share Options and the Warrants II and the consideration for the Offer would be approximately HK$310.77 million if the Offer is accepted in full.

The consideration for the Offer will be paid in cash and be funded out of the internal resources of the Group. Nuada Limited, the financial adviser to the Company in respect of the Offer, is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full.

The Offer Price is final and it will not be increased or revised. Shareholders and potential investors should be aware that, following the making of this statement, the Company will not be allowed to increase the Offer Price (save in wholly exceptional circumstances) as a result of Rule 18.3 of the Takeovers Code.

Dealings in the Shares and the Warrants II will continue notwithstanding the Offer may or may not become unconditional in all respects and the Offer may lapse. During such period, persons dealing in the Shares and the Warrants II will bear the risk that the Offer may lapse. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and the Warrants II.

Overseas Shareholders

The making of the Offer to and the acceptance of the Offer by the Overseas Shareholders may be subject to the laws of the relevant jurisdictions. Such overseas law may prohibit the making of the Offer to the Overseas Shareholders or require the compliance with filing, registration or other requirements. Overseas Shareholders should obtain appropriate legal advice on, or inform themselves about and observe any applicable legal and regulatory requirements. This offer document will not be filed under the applicable securities or equivalent legislation or rules of any jurisdictions other than Hong Kong.

Based on the Register as at the Latest Practicable Date, there were four Shareholders with registered addresses in two jurisdictions outside Hong Kong and they are Macau and Singapore. The Board has made enquiries regarding the legal restrictions under the applicable securities legislation of such jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the Offer in relation to such Overseas Shareholders. The legal advisers to the Company in respect of the laws of Macau and Singapore respectively advised that there is no legal restriction and no local regulatory compliance would be required to be made in Macau and Singapore respectively for the Company in extending the Offer to the Overseas Shareholders who reside in these two jurisdictions. Accordingly, the Offer will be extended to such Overseas Shareholders with addresses in Macau and Singapore. Such Overseas Shareholders with address in Macau and Singapore are entitled to vote at the SGM.

It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consents which may be required or the compliance with other necessary formalities or legal requirements. Acceptance of the Offer by any person will constitute a representation and warranty from such person to the Company that the local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

Details of the procedures for acceptance and settlement for Overseas Shareholders are set out in Appendix I to the Circular.

The Company will give notice of any matter in relation to the Offer to the Shareholders by issuing announcements or advertisements in accordance with the Bye-laws, the Listing Rules and the Codes and, if so given, such notice is valid notwithstanding the fact that any Overseas Shareholder may not actually receive it.

Changes in Shareholding Structure

The table below shows that shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full; (iii) assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and none of the Shareholders accept the Offer; and (iv) assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and all Shareholders (except for the Undertaking Parties) accept the Offer in full:

	As at the Latest Practicable Date	Approx. %	Assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full	Approx. %	Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and none of the Shareholders accept the Offer	Approx. %	Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and all Shareholders (except for the Undertaking Parties) accept the Offer in full	Approx. %
The Concert Group								
Heung Wah Keung Family Endowment Limited *(Note 1)*	898,686,000	43.86	898,686,000	76.50	898,686,000	43.57	898,686,000	76.50
Mr. Lei Hong Wai *(Note 2)*	7,980,000	0.39	7,980,000	0.68	7,980,000	0.39	7,980,000	0.68
Simple View Investment Limited *(Note 3)*	200,000,000	9.76	200,000,000	17.03	200,000,000	9.69	200,000,000	17.03
Victory Peace Holdings Limited *(Note 4)*	68,000,000	3.32	68,000,000	5.79	68,000,000	3.30	68,000,000	5.79
Dorest Company Limited *(Note 5)*	13,702	0.00	0	0.00	13,702	0.00	0	0.00
Sub-total	**1,174,679,702**	**57.33**	**1,174,666,000**	**100.00**	**1,174,679,702**	**56.95**	**1,174,666,000**	**100.00**
Public Shareholders *(Note 6)*	874,502,604	42.67	0	0.00	887,887,963	43.05	0	0.00
Total	**2,049,182,306**	**100.00**	**1,174,666,000**	**100.00**	**2,062,567,665**	**100.00**	**1,174,666,000**	**100.00**

Notes:

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

2. Mr. Lei is an employee of the Company, the chairman of the board of directors of Eternity, an executive director of Eternity and a substantial shareholder of Eternity by virtue of his 50% shareholding interest in Twin Success, which holds approximately 29.61% of the issued share capital of Eternity. The remaining interest of Eternity are holding by public shareholder of Eternity.

3. Simple View is a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity.

4. Victory Peace is a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity.

5. Dorest is legally and beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. Dorest owed C.A. Pacific Finance Limited a debt and C.A. Pacific Finance Limited is in liquidation. The Shares held by Dorest are subject to a charging order filed by the liquidator of C.A. Pacific Finance Limited in January 2009. Dorest has not received any updated information relating to the status of the charging order from January 2009 up to the Latest Practicable Date. Accordingly, Dorest is the registered holder of the 13,702 Shares and has a beneficial interest in such Shares. Dorest has the voting right in respect of those Shares.

6. After the date of the Announcement and up to the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Shares, to the holders of the Warrants I and the Warrants II upon exercise of the subscription rights attaching to the Warrants I and the Warrants II respectively. HWKFE, its ultimate beneficial owners and parties acting in concert with any of them confirmed that none of them has disposed of and/or transferred and/or exercised any of the subscription rights attaching to the Warrants I and the Warrants II held by them during the period from the date of the Announcement and up to the Latest Practicable Date. Details are set out in the Company's announcements dated 15 June 2012, 20 June 2012, 26 June 2012, 6 July 2012, 16 July 2012, 18 July 2012, 12 September 2012 and 19 September 2012 pursuant to Rule 3.8 of the Takeovers Code.

7. On 15 July 2012, 36,914 Share Options entitling the holders thereof to subscribe for 36,914 new Shares has expired. Details are set out in the Company's announcement dated 16 July 2012.

Intention of the Company and maintaining minimum public float requirements under the Listing Rules

Under Rule 8.08(1)(a) of the Listing Rules, as least 25% of the Company's total issued share capital must at all times be held by the public. As a result of the Offer, it is possible that all Shares held by the public Shareholders may be less than 25% of the Company's total issued share capital. Assuming the Offer becomes unconditional in all respects and the Shares held by public Shareholders are less than 25% of the Company's total issued share capital, the Company will take steps to ensure that sufficient Shares are held in the hands of the public as required by the Listing Rules, including but not limited to the Possible Bonus Issue.

If the Offer is declared or becomes unconditional in all respects, and if necessary and feasible, the Company intends to restore the minimum public float by way of the Possible Bonus Issue, further details of which are set out in the section headed "Possible Bonus Issue and issue of Bonus CBs to fulfill the minimum public float requirement" below in this letter. If the Offer is not declared or does not become unconditional in all respects, the Possible Bonus Issue will not proceed.

Following the closing of the Offer and taking into consideration the level of acceptances of the Offer and the number of Shares remaining in the hands of the public Shareholders, under the mandate to be approved by the Shareholders at the SGM, the Board will determine the ratio of the Possible Bonus

Issue, if made, which ratio may be up to a maximum of four Bonus Shares for every one existing Share. If the Board determines that the Possible Bonus Issue is not the sole feasible solution or not a feasible solution to restore the minimum public float of the Company, the Board will consider other additional or alternative methods, including placing of new Shares, and/or requesting the Concert Group to assist in the implementation of an additional or alternative plan to be adopted by the Company to meet the requirements of Rule 8.08(1) of the Listing Rules (which additional or alternative plan could involve a placing by any of the Concert Group and/or a distribution of specie by any of the Concert Group). Until the closing of the Offer, it is not possible for the Board to determine the ratio of the Possible Bonus Issue or whether the Possible Bonus Issue is a feasible solution to restore the minimum public float of the Company.

The Company and the Concert Group have no intentions to privatise the Company or delist the Shares.

Compulsory acquisition

The Concert Group does not intend to exercise any right or any power which may be available to them to acquire compulsorily any Shares not tendered for acceptance under the Offer.

Reasons for and benefit of the Offer

The Group has improved its profitability by expanding into hotel and gaming service operations. For the years ended 31 December 2010 and 2011, the Group recorded a profit from operations before major non-cash items of HK$214.90 million and HK$154.26 million respectively and cash and bank balances of HK$625.83 million and HK$903.09 million respectively. Based on the audited consolidated financial statements for the year ended 31 December 2011, the net assets per Share was HK$1.00 (the "**NAV per Share**") which is calculated based on the equity attributable to owners of the Company of HK$1,968.59 million as at 31 December 2011 over 1,964,721,160 Shares in issue as at 31 December 2011.

However, the Directors have noticed that the trading prices of Shares are well below the NAV per Share and consider the trading prices of Shares do not reflect the profitability of the Group. Based on the trading prices of Shares as quoted on the Stock Exchange,

(a) the highest trading price of Share of HK$0.47 for the 12 months preceding 30 April 2012 represents a discount of approximately 53.00% to the NAV per Share of HK$1.00; and

(b) the closing price of Share of HK$0.196 in the last trading day prior to the date of the Announcement represents a discount of approximately 80.40% to the NAV per Share of HK$1.00.

In view of the trading prices of Shares having been traded at discount to NAV per Share of HK$1.00 in the past twelve months, the Directors can exercise the repurchase mandate granted by the Shareholders at the annual general meeting of the Company held on 30 June 2011 to repurchase Shares on the Stock Exchange. However, the Directors consider that the exercise of the repurchase mandate may be not an appropriate mean to benefit all Shareholders as the aggregate amount of Shares to be purchased is up to 10% of the issued Shares as at the date of the annual general meeting, i.e. 196,472,116 Shares and the repurchase price shall be at prevailing market price of the Shares, which may be lower than the Offer Price.

Taking into account the Offer being made to all Shareholders and the level of premium of Offer Price over the prevailing market price of the Shares, all the Shareholders are given an equal opportunity to realise their investments in the Shares at the Offer Price, if they wish to do so. The Directors (other than Independent Board Committee whose view is expressed in "Letter from the Independent Board Committee" in the Circular) consider that the making of the Offer to all Shareholders is just and fair, despite the fact the maximum number of Shares involved under the Offer is 887,901,665 Shares, representing approximately 43.05% of the enlarged issued share capital of the Company assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer. In addition, the Directors consider that the Offer will lead to an enhancement of NAV per Share and/or earnings per Share.

As such, the Directors (other than Independent Board Committee whose view is expressed in "Letter from the Independent Board Committee" in the Circular) consider that the Offer provide benefits to each of the Company and the Shareholders, they (other than Independent Board Committee whose view is expressed in "Letter from the Independent Board Committee" in the Circular) consider that the terms of the Offer (including the Offer Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information of the Group

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

APPLICATION FOR WHITEWASH WAIVER AND CODES IMPLICATIONS

As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company and HWKFE, being one of the members of the Concert Group, held 898,686,000 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Upon completion of the Offer, the number of Shares held by HWKFE will remain unchanged, but its shareholdings may increase from 43.86% to 76.50% (assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full on or before the closing of the Offer), thereby resulting in an increase by more than 2% in the relevant 12-month period under Rule 26.1 of the Takeovers Code. Accordingly, HWKFE would be obliged to make an unconditional mandatory offer under Rule 26.1 of the Takeovers Code for all issued shares and other securities of the Company not already owned, controlled or agreed to be acquired by HWKFE and parties acting in concert with it, unless, among others, the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll.

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, to waive the obligations of HWKFE to make such a mandatory general offer.

After the date of the Announcement and up to the date of the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Shares, to the holders of the Warrants I and the Warrants II for the exercise of the subscription rights attaching to the Warrants I and the Warrants II respectively. Accordingly, as the number of Shares held by HWKFE and the Concert Group remains unchanged, the shareholdings of HWKFE in the Company decreased from 45.74% of the issued share capital of the Company as at the date of the Announcement to 43.86% of the total issued share capital of the Company as at the Latest Practicable Date. A confirmation from the Executive that the decrease of shareholding interests of HWKFE, its ultimate beneficial owners and party acting in concert with any of them in the Company as a result of any exercise of the Warrants I and the Warrants II during the Offer Period, does not constitute disqualifying transactions under paragraph 3(b) of Schedule VI of the Takeovers Code for the purpose of the Whitewash Waiver has been obtained.

The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the SGM.

As disclosed in the Company's announcement dated 10 August 2012 and the Company's interim report dated 30 August 2012, the Group recorded a profit for the six months ended 30 June 2012 as compared to a loss for the last corresponding period. The turnaround was mainly due to the substantial decrease in impairment loss to be recognized in respect of the intangible assets represented the rights in sharing of profit streams from gaming promotion operations at one of the VIP room in a Macau casino. The Company has included its interim results for the six months ended 30 June 2012 in the Appendix III of the Circular to the Shareholders for their considerations in assessing the merits and demerits of the Offer and the Whitewash Waiver.

POSSIBLE BONUS ISSUE AND ISSUE OF BONUS CBS TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT

If the Offer is declared or becomes unconditional in all respects, and if necessary and feasible, the Company intends to restore the minimum public float by way of the Possible Bonus Issue. If the Offer is not declared or does not become unconditional in all respects, the Possible Bonus Issue will not proceed.

If the Possible Bonus Issue is finally determined to be adopted by the Board as the method or one of the methods to be used to restore the minimum public float of the Company, as the case may be, the Board will make a Possible Bonus Issue of up to a maximum of four Bonus Shares for every one existing Share held by the Shareholders, whose names appear on the Register on the record date for the Possible Bonus Issue, credited as fully-paid, and each eligible Shareholder will be given the option to elect to receive the Bonus CBs in lieu of all (or part) of its entitlement to the Bonus Shares under the Possible Bonus Issue.

The Bonus Shares, when allotted and issued, will rank pari passu in all respects with the then Shares in issue on the date of allotment and issue of the Bonus Shares. Holders of the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made and paid after the date of allotment and issue of the Bonus Shares. On the basis of provisional allotment of one existing Share for every Bonus Shares held by the Shareholders on the record date for the Possible Bonus Issue, no fractional entitlements to the Bonus Shares will arise under the Possible Bonus Issue.

The Bonus CBs will be unlisted, will carry no voting rights at general meetings of the Company and will have no maturity date, but will confer upon the holders thereof substantially the same economic interest attached to the Shares (including rights to receive payments representing any dividends declared and paid, assets distributed and shares or other securities issued under a capitalisation issue or scrip dividend scheme of the Company, to the Shareholders as if the outstanding Bonus CBs held by them had been converted into Shares on the relevant record date) which the electing Shareholders would otherwise be entitled to receive under the Possible Bonus Issue had such Shareholders not elected for the Bonus CBs. The Concert Group will be requested to receive the Bonus CBs in lieu of all of their entitlements to the Bonus Shares under the Possible Bonus Issue.

The table below summarises the proposed principal terms of the Bonus CBs are set out below:

Principal amount	Up to an amount equal to the maximum number of Bonus Shares issuable under the Possible Bonus Issue, following the cancellation of Shares tendered and accepted under the Offer, multiplied by the nominal value per Bonus Share, in the denomination of HK$0.01 par value per unit of the Bonus CB
Conversion price	HK$0.01 per Share, subject to adjustment in accordance with the Deed Poll
Mandatory conversion	On voluntary dissolution, liquidation or winding up of the Company, the Bonus CBs will be mandatorily converted into Shares at the then applicable conversion price
No redemption	The Bonus CBs will not be subject to redemption
Conversion period	At any time after the issue of the Bonus CBs, and the conversion date will be deemed to be the 30th Stock Exchange Business Day following the surrender of the Bonus CBs certificates by the Bonus CB(s) Holder(s) with a notice of conversion and the Bonus CB(s) Holder(s) will be deemed to be the holder(s) of the Shares so converted with effect from the aforesaid conversion date If and to the extent that the minimum public float requirements in respect of the Shares under the Listing Rules could not be complied with immediately after the purported exercise of the conversion rights of any Bonus CB Holder, such holder shall not be entitled to exercise such conversion rights

Distributions

The Bonus CBs will have no entitlement to interest but:

(i) if and whenever the Company shall pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (other than distribution of Shares, debentures or other securities) to its Shareholders (the "**Distribution**"), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time pay or distribute to each Bonus CB Holder an amount of cash or other assets the subject matter of the Distribution which is equal to (a) the amount of cash or other assets the subject matter of the Distribution per Share receivable by the Shareholders under the Distribution, multiplied by (b) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder then outstanding been converted on the relevant record date for determining entitlement to the Distribution; or

(ii) if and whenever the Company shall issue any Shares, debentures or other securities, credited as fully-paid, out of or by way of capitalisation of its profits or reserves, and, or share premium account to its Shareholders (the "**Capitalisation Issue**"), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, issue to each Bonus CB Holder either, at the option of the Company (a) such number of Shares, debentures or securities which is equal to (1) the number of such Shares, debentures or securities receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the Bonus CB Holders of such convertible bonds to such number of Shares as is equal to (1) the number of Shares receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue

Transferability	The CB Holder(s) may only assign or transfer the Bonus CBs to the transferee subject to the consent of the Company The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Bonus CBs by any connected person of the Company
Other rights	If and whenever the Company shall offer to issue Shares or other securities by way of rights to its Shareholders (the "**Rights Issue**"), the Company shall, subject to compliance with the relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time offer to each Bonus CB Holder for subscription either, at the option of the Company (a) such number of Shares or securities which is equal to (i) the number of such Shares or securities offered by the Company to the Shareholders in respect of each issued Share held by them under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the Bonus CB Holders of such convertible bonds to such number of Shares as is equal to (i) the number of Shares offered for subscription by the Shareholders in respect of each issued Share held by the Shareholders under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue

Conditions of the Possible Bonus Issue

The Possible Bonus Issue will only be made after the Offer, if approved, becomes or is declared unconditional in all respects, and if and when it is finally determined to be adopted by the Board as the method or one of the methods to be used to restore the minimum public float of the Company.

To enable the Company to make the Possible Bonus Issue, the Company will seek

(a) the passing of a special resolution by way of poll by the Independent Shareholders at the SGM to approve the amendments to the Bye-laws which are necessary for the purpose of enabling the Company to issue the Bonus CBs; and

(b) the passing of an ordinary resolution by way of poll from the Independent Shareholders at the SGM to grant a mandate to the Directors to implement the Possible Bonus Issue, including but not limited to, approving the terms and conditions of the Bonus CBs.

The Possible Bonus Issue, if made, is expected to be conditional upon the obtaining of the necessary approval by the Stock Exchange in respect of the issue and future conversion of the Bonus CBs (including the listing of, and permission to deal in, the Bonus Shares and the Shares to be issued upon conversion of the Bonus CBs).

No application will be made for the listing of the Bonus CBs on the Stock Exchange or any other recognised stock or securities exchanges.

If the Possible Bonus Issue is finally determined to be adopted by the Board as the method to be used to restore the minimum public float of the Company, the Company anticipates that the allotment and issuance the Bonus Shares and Bonus CBs pursuant to the Possible Bonus Issue will be approximately in three months (such date is indication only and the actual completion date may be subject to change) from the date of the Offer becomes or is declared unconditional in all respects. The Company will make further announcement in relation to the Possible Bonus Issue after the closing of the Offer, as and when appropriate.

Further details of the Bonus CBs and the terms thereof are set out in Appendix II to the Circular.

As the Offer is subject to fulfillment of conditions, it may or may not become unconditional in all respects and the Offer may lapse. The Possible Bonus Issue is conditional on the Offer becoming or being declared unconditional in all respects and the Possible Bonus Issue may or may not be made, and if made, it would be after the Offer is closed and would be subject to fulfillment of conditions and may not become unconditional in all respects. Further announcement in relation to the Possible Bonus Issue will be made after the closing of the Offer, as appropriate.

Adjustments to Share Options, the Warrants II, the Issued CBs and the Unissued CBs

If the Possible Bonus Issue is made, adjustments to the exercise prices and number of the Share Options, the subscription price of the Warrants II, and the conversion prices of the Issued CBs and the Unissued CBs, if issued on or before the closing date of the Offer, may be required under the share option scheme adopted by the Company and the relevant instruments respectively. An approved financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any. Further announcement will be made by the Company in this regard.

PROPOSED AMENDMENTS TO THE BYE-LAWS

As mentioned in the Announcement, the Possible Bonus Issue, if made, will involve the issue of the Bonus CBs. Under the terms of the Deed Poll, the Bonus CB Holders will have conversion rights entitling them to convert the Bonus CBs into an equivalent number of Shares as the number of Bonus Shares which the Bonus CB Holders would otherwise be entitled to receive under the Possible Bonus Issue had the Shareholder not elected for the Bonus CBs. However, the holders of the Bonus CB shall not be entitled to attend or vote at any meetings of the Company under the Deed Poll. The Bonus CBs will have no maturity date, but will confer upon the holders thereof substantially the same economic interest attached to the Shares (including rights to receive payments representing any dividends declared and paid, assets distributed and shares or other securities issued under a capitalisation issue or scrip dividend scheme of the Company, to the Shareholders as if the outstanding Bonus CBs held by them had been converted into Shares on the relevant record date) which the electing Shareholders would otherwise be entitled to receive under the Possible Bonus Issue had such Shareholders not elected for the Bonus CBs. In such circumstances, further bonus convertible bonds with the same terms and conditions as the Bonus CBs will be issued to the Bonus CB Holders.

As the Possible Bonus Issue, if made, will involve the issue of the Bonus CBs, in order to enable the Company to issue the Bonus CBs and new Shares or other securities to the Bonus CB Holders, whether upon conversion of the Bonus CBs or otherwise, and the distribution of the surplus assets of the Company to the Bonus CB Holders in the event of an involuntary winding up of the Company, in accordance with the Deed Poll and the terms and conditions of the Bonus CBs, the Board proposes that certain amendments be made to the Bye-laws. Such amendments to the Bye-laws will be conditional upon the Offer becoming or being declared unconditional in all respects.

A special resolution to amend the Bye-laws will be put forward at the SGM. Details of the amendments to the Bye-laws are set out in the notice of SGM on pages 260 to 265 of the Circular.

INTENTION OF THE COMPANY AND HWKFE

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

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established to give recommendation to the Independent Shareholders in respect of the Offer and the Whitewash Waiver. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on pages 39 and 40 of the Circular.

INDEPENDENT FINANCIAL ADVISERS

Donvex and Messis have been appointed as the joint independent financial advisers to advise the Independent Board Committee in respect of the Offer and the Whitewash Waiver. The appointment of the Independent Financial Advisers has been approved by the Independent Board Committee. Your attention is drawn to the letter from the Independent Financial Advisers to the Independent Board Committee set out on pages 41 to 63 of the Circular.

THE SGM

The Offer is conditional upon, inter alia, the passing of an ordinary resolution by the Independent Shareholders by way of poll to approve the Offer and the Whitewash Waiver at the SGM. The Possible Bonus Issue is conditional upon, inter alia, the passing of an ordinary resolution by the Independent Shareholders by way of poll at the SGM to grant a mandate to the Directors to implement the Possible Bonus Issue, including but not limited to, approving the terms and conditions of the Bonus CBs. The proposed amendments to the Bye-laws is conditional upon, inter alia, the passing of a special resolution by way of poll by the Independent Shareholders at the SGM to approve the amendments to the Bye-laws which are necessary for the purpose of enabling the Company to issue the Bonus CBs.

The Concert Group is considered to have interest in the Offer and the Whitewash Waiver which is different from the interests of all other Shareholders. Accordingly, the Concert Group is required to abstain from voting for the resolutions approving the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws at the SGM.

The Circular is despatched to the Shareholders and the holders of the Warrants II. As permitted under the Repurchase Code, as the Offer Price is lower than the exercise price of the Share Options of more than 10%, the Company is not obliged to despatch the Circular to the holders of the Share Options. Eternity Finance, being the holder of the Issued CBs, has irrevocably and unconditionally undertaken to the Company, among others, that it will not (i) exercise any of the conversion rights attaching to the Issued CBs before the closing or lapse or termination of the offer; and (ii) require the Company to extend any other notwithstanding the terms of the Issued CBs. However, the Circular is despatched to the holders of the Share Options and the Issued CBs for information purpose.

For avoidance of doubt, those holders of Share Options and the Warrants II who would like to attend and vote at the SGM should exercise the relevant subscription rights for Shares on or before 4:30 p.m. on Wednesday, 17 October 2012. The Register will be closed from Monday, 22 October 2012 to Thursday, 25 October 2012, both days inclusive, during which period no transfer of Shares will be effected. In order to be entitled to attend and vote at the SGM, all transfers, accompanied by the relevant share certificates, should be lodged with the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 17 October 2012.

Set out on pages 260 to 265 of the 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 Thursday, 25 October 2012 at 12:00 noon at which resolutions will be proposed to approve the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws. 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 resolutions set out in the notice of the SGM. After the conclusion of the SGM, the results of the poll will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.chinastar.com.hk).

RECOMMENDATION

Your attention is drawn to and you are recommended to read the full text of (i) the letter from the Independent Board Committee set out on pages 39 and 40 of the Circular which contains its recommendation to the Independent Shareholders in relation to the Offer and the Whitewash Waiver; and (ii) the letter from joint independent financial advisers set out on pages 41 to 63 of the Circular which contains its advice to the Independent Board Committee in relation to the Offer and the Whitewash Waiver.

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 Offer and the Whitewash Waiver at the SGM.

As the Possible Bonus Issue, if made, will involve the issue of the Bonus CBs, in order to facilitate the implementation of the Possible Bonus Issue, if made, the Board proposes to make certain amendments to the Bye-laws. Therefore, if the resolution to approve the Offer and the Whitewash Waiver is passed by the Independent Shareholders, the Board recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the SGM in connection with the Possible Bonus Issue, including an ordinary resolution to approve a mandate to the Directors to implement the Possible Bonus Issue and a special resolution to amend the Bye-laws respectively.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Chen Ming Yin, Tiffany
Vice Chairman

The following is the full text of a letter from Get Nice for the purpose of inclusion in the Circular.

結好證券有限公司
GET NICE SECURITIES LIMITED

28 September 2012

To the Shareholders and the holders of Warrants II
and for information only, the holders of
Share Options and Issued CBs

Dear Sir or Madam,

(i) PROPOSED CONDITIONAL CASH OFFER BY GET NICE SECURITIES LIMITED ON BEHALF OF CHINA STAR ENTERTAINMENT LIMITED TO REPURCHASE UP TO 887,901,665 SHARES IN CHINA STAR ENTERTAINMENT LIMITED; (ii) APPLICATION FOR WHITEWASH WAIVER; (iii) POSSIBLE BONUS ISSUE AND ISSUE OF BONUS CBS TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT; (iv) PROPOSED AMENDMENTS TO THE BYE-LAWS AND (v) NOTICE OF SGM

INTRODUCTION

It was announced in the Announcement that the Offer would be made by Get Nice on behalf of the Company to repurchase for cancellation up to 790,055,284 Shares (assuming none of the Share Options, the Warrants I, the Warrants II and the Issued CBs are exercised or converted on or before the closing of the Offer), representing approximately 40.21% of the issued share capital of the Company as at the date of the Announcement, or 982,830,877 Shares (assuming all of the Share Options, the Warrants I and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer), representing approximately 45.55% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options, the Warrants I and the Warrants II (except for those held by the Undertaking Parties), at the Offer Price of HK$0.35 per Share. The Offer will be available for acceptance in respect of the Shares held by the Shareholders, the Offer is made in full compliance with the Codes.

As at the date of the Announcement, the Company had 1,964,721,284 in issue. After the date of the Announcement and up to the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, of which 82,142 Shares have been issued and allotted to the holders of the Warrants I and 84,378,880 Shares have been issued and allotted to the holders of the Warrants II, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Share as at the Latest Practicable Date.

As (i) the Warrants I and 36,914 Share Options have expired on 14 June 2012 and 15 July 2012 respectively; and (ii) the Issued CBs in an aggregate principal amount of HK$350.00 million and the Unissued CBs in an aggregate principal amount of HK$300.00 million will not be exercised or converted before the closing or lapse or termination of the Offer pursuant to the Irrevocable Undertakings given by the holders thereof, the maximum number of Shares to be repurchased and cancelled pursuant to the Offer would be 887,901,665 Shares (assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer), representing approximately 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options and the Warrants II (except for those held by the Undertaking Parties).

As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company and HWKFE, being one of the members of the Concert Group, held 898,686,000 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Upon completion of the Offer, the number of Shares held by HWKFE will remain unchanged, but its shareholding may increase from 43.86% to 76.50% (assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full on or before the closing of the Offer), thereby resulting in an increase by more than 2% in the relevant 12-month period under Rule 26.1 of the Takeovers Code. Accordingly, HWKFE would be obliged to make an unconditional mandatory offer under Rule 26.1 of the Takeovers Code for all issued shares and other securities of the Company not already owned, controlled or agreed to be acquired by HWKFE and parties acting in concert with it, unless, among others, the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll.

As a result of the Offer, it is possible that all Shares held by public Shareholders may be less than 25% of the Company's total issued share capital. Assuming the Offer becomes unconditional in all respects and the Shares held by public Shareholders are less than 25% of the Company's total issued share capital, the Company will take steps to ensure that sufficient Shares are held in the hands of the public as required under Rule 8.08(1)(a) of the Listing Rules, including but not limited to the Possible Bonus Issue.

If the Possible Bonus Issue is finally determined to be adopted by the Board as the method or one of the methods to be used to restore the minimum public float of the Company following the closing of the Offer, as the case may be, the Board will make a Possible Bonus Issue of up to a maximum of four Bonus Shares for every one existing Share held by the Shareholders, whose names appear on the Register on the record date for the Possible Bonus Issue, credited as fully-paid, and each eligible Shareholder will be given the option to elect to receive the Bonus CBs in lieu of all (or part) of its entitlement to the Bonus Shares under the Possible Bonus Issue.

Following the closing of the Offer and taking into consideration the level of acceptances of the Offer and the number of Shares remaining in the hands of public Shareholders, under the mandate to be approved by the Shareholders, the Board will determine the ratio of the Possible Bonus Issue, if made, which ratio will be up to a maximum of four Bonus Shares for every one existing Share. If the Board determines that the Possible Bonus Issue is not the sole feasible solution or not a feasible solution to restore the minimum public float of the Company, the Board will consider other additional or alternative methods, including placing of new Shares, and/or requesting the Concert Group to assist in the implementation of an additional or alternative plan to be adopted by the Company to meet the requirements of Rule 8.08(1) of the Listing Rules (which additional or alternative plan could involve a placing by any of the Concert Group and/or a distribution of specie by any of the Concert Group).

As the Possible Bonus Issue, if made, will involve the issue of the Bonus CBs, in order to enable the Company to issue the Bonus CBs and new Shares or other securities to the Bonus CB Holders, whether upon conversion of the Bonus CBs or otherwise, and the distribution of the surplus assets of the Company to the Bonus CB Holders in the event of an involuntary winding up of the Company, in accordance with the Deed Poll and the terms and conditions of the Bonus CBs, the Board proposes that certain amendments be made to the Bye-laws. Such amendments to the Bye-laws will be conditional upon the Offer becoming or being declared unconditional in all respects.

The Offer is conditional upon, inter alia, the passing of an ordinary resolution by the Independent Shareholders by way of poll to approve the Offer and the Whitewash Waiver at the SGM. The Possible Bonus Issue is conditional upon, inter alia, the passing of an ordinary resolution by the Independent Shareholders by way of poll at the SGM to grant a mandate to the Directors to implement the Possible Bonus Issue, including but not limited to, approving the terms and conditions of the Bonus CBs. The proposed amendments to the Bye-laws is conditional upon, inter alia, the passing of a special resolution by way of poll by the Independent Shareholders at the SGM to approve the amendments to the Bye-laws which are necessary for the purpose of enabling the Company to issue the Bonus CBs.

The principal terms and conditions of the Offer and the Possible Bonus Issue are set out in the "Letter from the Board" and the details terms of the Bonus CBs are set out in Appendix II to the Circular.

PROPOSED CONDITIONAL CASH OFFER TO REPURCHASE SHARES

The Offer Price is as follows:

For every Share . . . . HK$0.35 in cash

The Offer Price is final and it will not be increased or revised.

The Offer Price

The Offer Price of HK$0.35 per Share values the entire existing issued share of the Company of 2,049,182,306 Shares as at the Latest Practicable Date at approximately HK$717.21 million.

The Offer Price represents:

(a) a premium of approximately 78.57% over the closing price of the Shares of HK$0.196 as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 76.77% over the average closing price of the Shares of approximately HK$0.198 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a premium of approximately 72.41% over the average closing price of the Shares of approximately HK$0.203 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 69.08% over the average closing price of the Shares of approximately HK$0.207 as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 64.07% to the unaudited net asset value of approximately HK$0.974 per Share which is calculated based on the equity attributable to owners of the Company of HK$1,978.71 million as at 30 June 2012 over 2,032,491,487 Shares in issue as at 30 June 2012; and

(f) a premium of approximately 2.94% over the closing price of the Shares of HK$0.34 as quoted on the Stock Exchange on the Latest Practicable Date.

Assuming none of the Share Options, the Warrants II and the Issued CBs are exercised or converted on or before closing of the Offer, there would be 874,516,306 Shares (being the Shares held by public Shareholders and Dorest) under the Offer, representing approximately 42.67% of the issued share capital of the Company as at the Latest Practicable Date, and the consideration for the Offer would be approximately HK$306.08 million if the Offer is accepted in full.

Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer, the Shares in issue would increase from 2,049,182,306 Shares as at the Latest Practicable Date to 2,062,567,665 Shares upon full exercise of all of the Share Options and the Warrants II and there would be 887,901,665 Shares (being the Shares held by public Shareholders and Dorest) under the Offer, representing approximately 43.05% of the enlarged issued share capital of the Company. The Company would receive an aggregate cash proceeds of approximately HK$95.48 million from the exercise of the Share Options and the Warrants II and the consideration for the Offer would be approximately HK$310.77 million if the Offer is accepted in full.

The consideration for the Offer will be paid in cash and be funded out of the internal resources of the Group. Nuada Limited, the financial adviser to the Company in respect of the Offer, is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full. The Directors are of the opinion that, in the event that the maximum amount of consideration is payable under full acceptance of the Offer, the Group will still maintain sufficient working capital upon completion of the Offer to pay its liabilities as they become due and to meet the normal operating requirements of the Group.

As at the Latest Practicable Date, there are (i) 2,049,182,306 Shares in issue, of which 1,174,679,702 Shares are held by the Concert Group and the remaining 874,502,604 Shares are held by the Independent Shareholders; (ii) 2,976,198 Share Options, of which 270,262 Share Options are held by the Concert Group, 10,558 Share Options are held by a Director, 2,229,487 Share Options are held by employees of the Company and the remaining 465,891 Share Options are held by other participants of the share option scheme of the Company, entitling the holders thereof to subscribe for an aggregate of 2,976,198 new Shares; (iii) the Warrants II in an aggregate principal amount of HK$56,210,615.34 of which HK$53,999,975.00 are held by the Concert Group and the remaining HK$2,210,640.34 are held by other holders of the Warrants II, entitling the holders thereof to subscribe for an aggregate of 271,548,866 new Shares at an adjusted subscription price of HK$0.207 per Share (subject to further adjustment, if required); and (iv) the Issued CBs in an aggregate principal amount of HK$350.00 million, carrying rights entitling Eternity Finance to convert their principal amount into 972,222,222 new Shares at an adjusted conversion price of HK$0.36 per Share (subject to further adjustment, if required).

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

Principal Terms of the Offer

The principal terms of the Offer are as follows:

(i) Get Nice will make the Offer to the Shareholders on behalf of the Company to repurchase for cancellation up to 887,901,665 Shares at the Offer Price of HK$0.35 per Share;

(ii) Shareholders may accept the Offer in respect of their holdings of Shares at the Offer Price up to their entire holdings;

(iii) the duly completed Acceptance Forms duly received by or on behalf of the Company will become irrevocable and cannot be withdrawn unless the Company is unable to comply with any of the requirements of Rule 19, pursuant to Rule 19.2 of the Takeovers Code, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements of Rule 19 can be met;

(iv) the Offer Price will be paid in cash;

(v) Shares will be repurchased free of commission, levies and dealing charges, save that the amount of stamp duty (ad valorem stamp duty is calculated at a rate of HK$1 for every HK$1,000 or part thereof of the market value of the Shares to be repurchased under the Offer or the consideration payable by the Company in respect of relevant acceptances of the Offer, whichever is the higher) due on Shares repurchased attributable to the seller will be deducted from the amount payable to the Accepting Shareholders and the Company will arrange payment of such stamp duty on behalf of the Accepting Shareholders;

(vi) all Shares repurchased will be treated as cancelled and will not be entitled to any dividend declared for any record date set subsequent to the date of their cancellation. The issued share capital of the Company shall be diminished by the nominal value of the Shares repurchased accordingly; and

(vii) acceptance of the Offer by any Shareholder will, subject to the Offer becoming unconditional in all respects, constitute a warranty by such Shareholder that all Shares sold by such Shareholder under the Offer are free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on the date of their cancellation.

Other Terms of the Offer

Shareholders can tender their Shares for acceptance once the Offer is open for acceptance. If the Offer becomes or is declared unconditional in all respects, Shareholders will be able to tender their Shares for acceptance under the Offer for a period of not less than 14 days thereafter and at least 14 days notice by way of announcement must be given before the Offer is closed to those Shareholders who have not accept the Offer. The Offer, if extended, will be done in accordance with the Takeovers Code.

The Offer will not extend to the holders of the Share Options and the Warrants II pursuant to the share option scheme and warrant instrument of the Company, and the Offer will not extend to the holders of the Issued CBs and the Unissued CBs, if issued, pursuant to the relevant instruments. The Offer will be made to the holders of Shares that are acquired through exercise of the subscription rights attaching to the Share Options or subscription rights attaching to the Warrants II on or before the latest time for the holders of the Share Options and the Warrants II to exercise the relevant subscription rights for shares in order to accept the Offer (which is expected to be 4:30 p.m. on Wednesday, 31 October 2012). The Offer is not conditional upon any minimum number of acceptances of the Offer. All Shares repurchased under the Offer will be cancelled.

Conditions of the Offer

The Offer will be conditional upon the fulfillment of the following conditions:

(a) the passing of an ordinary resolution by the Independent Shareholders by way of poll to approve the Offer and the Whitewash Waiver at the SGM;

(b) the Executive having granted a Whitewash Waiver to HWKFE;

(c) the filing of the Circular and the Acceptance Form for the Offer with the Registrar of Companies in Bermuda in accordance with the Companies Act, if required, and with the Companies Registry of Hong Kong in compliance with the Companies Ordinance and all legal and other requirements under the Codes and the Listing Rules in connection with the Offer at the time when the Offer becomes unconditional; and

(d) the consents, permissions and approvals required in connection with the Offer being obtained or having been obtained from the Registrar of Companies in Bermuda, if required, and the Securities and Futures Commission, the Stock Exchange and the Companies Registry of Hong Kong and other relevant jurisdictions, if required at the time when the Offer becomes unconditional.

None of the above conditions can be waived. If any of the above conditions cannot be fulfilled on or before the Long Stop Date, the Offer will lapse.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company and HWKFE, being one of the members of the Concert Group, held 898,686,000 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Upon completion of the Offer, the number of Shares held by HWKFE will remain unchanged, but its shareholdings may increase from 43.86% to 76.50% (assuming none of the Share Options and the Warrants II are exercised and all Shareholders (except for the Undertaking Parties) accept the Offer in full on or before the closing of the Offer), thereby resulting in an increase by more than 2% in the relevant 12-month period under Rule 26.1 of the Takeovers Code. Accordingly, HWKFE would be obliged to make an unconditional mandatory offer under Rule 26.1 of the Takeovers Code for all issued shares and other securities of the Company not already owned, controlled or agreed to be acquired by HWKEE and parties acting in concert with it, unless, among others, the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll.

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, to waive the obligations of HWKFE to make such a mandatory general offer.

After the date of the Announcement and up to the date of the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Shares, to the holders of the Warrants I and the Warrants II for the exercise of the subscription rights attaching to the Warrants I and the Warrants II respectively. Accordingly, as the number of Shares held by HWKFE and the Concert Group remains unchanged, the shareholdings of HWKFE in the Company decreased from 45.74% of the issued share capital of the Company as at the date of the Announcement to 43.86% of the total issued share capital of the Company as at the Latest Practicable Date. A confirmation from the Executive that the decrease of shareholding interests of HWKFE, its ultimate beneficial owners and party acting in concert with any of them in the Company as a result of any exercise of the Warrants I and the Warrants II during the Offer Period, does not constitute disqualifying transactions under paragraph 3(b) of Schedule VI of the Takeovers Code for the purpose of the Whitewash Waiver has been obtained by the Company.

The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the SGM. Acceptances by the Shareholders under the Offer will be irrevocable and cannot be withdrawn except otherwise decided by the Executive pursuant to the Codes.

The Irrevocable Undertakings

Pursuant to the Irrevocable Undertakings,

(a) HWKFE has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 898,686,000 Shares held by HWKFE; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$5,453,021 and the Warrants II in an aggregate principal amount of HK$43,700,725 held by HWKFE, before the closing or lapse or termination of the Offer;

(b) Mr. Heung has irrevocably and unconditionally undertaken to the Company that he will not (i) acquire any Shares; and (ii) exercise any of the subscription rights attaching to the 1,567 Share Options held by him, before the closing or lapse or termination of the Offer;

(c) Ms. Chen has irrevocably and unconditionally undertaken to the Company that she will not (i) acquire any Shares; and (ii) exercise any of the subscription rights attaching to the 1,567 Share Options held by her, before the closing or lapse or termination of the Offer;

(d) Mr. Lei has irrevocably and unconditionally undertaken to the Company that he will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 7,980,000 Shares held by him; (iv) exercise any of the subscription rights attaching to the 273,277 Share Options held by him; and (v) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$513,380 and the Warrants II in an aggregate principal amount of HK$299,250 held by him, before the closing or lapse or termination of the Offer;

(e) Simple View has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 200,000,000 Shares held by it; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants II in an aggregate principal amount of HK$10,000,000 held by it, before the closing or lapse or termination of the Offer;

(f) Victory Peace has irrevocably and unconditionally undertaken to the Company that it will not (i) accept the Offer; (ii) acquire any Shares; (iii) dispose of and/or transfer any of the 68,000,000 Shares held by it; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attaching to the Warrants I in an aggregate principal amount of HK$26,248,000 held by it, before the closing or lapse or termination of the Offer;

(g) Eternity Finance has irrevocably and unconditionally undertaken to the Company that it will not (i) acquire any Shares; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attaching to the Issued CBs in an aggregate principal amount of HK$350.00 million, before the closing or lapse or termination of the Offer; and (iii) require the Company to extend any Offer notwithstanding the terms of the Issued CBs; and

(h) Eternity has irrevocably and unconditionally undertaken to the Company that it will not (i) acquire any Shares; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attaching to the Unissued CBs in an aggregate principal amount of HK$300.00 million, if issued, before the closing or lapse or termination of the Offer; and (iii) require the Company to extend any Offer notwithstanding the terms of the Unissued CBs, if issued.

The reasons for providing the Irrevocable Undertaking to the Group by the Undertaking Parties has been disclosed in "Letter from the Board" of the Circular.

As at the Latest Practicable Date, no person had irrevocably committed to accept the Offer.

Dorest, being one of the members of the Concert Group, held 13,702 Shares, representing approximately 0.0007% of the existing issued share capital of the Company. Dorest is legally and beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. Dorest owed C.A. Pacific Finance Limited a debt and C.A. Pacific Finance Limited is in liquidation. The Shares held by Dorest are subject to a charging order filed by the liquidator of C.A. Pacific Finance Limited in January 2009. Dorest has not received any updated information relating to the status of the charging order from January 2009 up to the Latest Practicable Date. Accordingly, Dorest is the registered holder of the 13,702 Shares and has a beneficial interest in such Shares. Dorest has the voting right in respect of those Shares. Save for the 13,702 Shares, no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) is held by Dorest during the Relevant Period and up to the Latest Practicable Date. Dorest, being one of the members of the Concert Group, will abstain from voting for the relevant resolution approving the Offer and the Whitewash Waiver. Mr. Heung and Ms. Chen have indicated to the Company that Dorest has no intention to accept the Offer.

As at the Latest Practicable Date, Ms. Li Yuk Sheung, being one of the Directors, beneficially interested in 10,558 Share Options exercisable into 10,558 new Shares, has no intention to exercise the subscription right attaching to the Share Option and to accept the Offer. Mr. Heung and Ms. Chen have indicated to the Company that they will not accept the Offer. Save for Mr. Heung, Ms. Chen and Ms. Li Yuk Sheung and the Concert Group, there is no Directors (including the independent non-executive Directors) and/or parties acting in concert with any of them who have interests in any Shares, Share Options and/or Warrant II.

Save for the Concert Group, the relevant members of which has respectively given the relevant Irrevocable Undertakings, there is no other person holding 10% or more of the voting rights of the Company.

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

Details of the procedures for acceptance and settlement are set out in Appendix I to the Circular.

OVERSEAS SHAREHOLDERS

Details of the procedures for acceptance and settlement of the Overseas Shareholders are set out in the letter from the Board and in Appendix I to the Circular.

TAXATION

Details of the tax implication in respect of the Offer are set out in Appendix I to the Circular.

ANNOUNCEMENT

Details of publication of the announcement of the result of the Offer are set out in Appendix I to the Circular.

RESPONSIBILITY FOR DOCUMENTS

All communications, notices, the Acceptance Forms, the Circular and remittances to be delivered or sent by, to or from any Shareholder will be delivered or sent by, to and from them, or their designated agents, at their risk and none of the Company, Get Nice and the Registrar or any of their respective directors or any other persons involved in the Offer accepts any liability for any loss or any other liabilities whatsoever which may rise as a result.

SGM

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 Thursday, 25 October 2012 at 12:00 noon, at which resolutions will be proposed for the purposes of considering and, if thought fit, approving the Offer, the Whitewash Waiver, the Possible Bonus Issue and the proposed amendments to the Bye-laws, is set out on pages 260 to 265 of the Circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the terms of the Offer as set out in Appendix I to the Circular, the financial and other information and the valuation report on the properties of the Group are set out in the appendices to the Circular, and to consult their professional advisers as they see fit.

Shareholders are advised to consider the detailed terms of the Offer and the Whitewash Waiver and read, among other things, the letter of recommendation from the Independent Board Committee and the letter of advice from the Independents Financial Advisers contained in the Circular before deciding whether to vote for or against the resolutions in respect of the Offer and the Whitewash Waiver to be proposed at the SGM. Shareholders should also note that their voting decision on the resolutions to be proposed at the SGM relating to the Offer and the Whitewash Waiver shall not affect their investment decision as to whether to accept the Offer or not. If the Shareholders are in any doubt as to any aspect of the Offer or the Whitewash Waiver or as to the action to take, they should seek independent professional advice.

Yours faithfully,
For and on behalf of
Get Nice Securities Limited
Ng Hon Sau, Larry
Director

中国星
CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

28 September 2012

To the Independent Shareholders

Dear Sir or Madam,

(i) PROPOSED CONDITIONAL CASH OFFER BY GET NICE SECURITIES LIMITED ON BEHALF OF CHINA STAR ENTERTAINMENT LIMITED TO REPURCHASE UP TO 887,901,665 SHARES IN CHINA STAR ENTERTAINMENT LIMITED; AND (ii) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 28 September 2012 (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 Offer and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of terms of the Offer 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 Offer and the Whitewash Waiver and whether or not to accept the Offer. Donvex and Messis has been appointed to advise the Independent Board Committee which will then advise the Independent Shareholders in such regards.

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

Having taken into account the advice and recommendation of the Independent Financial Advisers, we consider that the terms of the Offer and the Whitewash Waiver are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Offer 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 Offer and the Whitewash Waiver and the transaction contemplated thereunder.

We also concur with the advice of Independent Finance Advisers and recommend the Independent Shareholders to accept the Offer.

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer.

Yours faithfully,
For and on behalf of
Independent Board Committee
Hung Cho Sing **Ho Wai Chi, Paul** **Tang Chak Lam, Gilbert**
Independent non-executive Directors

The following is the full text of the letter from Messis Capital Limited and Donvex Capital Limited setting out their advice to the Independent Board Committee for advising the Independent Shareholders in connection with the Offer and the Whitewash Waiver which has been prepared for the purpose of incorporation in the Circular.

Donvex
富域資本
Donvex Capital Limited
富域資本有限公司
Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

大有融資有限公司
MESSIS CAPITAL LIMITED
Room 2002, 20th Floor,
Tower One, Lippo Centre,
89 Queensway,
Hong Kong

28 September 2012

To the Independent Board Committee of
China Star Entertainment Limited

Dear Sir or Madam,

(i) PROPOSED CONDITIONAL CASH OFFER BY GET NICE SECURITIES LIMITED ON BEHALF OF CHINA STAR ENTERTAINMENT LIMITED TO REPURCHASE UP TO 887,901,665 SHARES IN CHINA STAR ENTERTAINMENT LIMITED; (ii) APPLICATION FOR WHITEWASH WAIVER; (iii) POSSIBLE BONUS ISSUE AND ISSUE OF BONUS CBS TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT; (iv) PROPOSED AMENDMENTS TO THE BYE-LAWS AND (v) NOTICE OF SGM

INTRODUCTION

We have been appointed as the joint independent financial advisers to the Independent Board Committee, which will then take into account of our opinion to advise the Independent Shareholders in relation to the Offer and the Whitewash Waiver as referred to in the announcement of the Company dated 4 June 2012. Information about the terms of the Offer and the Whitewash Waiver, and details of which are contained in the Letter from the Board and Letter from Get Nice respectively set out in pages 8 to 28 and pages 29 and 38 of the circular to the Shareholders dated 28 September 2012 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless other context otherwise requires.

Our role as the joint independent financial advisers is to give an independent opinion to advise the Independent Board Committee for advising the Independent Shareholders as to whether the terms of the Offer and the Whitewash Waiver are fair and reasonable and as to voting on the resolution to approve the Offer and the Whitewash Waiver at the SGM. We are also required to advise and give recommendation to the Independent Board Committee for advising the Independent Shareholders regarding the acceptance of the Offer.

In putting forth our recommendation, we have relied on the statements, information, assessments, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the management and the Board of the Company and other professionals. We have assumed that all such statements, information, assessments, opinions, reports and representations contained or referred to in the Circular or otherwise provided by the management and the Board, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the Latest Practicable Date. Within the Offer Period, any material change regarding the Company, the Offer and the Whitewash Waiver will be disclosed by the Company in the form of announcement and supplemental circular (if necessary). We consider that we have been provided with sufficient information on which to form a reasonable basis for our recommendation. We have no reason to suspect that any material facts or information have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations and assessments made to be untrue, inaccurate or misleading. We have not, however, carried out an independent verification of the information provided by the management and the Board, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee for advising the Independent Shareholders in relation to the Offer and the Whitewash Waiver, we have taken into consideration an array of principal factors and reasons set out below.

1. Background

The Company, incorporated in Bermuda with limited liability, is an investment holding company. The Company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, sales of Chinese health products, investing in operations which receive the profit stream from gaming promotion business, property and hotel investment, and property development.

2. Reason for and benefit of the Offer

Based on the audited consolidated financial statements for the year ended 31 December 2011, the net assets per Share was approximately HK$1.00 which is calculated based on the equity attributable to owners of the Company of HK$1,968.59 million as at 31 December 2011 over 1,964,721,160 Shares in issue as at 31 December 2011. However, the Directors have noticed that the trading prices of Shares are well below the net asset value per Share and consider trading prices of Shares do not reflect the net asset value of the Group. Detail of the trading prices of Shares as quoted on the Stock Exchange is as follows:

(a) The highest closing price of Share of HK$0.34 for the 12 months preceding 30 April 2012 represents a discount of approximately 66.00% to the net asset value per Share of HK$1.00; and

(b) The closing price of Share of HK$0.196 in the last trading day prior to the date of the Announcement represents a discount of approximately 80.40% to the net asset value per Share of HK$1.00

In this respect, the Directors (excluding the Independent Board Committee) consider that the terms of the Offer (including the Offer Price) are fair and reasonable and it would be in the interests of the Company and Shareholders to have an opportunity to return part of the fund to the Shareholders by way of the Offer since it will:

(a) enhance the consolidated net asset value per Share;

(b) provide opportunities for Shareholders who wish but are not able to dispose of any of their Shares due to low liquidity in the trading of the Shares to realise part of their investments in the Company at a premium over the market price of the Shares; and

(c) provide opportunities for Shareholders who wish to retain their holdings and participate in the future prospects of the Group to increase their proportionate interests in the Company with enhanced net asset value per Share and future earnings attributable to each Share held by them after the Offer.

The Offer is aimed to provide opportunities for Shareholders who wish but are not able to dispose of any of their Shares due to low liquidity in the trading of the Shares to realise part of their investment in the Company at premium over the market price of the Shares. After taking into consideration the Offer Price and the financial effects of the Offer, the Directors consider repurchasing up to a maximum of 887,901,665 Shares is in the interest of the Company and the Shareholders as a whole. The Directors consider that the enhancement in the consolidated net asset value per Share would be in the interest of the Shareholders and is expected to be realised and reflected in the market of the Shares over time.

3. Terms of the Offer

We are given to understand that as (i) the Company has issued and allotted an aggregate of 84,461,022 Shares after the date of the Announcement and up to the Latest Practicable Date; (ii) the Warrants I and 36,914 Share Options have expired on 14 June 2012 and 15 July 2012 respectively; and (iii) the Issued CBs in an aggregate principal amount of HK$350.00 million and the Unissued CBs in an aggregate principal amount of HK$300.00 million will not be exercised or converted before the closing or lapse or termination of the Offer pursuant to the Irrevocable Undertakings given by the holders thereof, the maximum number of Shares to be repurchased and cancelled pursuant to the Offer would be 887,901,665 Shares (assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full on or before the closing of the Offer), representing approximately 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options and the Warrants II (except for those held by the Undertaking Parties).

As contained in this Circular, Get Nice, on behalf of the Company is making a conditional voluntary cash offer to repurchase up to 874,516,306 Shares (assuming none of the Share Options, Warrants II and Issued CBs are exercised or converted on or before the closing of the Offer), representing approximately 42.68% of the issued share capital of the Company as at the Latest Practicable Date, or 887,901,665 Shares (assuming all of the Share Options and the Warrants II are exercised in full on or before the closing of the Offer), representing 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options and Warrants II (except for those held by Undertaking Parties) at the Offer Price of HK$0.35 per Share. The Shares repurchased under the Offer will be cancelled accordingly. The Offer is conditional upon it being approved by ordinary resolution on a poll of the Independent Shareholders, voting either in person or by proxy, at the SGM. The Offer will not be conditional as to any minimum number of Shares tendered for acceptance.

HWKFE, Mr. Heung, Ms. Chen, Mr. Lei, Simply View, Victory Peace, Eternity Finance and Eternity have undertaken to the Company that they will not accept the Offer and procure their associates not to accept the Offer in respect of the Shares owned by them.

Independent Shareholders will be able to submit acceptances in respect of some or all of their holdings of Shares. Independent Shareholders may accept the Offer in respect of their holdings of Shares at the Offer Price up to their entire holdings.

It is stated in the Letter from Get Nice that assuming all of the Share Options and the Warrants II are exercised in full on or before the closing of the Offer, the Shares in issue would increase from 2,049,182,306 Shares to 2,062,567,665 Shares and there would be 887,901,665 Shares, being the Shares held by public Shareholders and Dorest under the Offer, representing approximately 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all of the Share Options and Warrants II (except for those held by Undertaking Parties). The Company would receive an aggregate cash proceeds of approximately HK$95.48 million from the exercise of the Share Options and the Warrants II and the consideration for the Offer would be approximately HK$310.77 million if the Offer is accepted is full.

The consideration for the Offer will be paid in cash and be funded out of the internal resources of the Company. Nuada Limited, the financial adviser of the Company in respect of the Offer, is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full. The Directors are of the opinion that, in the event that the maximum amount of consideration is payable under full acceptance of the Offer, the Group will still maintain sufficient working capital upon completion of the Offer to pay its liabilities as they become due and to meet the normal operation requirements of the Group.

The Offer Price of HK$0.35 per Share represents:

(a) a premium of approximately 78.57% over the closing price of HK$0.196 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 76.77% over the average closing price of approximately HK$0.198 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a premium of approximately 72.41% over the average closing price of approximately HK$0.203 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 69.08% over the average closing price of approximately HK$0.207 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 65.00% below the audited net assets value of approximately HK$1.00 per Share as of 31 December 2011;

(f) a discount of approximately 64.07% below the unaudited net assets value of approximately HK$0.974 per Share as of 30 June 2012; and

(g) a premium of approximately 2.94% over the closing price of HK$0.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

4. The Offer Price

We have reviewed and assessed the fairness and reasonableness of the Offer Price with reference to i) the Group's recent financial performance; ii) the prospect of the operation of the Group; iii) its historical share price and trading performance; iv) the comparison with other listed companies with similar business nature in terms of price/earnings ratio, price/book ratio and dividend yield; v) recent cash offer for share repurchase by other Hong Kong listed companies; and vi) the financial impact of the Offer on the Group.

(i) The Group's recent financial performance

The following financial information is extracted from the annual reports and interim results of the respective years of the Group:

Consolidated income statement

	For the year ended 31 December		For the six-months ended 30 June
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Turnover	864,261	1,096,762	593,521
Gross profit	625,108	615,018	307,117
Impairment loss recognised in respect of intangible assets with regard to the decrease in the carrying amount of intangible assets related to the rights in sharing of profit streams from investments in gaming promotion operations business in Macau	(197,973)	(700,085)	(7,300)
Profit/(Loss) before taxation	26,219	(661,525)	41,825
Profit/(Loss) for the year/period	24,827	(654,106)	42,081

Segment Information

	Segment revenue For the year ended 31 December				Segment result		
	2010	2011	2011 segment revenue as a percentage of 2011 turnover	For the six months ended 30 June 2012	For the year ended 31 December 2010	2011	For the six months ended 30 June 2012
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)		(unaudited)	(audited)	(audited)	(unaudited)
Film distribution operations	1,317	1,602	0.14	33	(520)	(16,037)	(203)
Hotel and gaming service operations	725,130	949,260	86.55	521,662	64,333	58,375	80,156
Gaming promotion operations	137,814	117,436	10.71	8,648	(70,349)	(583,961)	1, 719
Property development operations	–	–	–	–	–	(33)	(33)
Chinese health products sales operations	–	28,464	2.60	63,178	–	(278)	(524)
Total	864,261	1,096,762	100	593,521	(6,536)	(541,934)	81,115

Consolidated statement of cashflow

	Year ended 31 December		Six-months ended 30 June
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Net cash from/(used in) operating activities	328,563	(304,390)	12,893
Net cash (used in)/from investing activities	2,047	(32,514)	(227,504)
Net cash generated/(used in) from financing activities	300,964	614,155	(15,990)
Net cash inflow/(used)	631,574	277,251	(230,601)
Cash and cash equivalents	625,827	903,094	672,464

(Source: 2011 annual report and 2012 interim report of the Group)

Principal business of the Group

The Group has strategically expanded their core business from film production and distribution to an all-round enterprise of hotel, leisure, entertainment and property development in Macau since 2008 (the "Strategic Move"). According to the 2011 annual report of the Group ("AR2011"), for the fiscal year ended 31 December 2011, the segment revenue for the hotel and gaming service operations contributed 86.55% of the total revenue of the Group, while the segment revenue for film distribution operations constituted only 0.14%. The film distribution operations segment included production and distribution of films and television drama series and provision of other film related services. During the year, the Group did not distribute any new film, and new productions are only in planning stage.

The hotel and gaming service operations segment included (i) the daily operation of Hotel Lan Kwai Fong ("Hotel Lan Kwai Fong") in Macau; and (ii) the services provided to the casino situated in Hotel Lan Kwai Fong (the "Casino LKF"). Casino LKF is run by a gaming concessionaire named Sociedade de Jogos de Macau, S.A. ("SJM"). The Group has entered into gaming operation service agreements with SJM, pursuant to which, the Group provides the operation and management of Casino LKF, where SJM provides assistance as a gaming concessionaire with the Macau Government. The Group will share service income on a predetermined profit sharing ratio from SJM based on the gross wins of the table gaming and slot machines in Casino LKF.

The gaming promotion operations segment includes the profit sharing from Ocho Sociedade Unipessoal Limitada, one of the leading gaming junkets at one of the VIP gaming rooms at Grand Lisboa Casino in Macau.

The property development operations segment and the newly acquired Chinese health products sales operation segment are still under development stage, which do not have significant contribution to the net profit of the Group for the year ended 31 December 2011 and the six months ended 30 June 2012.

Interim results for the six months ended 30 June 2012

For the six months ended 30 June 2012, the Group recorded a net profit attributable to the owners of the Company of approximately HK$2.69 million (2011: net loss of HK$27.99 million). According to the 2012 interim report of the Group ("IR2012"), such profit was mainly attributable to the decrease of the impairment loss recognised from the segment of gaming promotion operations (the "Impairment") to approximately HK$7.30 million (2011: HK$73.83 million). The Impairment was a result of the decrease in carrying amount of the intangible assets related to the rights in sharing of profit streams (the "Impaired Assets"). According to IR2012, the Impaired Assets was associated with the cash generating units ("CGU") of the rights in sharing of 0.40% of rolling turnover generated at one of the VIP room at Grand Lisboa Casino in Macau for an indefinite period of time.

After the substantial Impairment of approximately HK$700.09 million recognised in the year ended 31st December 2011, the decrease in gaming revenue was relatively smaller and more stable as compared to the year ended 31 December 2011. As a result, the Impairment recognised was substantially decreased for the six months ended 30 June 2012, and the Group has turned around into a profit for the six months ended 30 June 2012 as compared to a substantial loss of approximately HK$654.10 million for the year ended 31 December 2011.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2012.

We are aware that the hotel and gaming services operations segment is the major contributor to the Group's net profit. We are also aware of the fact that the Group has turned around into a profit due to the decrease of the Impairment. However, in view of the intensive competition in the gaming industry and hotel industry in Macau, there is much uncertainty as to whether the profitability of the Group will maintain in the future even the gaming industry and hotel industry in Macau is positive in accordance with the conclusion drawn under the section named "Overview of the gaming industry and hotel industry of Macau by the Group".

Review on the liquidity of the Group

According to IR2012, for the six months ended 30 June 2012, the cash flows from operating activities was approximately HK$12.89 million (2011: cash used of approximately HK$361.14 million) and the decrease in cash and cash equivalents was approximately HK$230.60 million (2011: a decrease of approximately HK$31.34 million). The overall cash position of the Group has decreased from approximately HK$903.09 million to approximately HK$672.46 million, which was mainly attributable to the net cash used in investing activities of approximately HK$227.50 million, as a result of the combined effect of (i) the refund of the deposits of HK$360 million to the Group on 15 February 2012 regarding the termination of the sale and purchase agreement entered in respect of the acquisition of the piece of land in Macau named "Lote C7 do Plano de Urbanização da Baía da Praia Grande"; and (ii) the deposits of HK$618 million paid by the Group to Mr. Heung pursuant to the sale and purchase agreement entered in respect of the acquisition of the remaining 49% interest in the Hotel Lan Kwai Fong.

Review on the operating performance and financial position of the Group

The total turnover of the Group recorded an increase of 26.90% from approximately HK$864.26 million for the year ended 31 December 2010 to approximately HK$1,096.76 million for the year ended 31 December 2011. As a result of the Impairment, the loss attributable to owners of the Company increased from approximately HK$8.08 million for the year ended 31 December 2010 to approximately HK$683.23 million for the year ended 31 December 2011. The Group recorded a total turnover of HK$593.52 million for the six months ended 30 June 2012. Since the Impairment recognised was substantially decreased for the six months ended 30 June 2012, and the Group has turned around into a profit for the period attributable to the owners of the Company of approximately HK$2.69 million for the period of the six months ended 2012.

In respect of the cashflow position of the Group, the cash flow from operating activities was positive for the six months ended 30 June 2012. However, it was not sufficient to cover the cash used for investing activities of the Group.

Although the overall operating performance of the Group has improved after the implementation of the Strategic Move, there is no guarantee that the profitability, liquidity or cash flows from operating activities of the Group will sustain amid the intensive competition in the gaming industry and hotel industry. In view of the above, we consider the increase in profitability uncertainties and the insufficient cash flow has resulted in the increase in overall risk on holding the Shares. As such, we are of the view that the Offer is fair and reasonable for the Shareholders to liquidate their shareholdings by accepting the Offer apart from selling the Shares in the open market.

(ii) The prospect of the operation of the Group

The Group was of the view that the film distribution operations segment of the Company was facing severe challenges such that the Company has implemented the Strategic Move. However, the property development operations segment and the newly acquired Chinese health products sales operation segment are still under development stage, which do not have significant contribution to the net profit of the Group. Based on the research and analysis stated below, we are of the view that the Group has entered into a prosperous gaming and hotel industry in Macau, although the industries are subject to keen competition.

(a) Global economy perspective

In order to have an outlook of the global economy perspective, we have referenced to the world economic outlook report published in April 2012 by the International Monetary Fund, who is an organization of 188 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. According to the report, the outlook for the global economy is slowly improving, but the recovery is still very fragile. The real GDP growth for the developed countries should pick up gradually from approximately 1% during 2012 to above 2% in 2013 onwards while the real GDP growth for developing countries should remain stable at approximately 6-7% under improved financial conditions and accommodative monetary policies. However, such forecast is based on the assumption that policymakers will take every step required to prevent a Greek-style downward spiral from taking hold of another economy on the euro area periphery. This may imply additional support will be given by the policymakers only in the event of intensified market turmoil. Thus, sovereign spreads and euro area banking system stress are expected to remain volatile and come down only gradually in 2012 through 2013. Under such situation, we believe that the credit market will most likely remain tightened, which may lead to the actual real GDP growth being lower than the forecasted recovery rate prepared by the International Monetary Fund, which may inevitably give a negative impact to the revenue and results of the Group.

(b) Hong Kong economy perspective

According to the report dated February 2012 titled "2011 Economic Background and 2012 Prospects" published by the Hong Kong government, the Hong Kong economy is expected to slow down from an average real GDP growth of 2.9% for the period of 2008-2011 to a real GDP growth of 2.0% in 2012, then recover to an average real GDP growth of 4.0% for the period of 2013-2016. However, the government is still concerned by various challenges facing the global and local economy over the medium term. Globally, the fragile fundamentals of the advanced economies will continue to overshadow the growth prospects. Structural problems including fragile fiscal positions, persistently high unemployment, household deleveraging, and depressed housing market that will take years to heal (the "Structural Problems") will undermine the real economy and increase financial market volatility of the developed economies, which will result in the increase in economic headwinds and market volatility in Hong Kong. The economic drag and political discontent can also lead to increased protectionist sentiments on the trade and exchange rate fronts.

How well the Asia region can withstand the drag with its relatively sound fundamentals will be crucial to the medium-term global economic outlook. Besides, the threat of inflationary pressures may still lurk in the background given the envisaged continuation of ultra-loose monetary stance in the advanced economies for some time. In view of the above, we are in the opinion that the economy of Hong Kong, though undergoing a recovery, is also expected to face economic headwinds and market volatility until the Structural Problems for the developed economies have been resolved, which may inevitably give a negative impact on the revenue and net profit of the Group in particular the film distribution operations segment that is dependent on the economy of Hong Kong.

(c) The current state of filming industry in Hong Kong and the PRC

In order to have an overview of the production and distribution development trend of filming industry in Hong Kong, we have reviewed the industry data prepared by Hong Kong Motion Picture Industry Association Ltd. (the "MPIA"), who is the only film makers association in Hong Kong that publishes the box office receipts on a daily basis. The MPIA was founded in 1986, who is one of the major motion picture industry associations in Hong Kong established for the protection of intellectual property and representation of filmmakers' views in dealing with governments or other motion picture industry associations globally. According to the publication dated 3 January 2012 issued by the MPIA, the total number of films shown in Hong Kong has decreased from 286 in 2010 to 276 in 2011, representing a decrease of approximately 3.5%. In terms of the total box office receipts, the total revenue has increased from approximately HK$1,339 million in 2010 to approximately HK$1,392 million in 2011, representing approximately 4% increase. However, according to the inflation data presented by the Census and Statistics Department of Hong Kong, the average composite consumer price index of Hong Kong in 2011 was 5.3% higher than in the preceding 12-month average, which implies the real growth rate for the total box office receipts for the filming industry was actually negative. We have noticed that there were some foreign blockbusters shown recently, such as "Transformers 3: Dark of the Moon" and "Harry Potter and the Deathly Hallows" that may bring stimulation to the box office receipts in Hong Kong, however, since there is no guarantee that the blockbusters will be shown in constant schedule, we do not assume the stimulation effect for the box office receipts in Hong Kong will continue in the future. In addition, the illegal downloading of movies from internet has also affected the box office receipts in Hong Kong. As such, amid the economic headwinds and market volatility in Hong Kong, together with the decreasing number of films and the negative real growth rate of filming revenue, we are of the view that the box office receipts for the filming industry in Hong Kong was gradually deteriorating in recent years.

The box office receipts of the filming industry in the PRC have been under a rapid growth in recently years. As announced by the State Administration of Radio Film and Television under the PRC government in January 2012, the box office receipts has reached a historical high of approximately RMB13 billion in 2011. However, in December 2011 the PRC government has placed stricter rules and regulations on the content of filming industry through the review of the電影產業促進法(Film Industry Promotion Act), which we are of the view that it may imply extra risk on the film investments being taken by film producers upon any content restriction placed on the films by the PRC government.

(d) Overview of the gaming industry and hotel industry of Macau by the Group

Gaming industry in Macau

According to the Quarterly Gaming Statistics 2011 prepared by The Gaming Inspection and Coordination Bureau, Macau SAR, Macau has recorded a 42.00% growth in gross gaming revenue in 2011. Given that Macau has achieved strong growth in its gross gaming revenue in recent years, Macau has become the world's biggest gaming market.

However, such prosperous outlook of the industry has also attracted intense competition in recent years. From 2009 to 2011, the number of casinos increased from 33 to 34 (a 3.03% increase), the number of gaming table increased from 4,770 to 5,302 (a 11.15% increase), and the number of slot machines increased from 14,363 to 16,056 (a 11.79% increase) according to the statistics data presented by Gaming Inspection and Coordination Bureau of Macau.

The gaming industry in Macau has been further affected in view of the recent Macau government policy on PRC individual travel scheme. Since August 2008, Macau government has placed restrictions on PRC citizens to travel to Macau, including the shortening of the number of days allowed for first time visit from 14 days down to 7 days, and the cancellation of the permission for PRC citizens who is holding Hong Kong visa to visit Macau through Hong Kong. Any further travelling restrictions by the Macau or PRC government may reduce the interest of PRC citizens to visit the casinos in Macau, which would have a negative impact on the gaming industry in Macau.

Despite the recent Macau government policy on the PRC individual travel scheme and the increased competition in Macau gaming industry, the growth in gross gaming revenue in Macau in 2011 is still so prominent that it has outweighed the negative effect brought by the increased competition in Macau gaming industry and the recent Macau government on the PRC individual travel scheme. However, in order to capture the growth in Macau gaming revenue, we are of the view that every market participants including the Group should remain competitive in the gaming industry, including but not limited to ensure glamorous casino decoration, provision of international casino management service, provision of accommodation with shopping and entertainment concept, which may imply extra risk on the increase of operating costs of the Group in future.

Hotel industry in Macau

In order to determine the outlook of the hotel industry in Macau, we have referenced to the Tourism Indicators report in December 2011 published by Statistics and Census Service of the Macau government regarding the hotel industry in Macau. In December 2011, the hotels and guest-houses in Macau received a new record of 820,163 guests, representing an increase of 12.7% year-on-year and the average length of stay increased by 0.05 nights as compared to December 2010 to 1.5 nights in December 2011. For the year 2011, the total number of guests increased by 11.0% to 8,612,127, and the average occupancy rate of hotels and guest-houses was 84.1%, up by 4.3 percentage points as compared to 2010.

Despite the recent Macau government policy on the PRC individual travel scheme which is expected to reduce the interest of PRC citizens to visit Macau, the growth in total number of guests and average hotel occupancy rate in Macau in 2011 is still very strong such that it has outweighed the negative effect as a result of the recent Macau government policy on the PRC individual travel scheme. As such, we are of the view that the outlook of the hotel industry in Macau is prosperous.

However, in order to capture the growth in revenue of the hotel industry in Macau, we are of the view that every market participants including the Group should remain competitive in the hotel industry in Macau, including but not limited to ensure fascinating hotel decoration, provision of hotel management service with international standard, provision of accommodation with shopping and entertainment concept, which may imply extra risk on the increase of operating costs of the Group in future.

(e) Overview on the Group's operation prospect

The segment revenue of hotel and gaming service operation contributed 86.55% and 87.89% of total revenue of the Group for the year ended 31 December 2011 and the six months ended 30 June 2012 respectively, which include both the hotel operation in Hotel Lan Kwai Fong and services provided to the Casino LKF. As such, the prospect of the Group's operation very much depends on the potential growth of hotel and gaming service operation in Macau.

Despite the gloomy outlook of global economy which should have direct impact on Hong Kong economy, Macau has a strong growth in gross gaming revenue in 2011. However, the competition of Macau gaming industry becomes intensified as a result of the increased number of casinos, gaming tables and slot machines.

The prospect of the Macau gaming service operation of the Group would depend on as to whether the Group, being directly involved in the operation and management of Casino LKF, could remain competitive, including but not limited to ensure glamorous casino decoration, provision of international casino management service, provision of accommodation with shopping and entertainment concept to attract visitors, which may imply extra risk on the increase of operating costs of the Group in future.

In respect of the Macau hotel operation of the Group, such prospect would rely on the growth of the number of tourists and the length of the stay of the tourists in Macau, in particular to the growth of the number of tourists from the PRC. Since August 2008, Macau government has placed restrictions on PRC citizens to travel to Macau, including the shortening of the number of days allowed for first time visit from 14 days down to 7 days, and the cancellation of the permission for PRC citizens who is holding Hong Kong visa to visit Macau through Hong Kong. The above restrictions would reduce the interest of PRC citizen to visit Macau and affect the occupancy rate of Macau hotel, which would directly have negative impact on the revenue generated from the Macau hotel operation of the Group as most of the customers for the hotel operation of the Group are from the PRC. As such, any further travelling restrictions by the Macau or PRC government may reduce the interest of PRC citizens to visit the casinos in Macau, which would have a negative impact on the Macau hotel operation of the Group.

Based on the above analysis on the prospect of the hotel and gaming service operation of the Group, we are of the view that there are a lot of uncertainties on the prospect of the Group which is subject to Macau government policy on tourism and the competitiveness of the Group in the gaming industry.

(iii) Historical share price and trading performance

In order to assess the fairness and reasonableness of the Offer Price, we have reviewed the movements in trading price of the Shares during the last 12 months up to the Latest Practicable Date.

The review period

The time frame chosen for share price and volume data used within the upcoming sections includes the last 12 months preceding the Last Trading Day up to the Latest Practicable Date (the "Review period"). During the Review Period, catastrophic events such as the European sovereign-debt crisis and the downgrade of credit rating of the government of the United States of America happened to give severe impacts to global stock markets, including the Hong Kong stock market. Under such a situation, we are of the view that the length of period is appropriate as such catastrophic events would have given the market an opportunity to re-evaluate the fairness of the asset value, and to investigate the risk factors underneath. As such, the valuations of the asset prices are believed to be rational and representative within the period.

Historical share price and liquidity

As shown in the following table are:

(a). the monthly highest and lowest closing share prices of the Shares as quoted on the Stock Exchange during the Review Period.;

(b). the average daily trading volume of Shares during the Review Period;

(c). the trading volume of the Shares as a percentage of the Company's existing issued Shares; and

(d). similarly, the trading volume of the Shares as a percentage of the issued Shares held by Public Shareholders:

	Highest closing price *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily trading volume** *(shares)*	**As % of the issued Shares** *(Note 1)*	**As % of the issued Shares held by Public Shareholders** *(Note 2)*
2011					
May	0.355	0.259	16,768,531	0.818%	1.917%
June	0.330	0.236	4,277,026	0.209%	0.489%
July	0.255	0.235	960,049	0.047%	0.110%
August	0.238	0.175	1,209,974	0.059%	0.138%
September	0.188	0.150	593,699	0.029%	0.068%
October	0.255	0.150	1,219,381	0.060%	0.139%
November	0.245	0.180	1,111,033	0.054%	0.127%
December	0.220	0.210	640,362	0.031%	0.073%
2012					
January	0.220	0.210	285,995	0.014%	0.033%
February	0.245	0.212	421,447	0.021%	0.048%
March	0.245	0.215	610,733	0.030%	0.070%
April	0.211	0.196	197,291	0.010%	0.023%
May	0.196	0.196	–	0.000%	0.000%
June	0.350	0.335	11,910,814	0.581%	1.362%
July	0.350	0.335	2,330,215	0.114%	0.266%
August	0.350	0.340	603,967	0.029%	0.069%
September	0.350	0.340	952,907	0.027%	0.063%

(Source: Hong Kong Stock Exchange)

Note:

1. Based on the total number of issued Shares of 2,049,182,306 as at the Latest Practicable Date.
2. Based on the total number of issued Shares of 874,502,604 held by Public Shareholders as at the Latest Practicable Date.

Analysis on the historical share price

As illustrated above, although the Share has been trading in the range of HK$0.335 to HK$0.35 per Share after the publication of the Announcement, we note that the Shares have been trading in the range from the highest of HK$0.355 per Share (recorded on 30 May 2011) and the lowest of HK$0.15 per Share (recorded on 26 September 2011, 3 October 2011, 4 October 2011 and 6 October 2011). We also note that the trading price of the Share was traded below the Offer Price during the period from June 2011 and up to the date of the Announcement. Taking into account the Share has been trading below the Offer Price from 31 May 2011, we are of the view that the Offer Price shall be attractive enough for the Independent Shareholders to accept the Offer.

We would like to remind the Independent Shareholders that although the Offer Price is generally well above the closing prices of the Shares throughout the Review Period, and represents a considerable premium over the closing price of the Shares on the Latest Practicable Date, there is no guarantee that the trading price of the Shares will persistently remain and be lower than the Offer Price during and after the Offer Period. The Independent Shareholders, in particular those who may wish to realise their investments in the Shares, are thus reminded to closely monitor the market price of the Shares during the Offer Period. In the event that the market price of the Shares exceeds the Offer Price during the period while the Offer is open and the sales proceeds (net of transaction costs) exceed the amount receivable under the Offer, Independent Shareholders should consider not accepting the Offer and consider seeking to sell their Shares in the market if they are able to do so.

Liquidity of the Shares

The Shares have been traded on the Stock Exchange with average daily trading volume of approximately 2,570,229 shares during the Review Period, representing less than 1.00% of the issued share capital. As such, it is reasonable to conclude that the liquidity of the Share has been thin during the Review Period.

Given that the trading volume of Shares were very thin during the entire Review Period even after the publication of the Announcement and up to the Latest Practicable Date, we consider that Independent Shareholders who may wish to realize their investment in the Company, especially those with relatively sizable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares. Therefore, we consider that the Offer provides an alternative for the Independent Shareholders who would like to realise their investment in the Shares

(iv) Comparison with other listed companies with hotel and gaming service operation in terms of price/earnings ratio, price/book ratio and dividend yield

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

The segment revenue of hotel and gaming service operation contributed 86.55% and 87.89% of total revenue of the Group for the year ended 31 December 2011 and the six months ended 30 June 2012 respectively, which include both the hotel operation in Hotel Lan Kwai Fong and casino operation and management services in the Casino LKF. As such, it is reasonable to state that the Group's core business consists of the hotel and gaming service operations.

In forming our opinion on the Offer Price, we have also considered the commonly adopted comparable approaches in evaluation of a company, namely price to earnings approach, price to book value approach and dividend approach. In the selection of comparables, our selection criteria is any Hong Kong listed stocks engaging in the hotel and gaming business. Under such criteria, we have identified an exhaustive list of 6 companies falling within the above criteria (the "Hotel Gaming Comparables"). The following table shows (i) the price/earnings ratio, (ii) the price/book ratio; and (iii) the dividend yields of the Hotel Gaming Comparables.

Name of the Company	Stock Code	Market capitalization	Net profit/ (Loss) (as at the latest interim result of 30 June 2012)	Book value (as at the latest interim result of 30 June 2012)	Price/ earnings ratio *(Note 1)*	Price/ book ratio *(Note 2)*	Dividend Yield *(Note 3)*
		HK$ million	*HK$ million*	*HK$ million*	*Times*	*Times*	*%*
SJM Holdings Ltd.	880	90,520	3,411.30	17,077.20	26.54	5.30	4.47
Wynn Macau, Ltd.	1128	107,901	3,337.17	7,369.88	32.33	14.64	5.98
Sands China Ltd.	1928	230,282	3,430.35	37,224.79	67.13	6.19	4.06
Galaxy Entertainment Group Ltd.	27	104,394	3,446.51	17,745.58	30.29	5.88	0
Melco International Development Ltd.	200	10,593	408.41	7,589.40	25.94	1.40	0.22
MGM China Holdings Ltd.	2282	49,856	2,626.11	3,981.70	18.98	12.52	6.22
				Mean	33.53	7.65	3.49
				Median	28.41	6.03	4.26
				Range	18.98 – 67.13	1.40 – 14.64	0.00 – 6.22
The Company	326	717	2.69	1,978.71	266.62	0.36	9.43
		(Note 4)			*(Note 5)*	*(Note 6)*	*(Note 7)*

(Source: Hong Kong Stock Exchange)

Notes

1. Price/earnings ratio is calculated using the market capitalisation of the company as of the Latest Practicable Date divided by the interim net profit of the company for the six months ended 30 June 2012.

2. Price/book ratio is calculated using the market capitalisation of the company as of the Latest Practicable Date divided by the interim book value of the company for the six months ended 30 June 2012.

3. The sum of total dividend paid per share in their fiscal years ended 31 December 2011 divided by the share price of the company as of the Latest Practicable Date

4. The market capitalisation as implied by the Offer Price times the number of issued Shares as of the Latest Practicable Date.

5. The market capitalisation as implied by the Offer Price divided by the interim net profit of the Group for the six months ended 30 June 2012.

6. The market capitalisation as implied by the Offer Price divided by the interim book value of the Group for the six months ended 30 June 2012.

7. The Company has announced to pay a special dividend of HK 3.30 cents per Share on 17th November 2011. As such, the dividend yield is HK$0.033 divided by HK$0.35, which equals approximately 9.43%.

Price/earnings ratio

We have tried to compare the price/earnings ratio of the Group as implied by the Offer Price with those of other Hotel Gaming Comparables. Nevertheless, as analysed in the above, the Group has incurred net profit for the six months ended 30 June 2012 and the market capitalisation as implied by the Offer Price is approximately HK$717 million only, representing approximately 266.62 times of the interim net profit of the Group (the "Offer P/E Ratio"). As shown in the table above, it is observed that the Hotel Gaming Comparables are trading at approximately 18.98 times to 67.13 times of their corresponding interim net profit for the six months ended 30 June 2012, where the Offer P/E Ratio is higher than this range. As such, we are of the view that the Offer Price can provide a higher valuation to the Shareholders, and is therefore fair and reasonable.

Price/book ratio

We have also tried to compare the price/book ratio of the Group as implied by the Offer Price with those of other Hotel Gaming Comparables. As shown in the table above, the Group has a book value of approximately HK$1,978.71 million as at 30 June 2012 and the market capitalisation as implied by the Offer Price is approximately HK$717 million, representing approximately 0.36 times of the book value the Group (the "Offer P/B Ratio"). In contrast, it is observed that the Hotel Gaming Comparables are trading at approximately 1.40 times to 14.64 times of their corresponding book value as at 30 June 2012, where the Offer P/B Ratio is lower than this range.

The Offer P/B Ratio does not provide sufficient information regarding the fairness and reasonableness of the Offer Price, as the market capitalisation of the Hotel Gaming Comparables which is much more substantial than the Company despite the fact that the business nature of the Hotel Gaming Comparables is similar to the Company. However, as discussed under the section named "Review on the operating performance and financial position of the Group", the increase in profitability uncertainties and the insufficient cash flow have resulted in the increase in overall risk on holding the Shares. As such, we are of the view that the Offer is fair and reasonable for the Shareholders to realise their investments in the Shares by accepting the Offer apart from selling the Shares in the open market.

Dividend yield

In order to assess the fairness and reasonableness from the view point of dividend yield, we have analysed the Hotel Gaming Comparables in terms of their dividend yields.

As shown from the table above, the Hotel Gaming Comparables are generating a dividend yield of 3.49% per year in average. In contrast, the Company has declared not to pay any final dividend and interim dividend for the year ended 31 December 2011 and the six months ended 30 June 2012 respectively. Although the Company has declared and paid a special dividend of HK 3.30 cents per Share on 17th November 2011, the dividend policy of the Company remains uncertain as the Group did not pay a regular dividend since 2009. In contrast, 5 out of 6 Hotel Gaming Comparables have declared dividend in the last fiscal year. As such, we are of the view that the Offer can provide an opportunity for the Shareholders who expect a more stable dividend yield to rebalance their portfolios by accepting the Offer.

(v) Comparison with share repurchases by way of general offer during the Review Period

In order to assess the fairness and reasonableness of the Offer Price, we have, to the best of our effort and knowledge, selected and identified an exhaustive list of 2 transactions among the pool of all Hong Kong listed stocks within the Review Period involving share repurchases by way of general offer (the "Repurchase Comparables"). The respective premium or discount to their i) closing price, ii) 5-day average closing price, and iii) 10-day average closing price of the corresponding last trading day were presented and compared against the Company.

Date of announcement	Company Name	Stock code	Repurchase price *(HK$)*	Premium/ (discount) of the repurchase price over/(to) the closing price on the corresponding last trading day *(%)*	Premium/ (discount) of the repurchase price over/(to) the 5-day average closing price on the corresponding last trading day *(%)*	Premium/ (discount) of the repurchase price over/(to) the 10-day average closing price on the corresponding last trading day *(%)*
2 Mar 2012	Pacific Century Premium Developments Limited	432	1.85	35.00	43.00	50.50
28 Nov 2011	ITC Properties Group Limited	199	2.60	51.16	55.69	53.66
	The Company	**326**	**0.35**	**78.57**	**76.77**	**72.41**

(Source: Hong Kong Stock Exchange)

As shown in the table, the premium of the Offer Price to the closing price, 5-day average closing price, and 10-day average closing price of the Share price on the Last Trading Day is higher than the range of the premium or discount of the Repurchase Comparables. As such, we conclude that the Offer is, in terms of the premium paid over the last trading day as compared with cases for the Repurchase Comparables, a relatively better opportunity for the Shareholders to reduce their shareholdings in the Company by accepting the Offer.

(vi) Financial Impact on the Group

The following pro forma financial information is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the Company's financial position or results.

(a) Net assets value

Assuming none of the Share Options, the Warrants II and Issued CBs are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full:

According to the interim report of the Group for the six months ended 30 June 2012, the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 was approximately HK$0.974 per Share. Upon completion of the Offer and assuming all Shareholders accept the Offer in full, the unaudited consolidated net assets of the Group attributable to the owners of the Company is expected to increase to approximately HK$1.424 per Share according to the unaudited pro forma financial information as presented in Appendix IV. As a result, the NAV per Share will be enhanced as a result of the Offer.

Assuming all of the Warrants II (except for those held by the Undertaking Parties) is exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full:

According to the interim report of the Group for the six months ended 30 June 2012, the unaudited consolidated net assets per Share of the Group attributable to the owners of the Company was approximately HK$0.974 per Share as at 30 June 2012. Upon completion of the Offer and assuming all Shareholders accept the Offer in full, the unaudited consolidated net assets of the Group attributable to the owners of the Company is expected to increase to approximately HK$1.423 per Share according to the unaudited pro forma financial information as presented in Appendix IV. As a result, the NAV per Share will be enhanced as a result of the Offer.

Having considered the expected enhancement on the NAV per Share as stated above, we are of the view that the Offer is fair and reasonable and is in the interests of the Independent Shareholders and the Company as a whole.

Having reviewed (i) the prospect of the operation of the Group ii) the Group's recent financial performance, iii) its historical share price and trading performance, iv) the comparison with other listed companies with similar business nature in terms of price/ earnings ratio and dividend yield, v) recent cash offer for share repurchase by way of general offer by other Hong Kong listed companies and vi) the financial impact of the Offer on the Group, we are of the view that the terms of the Offer are fair and reasonable and is in the interest to the Group and the Independent Shareholders as a whole.

5. Other Issues

Continuing public listing of the Company

Set out in the Letter from the Board (page 17) includes a table illustrating the shareholding structure of the Company before and following the completion of the Offer. As stated in the Letter from the Board, the Company and the Concert Group have no intentions to privatize the Company or delist the Shares.

Assuming full acceptance of the Offer, the aggregate percentage shareholding held by the Concert Group would be increased from 57.33% to 100.00% of the reduced issued share capital of the Company. There will be no change in the control of the Company as a result of the implementation of the Offer.

As a result of the Offer, it is possible that all Shares held by public Shareholders may be less than 25% of the Company's total issued share capital, which cannot satisfy Rule 8.08(1)(a) of the Listing Rules. As such, the Company will take steps to ensure that sufficient Shares are held in the hands of the public as required by the Listing Rules, including but not limited to the Possible Bonus Issue.

If the Offer is declared or becomes unconditional in all respects, and if necessary and feasible, the Company intends to restore the minimum public float by way of the Possible Bonus Issue, further details of which are set out in the section headed "Possible Bonus Issue and Issue of Bonus CBs to fulfill the minimum public float requirement" in Letter from the Board. If the Offer is declared or does not become unconditional in all respects, the Possible Bonus Issue will not proceed.

Following the closing of the Offer and taking into consideration the level of acceptances of the Offer and the number of Shares remaining in the hands of the public Shareholders, under the mandate to be approved by the Independent Shareholders at the SGM, the Board will determine the ratio of the Possible bonus Issue, if made, which ratio will be up to a maximum of four Bonus Shares for every one existing Share. If the Board determines that the Possible Bonus Issue is not the sole feasible solution or a feasible solution to restore the minimum public float of the Company, the Board will consider other additional or alternative methods, including placing of new Shares, and/or representing the Concert Group to assist in the implementation of an additional or alternative plan to be adopted by the Company to meet the requirements of Rule 8.08(1)(a) of the Listing Rules. Until the closing of the Offer, it is not possible for the Board to determine the ratio of the Possible Bonus Issue or whether the Possible Bonus Issue is a feasible solution to restore the minimum public float of the Company.

Offer alternative

Taking into the account the Offer being made to all Shareholders and the level of premium of Offer Price over the prevailing market price of the Shares, all the Shareholders are given an equal opportunity to realize their investments in the Shares at the Offer Price, if they wish to do so. The Directors consider the alternative means of share repurchase: the Company purchasing the Shares on the market. Given the low average daily trading volume, which is less than 1.00% of the issued Shares during the Review Period, it will probably take a very long time, and it will be inefficient, for the Company to purchase in the open market for such a large percentage of issued Shares as contemplated under the Offer. Accordingly, we are of the view that to repurchase the Shares in the open market is not practicable, and the Offer is a reasonable approach made by the Company.

Potential increase in shareholdings for the Concert Group and non-accepting Shareholders

Set out in the Letter from the Board (page 17) includes a table illustrating the shareholding structure of the Company before and following the completion of the Offer. As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company. Upon completion of the Offer, the shareholdings of the Concert Group and non-accepting Shareholders may increase, and we are of the view that such increase in shareholdings is fair and reasonable for the Group and the Shareholders as a whole having considered that the NAV per Share will be enhanced upon completion of the Offer as discussed under the section named "Financial Impact on the Group".

THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Concert Group is interested in 1,174,679,702 Shares, representing approximately 57.33% of the existing issued share capital of the Company and HWKFE, being one of the members of the Concert Group, held 898,686,000 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Upon completion of the Offer, the number of Shares held by HWKFE will remain unchanged, but its shareholdings may increase from 43.86% to 76.51% (assuming none of the Share Options, the Warrants II and Issued CBs are exercised) and all Shareholders (except for the Undertaking Parties) accept the Offer in full on or before the closing of the Offer), thereby resulting in an increase by more than 2% in the relevant 12-month period under Rule 26.1 of the Takeovers Code. Accordingly, HWKFE would be obliged to make an unconditional mandatory offer under Rule 26.1 of the Takeovers Code for all issued shares and other securities of the Company not already owned, controlled or agreed to be acquired by HWKFE and parties acting in concert with it, unless, among others, the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll.

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, to waive the obligations of HWKFE to make such a mandatory general offer.

After the date of the Announcement and up to the Latest Practicable Date, the Company has issued and allotted an aggregate of 84,461,022 Shares, representing approximately 4.12% of the issued share capital of the Company of 2,049,182,306 Shares, to the holders of the Warrants I and the Warrants II for the exercise of the conversion rights attaching to the Warrants I and the Warrants II respectively. Accordingly, as the number of Shares held by HWKFE and the Concert Group remains unchanged, the shareholdings of HWKFE in the Company decreased from 45.74% of the issued share capital of the Company as at the date of the Announcement to 43.86% of the total issued share capital of the Company as at the Latest Practicable Date. A confirmation from the Executive that the decrease of shareholding interests of HWKFE, its ultimate beneficial owners and party acting in concert with any of them in the Company as a result of any exercise of the Warrants I and the Warrants II during the Offer Period does not constitute disqualifying transactions under paragraph 3(b) of Schedule VI of the Takeovers Code for the purpose of the Whitewash Waiver has been obtained by the Company.

The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the SGM.

We have noticed that the shareholdings of the Concert Group will increase substantially upon completion of the Offer. As discussed under the section named "Potential increase in shareholdings for the Concert Group and non-accepting Shareholders", such increase in shareholdings is fair and reasonable. As such, we are of the view that the terms of the Offer and the Whitewash Waiver are fair and reasonable and the Independent Board Committee are advised to advise the Independent Shareholders to vote in favour of the ordinary resolution with respect to the approval of the Offer and the Whitewash Waiver to be proposed at the SGM and to accept the Offer.

RECOMMENDATION

Having considered (i) the prospect of the operation of the Group; (ii) the global economic environment; (iii) the current state of the Hong Kong economy; (iv) the Group's recent financial performance; (v) its historical share price and trading performance; (vi) the comparison with other listed companies with similar business nature in terms of price/earnings ratio and dividend yield; (vii) recent cash offer for share repurchase by other Hong Kong listed companies; and (viii) the financial impact of the Offer on the Group, we are of the view that the terms of the Offer are fair and reasonable so far as the Company and the Shareholders are concerned. We therefore advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution with respect to the approval of the Offer and the Whitewash Waiver to be proposed at the SGM and to accept the Offer.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Kinson Li *Managing Director*
Robert Siu *Executive Director*

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Get Nice is making the Offer to the Shareholders on behalf of the Company to repurchase the Shares, on the terms and subject to the conditions set out in the Circular. The terms and conditions of the Offer are set out below.

TERMS AND CONDITIONS OF THE OFFER

The Offer

The Company will repurchase for cancellation up to 887,901,665 Shares at the Offer Price. The Offer Price is HK$0.35 per Share and is final and will not be further increased or revised.

Conditions

The Offer will be conditional upon the fulfillment of the following conditions:

(a) the passing of an ordinary resolution by the Independent Shareholders by way of poll to approve the Offer and the Whitewash Waiver at the SGM;

(b) the Executive having granted a Whitewash Waiver to HWKFE;

(c) the filing of the Circular and the Acceptance Form for the Offer with the Registrar of Companies in Bermuda in accordance with the Companies Act, if required, and with the Companies Registry of Hong Kong in compliance with the Companies Ordinance and all legal and other requirements under the Codes and the Listing Rules in connection with the Offer at the time when the Offer becomes unconditional; and

(d) the consents, permissions and approvals required in connection with the Offer being obtained or having been obtained from the Registrar of Companies in Bermuda, if required, and the Securities and Futures Commission, the Stock Exchange and the Companies Registry of Hong Kong and other relevant jurisdictions, if required at the time when the Offer becomes unconditional.

None of the above conditions can be waived. If any of the above conditions cannot be fulfilled pursuant to the Takeovers Code, the Offer will lapse.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

Maximum number of Shares to be repurchased

The maximum number of Shares which will be repurchased by the Company pursuant to the Offer is 887,901,665 Shares, representing approximately 43.05% of the issued share capital of the Company as enlarged by the new Shares to be issued upon exercise of all the Share Options and the Warrants II (except for those held by the Undertaking Parties).

Shareholders

The Offer is available to all Shareholders.

Acceptance

Shareholders may accept the Offer in respect of any number of their Shares at the Offer Price up to their entire holding of the Shares by submitting to the Registrar a duly completed Acceptance Form accompanied by the Title Documents, by no later than the Latest Acceptance Time. Each Share may only be accepted under the Offer once.

All of the Shares repurchased by the Company will be free of commissions and dealing charges, but seller's ad valorem stamp duty payable by the Accepting Shareholders, calculated at a rate of HK$1.00 for every HK$1,000 or part thereof of the market value of the Shares to be repurchased under the Offer or the consideration payable by the Company in respect of the relevant acceptances of the Offer, whichever is the higher, will be deducted by the Company from the amount payable to the Accepting Shareholders. The Company will arrange for payment of the seller's ad valorem stamp duty on behalf of the Accepting Shareholders to the Stamp Office in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

All Shares repurchased under the Offer will be cancelled in accordance with the Bye-laws.

Subject to the Offer becoming unconditional in all respects, the submission of an Acceptance Form by an Accepting Shareholder in the manner described above will constitute a warranty from such Accepting Shareholder to Get Nice and the Company that all Shares sold by such Accepting Shareholder under the Offer are fully paid, free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on the date of their cancellation (including the right to all dividends and distributions (if any) declared, made or paid on the date of their cancellation).

Acceptance period, extensions and revisions

In order to be valid, the duly completed Acceptance Form, together with the Title Documents in respect of such number of Shares which the relevant Accepting Shareholders intend to accept under the Offer, must be delivered to and received by the Registrar by no later than the Latest Acceptance Time, which is currently expected to be 4:00 p.m. on Friday, 9 November 2012, unless the Offer has previously been revised or extended in accordance with the Takeovers Code.

If the Offer becomes or is declared unconditional in all respects, the Offer will remain open for acceptance for a period of not less than 14 days thereafter and at least 14 days notice by way of announcement must be given before the Offer is closed to those Shareholders who have not accept the Offer. An announcement will be made when the Offer becomes unconditional in all respects.

In any announcement of an extension of the Offer either the next closing date must be stated or a statement may be made that the Offer will remain open until further notice. In the latter case, at least 14 days notice by way of announcement will be given to those Shareholders who have not accepted the Offer. If the Company revises the terms of the Offer, Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms of the Offer. The Offer, as so revised, will then be kept open for at least 14 days following the date on which the document in relation to the Offer, as so revised, is posted. For avoidance of doubt, the Offer Price is final and will not be increased or revised.

If the closing date of the Offer is revised or extended, any reference in the Circular and in the Acceptance Form(s) to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so revised or extended.

General

The Shares to be repurchased under the Offer shall be fully paid, free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on the date of their cancellation (including the right to all dividends and distributions (if any) declared, made or paid on the date of their cancellation).

Shareholders may accept the Offer by completing and returning the accompanying Acceptance Form in accordance with the instructions set out in the Circular and the instructions printed on the Acceptance Form. The Acceptance Form may be rejected as invalid if the procedures contained in the Circular and in the Acceptance Form are not complied with.

The Offer and all acceptances of it, the Acceptance Forms made pursuant to the Offer, and all actions taken or made pursuant to these terms will be governed by and construed in accordance with Hong Kong laws. Delivery of an Acceptance Form will constitute submission to the non-exclusive jurisdiction of the Hong Kong courts.

Failure of any person to receive the Circular will not invalidate any aspect of the Offer. Extra prints of the Circular will be available for collection by any Shareholder at the office of the Registrar and the principal place of business of the Company during office hours between the date of despatch of the Circular and the Latest Acceptance Time, or for download from the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.chinastar.com.hk as long as the Offer remains open for acceptance.

The right of acceptance of the Offer is personal to the Shareholders and is not capable of being assigned or renounced in favour of others or otherwise transferred by the Shareholders.

All questions as to the number of Shares repurchased or the price to be paid therefor, and the validity, form, eligibility (including the time of receipt), acceptance or payment of any acceptance will be determined by the Company, which determination will be final and binding on all of the parties concerned (except as otherwise required under the applicable law or by the Executive). The Company reserves the absolute right to reject any or all acceptances it determines not to be in proper form or the acceptance or payment therefor which may, in the opinion of the Company, be unlawful. An acceptance may be rejected as invalid unless all defects or irregularities have been cured or waived. None of the Company or the Registrar or any other persons is or will be obliged to give notice of any defects or irregularities in acceptances and none of them will incur any liability for failure to give any such notice.

All communications, notices, Acceptance Forms, Title Documents and remittances to be delivered or sent by, to or from any Shareholder will be delivered or sent by, to or from them, or their designated agents, at their risk and none of the Company, Get Nice, the Registrar or any of their respective directors or any other persons involved shall accept any liability for any loss or any other liabilities whatsoever which may arise in respect thereof.

Should any Shareholder require any assistance in completing the Acceptance Form or have any enquiries regarding the procedures for tendering and settlement or any other similar aspect of the Offer, such Shareholder may contact the Registrar at its hotline at (852) 2862 8555 during the period from Friday, 28 September 2012 to the closing date of the Offer (both days inclusive) between 9:00 a.m. and 6:00 p.m. from Mondays to Fridays (other than public holidays).

The Company reserves its right to waive any defects or irregularities in any Acceptance Form received by the Registrar.

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

General procedures for acceptance

In order to accept the Offer, Shareholders should complete and return the accompanying Acceptance Form in accordance with the instructions set out in the Circular and the instructions printed on the Acceptance Form. The instructions set out in the Circular should be read together with the instructions printed on the Acceptance Form (which instructions form part of the terms of the Offer).

In order to be valid, the duly completed Acceptance Form, together with the Title Documents in respect of such number of Shares which the relevant Shareholder intends to accept under the Offer, should be delivered by post or by hand to the Registrar, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible after receipt of the Acceptance Form but in any event so as to reach the Registrar by no later than 4:00 p.m. on Friday, 9 November 2012, or such later time and, or date as the Company may, with the prior consent of the Executive, decide and announce.

No Acceptance Form received after the Latest Acceptance Time will be accepted.

If the Acceptance Form is executed by a person other than the registered holder, appropriate evidence of authority (e.g. a grant of probate or certified copy of a power of attorney) must be delivered to the Registrar with the completed Acceptance Form.

No acknowledgement of receipt of any Acceptance Form or Title Documents will be given.

There will be no pro rating and odd lot procedures for the Offer.

Nominee holdings

If the Title Documents in respect of Shares owned by a Shareholder are in the name of a nominee company or a name other than his/her own, and such Shareholder wishes to accept the Offer (either in full or in respect of part of his/her holding(s) of the Shares), he/she must either:

(i) instruct the nominee company, or other nominee to accept the Offer on his/her behalf and requesting it to deliver the Acceptance Form duly completed together with the Title Documents to the Registrar within such deadline (which may be earlier than the deadline specified under the Offer) as may be stipulated by the nominee; or

(ii) arrange for the Shares to be registered in his/her name by the Company through the Registrar, and send the Acceptance Form duly completed together with the Title Documents to the Registrar; or

(iii) where his/her Shares have been maintained with his/her licensed securities dealer/custodian bank through CCASS, instruct his/her licensed securities dealer/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on his/her behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, that Shareholder should check with his/her broker or custodian bank for the timing on processing of his/her instruction, and submit such instruction to his/her broker or custodian bank as required by them; or

(iv) if that Shareholder's Shares have been lodged with his/her Investor Participant Account with CCASS, authorise his/her instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

Shareholders whose Shares are held by a nominee company should note that the nominee company will be regarded as a single Shareholder according to the Register.

Shareholders whose Shares are held by nominee(s) should ensure that they undertake the above applicable course of action promptly so as to allow their nominee(s) sufficient time to complete the acceptance procedure on their behalf by the Latest Acceptance Time.

Recent transfers

If a Shareholder has lodged transfer(s) of Shares for registration in his/her name and has not yet received the Share certificate(s) and wishes to accept the Offer, he/she should nevertheless complete the Acceptance Form and deliver it to the Registrar together with the transfer receipt(s) duly signed by him/her by no later than the Latest Acceptance Time. Such action will be an authority to the Company or its agent(s) to collect from the Company or the Registrar on his/her behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s), subject to the terms of the Offer, as if it/they was/were delivered to the Registrar with the Acceptance Form.

Recent exercises of the Share Options and the Warrants II

The holder(s) of the Share Options and the Warrants II who wishes to accept the Offer must exercise their options or warrants by no later than 4:30 p.m. on Wednesday, 31 October 2012. The holder(s) of the Share Options and the Warrants II who wishes to accept the Offer and has exercised his/her options or warrants by no later than 4:30 p.m. on Wednesday, 31 October 2012 but has not yet received the Share certificate(s) should nevertheless complete the Acceptance Form and deliver it to the Registrar together with the transfer receipt(s) duly signed by him/her by no later than the Latest Acceptance Time. Such action will be an authority to the Company or its agent(s) to collect from the Company or the Registrar on his/her behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s), subject to the terms of the Offer, as if it/they was/were delivered to the Registrar with the Acceptance Form. Should the holder(s) of the Share Options and the Warrants II has any queries regarding the procedures for acceptance and settlement or any other similar aspect of the Offer, he/she may contact the Registrar on its telephone hotline at (852) 2862 8555 between 9:00 a.m. and 6:00 p.m. from Monday to Friday (excluding Hong Kong public holidays) as soon as possible.

Lost or unavailable share certificates

If the Title Document(s) is/are not readily available and, or, is/are lost and a Shareholder or a holder(s) of the Share Options and the Warrants II who has exercised his/her warrants by no later than 4:30 p.m. on Wednesday, 31 October 2012 wishes to accept the Offer, the Acceptance Form should nevertheless be completed and delivered to the Registrar so as to reach the Registrar by no later than the Latest Acceptance Time and the Title Documents should be forwarded to the Registrar as soon as possible thereafter and in any event before the Latest Acceptance Time.

Acceptances of the Offer may, at the discretion of the Company, be treated as valid even if not accompanied by the Title Documents but, in such cases, the consideration payable under the Offer will not be despatched until the relevant Title Document(s) has/have been received by the Registrar.

If a Shareholder has lost his/her Title Document(s), he/she should write to the Registrar and request a letter of indemnity in respect of the lost Title Document(s) (as the case may be) which, when completed in accordance with the instructions given, should be returned, together with the Acceptance Form and any Title Documents which are available, to the Registrar either by post or by hand, so to arrive not later than the Latest Acceptance Time. In such case, such Shareholder will be informed of the fees payable to the Registrar for which he/she will be responsible.

Additional Acceptance Forms

If a Shareholder has lost the accompanying Acceptance Form or such original has become unusable, and requires a replacement of such form, he/she should write to the Registrar or visit the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and request an additional Acceptance Form. Alternatively, he/she could download it from the website of the Stock Exchange at www.hkexnews.hk or the Company's website at www.chinastar.com.hk.

Settlement

Subject to the Offer becomes or is declared unconditional in all respect, pursuant to Rule 20.1 of the Takeovers Code, the Shares represented by acceptances of the Offer shall be paid for by the Company as soon as possible but in any event within 7 business days of the later of the date on which the Offer becomes, or is declared, unconditional in all respects and the date of receipt of a valid Acceptance Form accompanied by the Title Documents.

Subject to the Offer becoming unconditional in all respects and provided that a duly completed Acceptance Form accompanied by the relevant Title Documents are received by the Registrar by no later than the Latest Acceptance Time, a cheque for the amount representing the consideration due to you in respect of the Shares tendered by you under the Offer will be despatched to you by ordinary post at your own risk as soon as possible but in any event within 7 business days of the later of the date on which the Offer becomes, or is declared, unconditional in all respects and the date on which the duly completed Acceptance Form which renders such acceptance complete and valid is received by the Registrar.

If the Offer does not become unconditional in all respects and is withdrawn or lapses, the Title Documents lodged with the Acceptance Form(s) or the relevant Share certificate(s) collected by the Company or its agent(s) on that Accepting Shareholder's behalf (where appropriate) will be sent to each Accepting Shareholder by ordinary post as soon as possible but in any event within 10 days thereof.

Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honoured and be of no further effect, and in such circumstances cheque holder(s) should contact the Company for payment.

Settlement of the consideration to which any Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Company may otherwise be, or claim to be, entitled against such Shareholder.

New Shareholders

Any Shareholder may collect a copy of the Circular from the Registrar located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong during business hours between Friday, 28 September 2012 to the closing date of the Offer, both dates inclusive. Such Shareholder may also contact the Registrar (through the enquiry hotline under the section headed "Terms and conditions of the Offer — General" of this Appendix) and request a copy of the Circular to be sent to his/her registered address as recorded in the Register.

Deeming provisions

The following provisions apply in the case of incorrectly completed, incomplete or illegible of the Acceptance Form:

(a) if the Acceptance Form is not completed at all or a mark other than a legible number is inserted as at the Latest Acceptance Time, the number of Shares to be accepted by the Shareholders under the Offer shall be equal to the number of the Shares tendered by such Shareholder, as supported by the Title Documents submitted together with the relevant Acceptance Form; and

(b) if the total number of Shares inserted in the Acceptance Form is greater than the Shares tendered by the relevant Shareholder as supported by the Title Documents submitted together with the relevant Acceptance Form, the number of Shares to be accepted under the Offer by the Shareholders shall be equal to the number of Shares tendered by him/her, as supported by the Title Documents submitted together with the relevant Acceptance Form.

Representations and warranties

By delivery to the Registrar a duly completed Acceptance Form accompanied with the Title Documents, the Accepting Shareholder represents and warrants to the Company and Get Nice:

(a) that he/she has full power and authority to tender, sell, assign and transfer all the Shares (together with all rights attaching thereto) specified in such Acceptance Form for repurchase and that the Shares are fully paid, free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on the date of their cancellation (including the right to all dividends and distributions (if any) declared, made, or paid on the date of their cancellation); and

(b) that if he/she is a resident in or a citizen of a jurisdiction outside Hong Kong, he/she has fully observed all applicable legal or other requirements and that the Offer may be accepted by him/her lawfully under the laws of the relevant jurisdiction;

Appointment and authority

The execution of the Acceptance Form constitutes:

(a) an irrevocable appointment of any director or officer of the Company or Get Nice, or such other person as any of them may direct, as such Accepting Shareholder's agent; and

(b) an irrevocable instruction to the Accepting Shareholder's agent to complete and execute the Acceptance Form and, or, any other document at the discretion of such Accepting Shareholder's agent on behalf of such Accepting Shareholder and to do any other acts or things as may in the opinion of the Accepting Shareholder's agent be necessary, expedient or desirable for the purpose of vesting in the Company, or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer;

Undertakings

By duly executing the Acceptance Form, the Accepting Shareholder:

(a) agrees to ratify and confirm each and every act or thing which may be done or effected by the Company or any Accepting Shareholder's agent in the proper exercise of its or his/her powers and, or, authorities under the terms of the Offer;

(b) accepts that the provisions of the Acceptance Form and the other terms and conditions in the Circular are deemed to be incorporated into the terms and conditions of the Offer;

(c) undertakes to execute any further documents, take any further action and give any further assurances which may be required in connection with his/her acceptance of the Offer as the Company may consider to be necessary, expedient or desirable, including without limitation, to complete the repurchase of any Shares in respect of which he/she has accepted the Offer free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on the date of their cancellation and, or to perfect any of the authorities expressed to be given hereunder;

(d) authorises the Company or the Accepting Shareholder's agent to procure the despatch by post of the consideration to which he/she is entitled at his/her risk to the first-named holder at his/her registered address in the Acceptance Form; and

(e) submits to the jurisdiction of the courts of Hong Kong in relation to all matters arising out of or in connection with the Offer or the Circular.

OVERSEAS SHAREHOLDERS

The making of the Offer to and the acceptance of the Offer by the Overseas Shareholders may be subject to the laws of the relevant jurisdictions. Such overseas law may prohibit the making of the Offer to the Overseas Shareholders or require the compliance with filing, registration or other requirements. Overseas Shareholders should obtain appropriate legal advice on, or inform themselves about and observe any applicable legal and regulatory requirements. This offer document will not be filed under the applicable securities or equivalent legislation or rules of any jurisdictions other than Hong Kong.

Based on the Register as at the Latest Practicable Date, there were four Shareholders with registered addresses in two jurisdictions outside Hong Kong and they are Macau and Singapore. The Board has made enquiries regarding the legal restrictions under the applicable securities legislation of such jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the Offer in relation to such Overseas Shareholders. The legal advisers to the Company in respect of the laws of Macau and Singapore respectively advised that there is no legal restriction and no local regulatory compliance would be required to be made in Macau and Singapore respectively for the Company in extending the Offer to the Overseas Shareholders who reside in these two jurisdictions. Accordingly, the Offer will be extended to such Overseas Shareholders with addresses in Macau and Singapore. Such Overseas Shareholders with address in Macau and Singapore are entitled to vote at the SGM.

It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with all other necessary formalities or legal requirements. Acceptance of the Offer by any person will constitute a representation and warranty from such person to the Company that the local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offer. It is emphasised that none of the Company, its ultimate beneficial owners and parties acting in concert with any of them, Nuada Limited, Get Nice, Donvex, Messis, the Registrar or any of their respective directors or any persons involved shall accept responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

ANNOUNCEMENTS

Following the SGM at which the Offer and the Whitewash Waiver are to be approved by the Independent Shareholders, the Company will announce through the Stock Exchange's website and the Company's website the results of the SGM and whether or not the Offer has become unconditional in all respects.

As required by Rule 19 of the Takeovers Code, by 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on the closing date of the Offer, the Company shall inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry or unconditionality of the Offer and shall publish an announcement through the website of the Stock Exchange by 7:00 p.m. on such closing date stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional in all respects. A draft of such announcement must be submitted to the Executive and the Stock Exchange by 6:00 p.m. for comment. The announcement shall (except in the case of lapse of the Offer) specify the total number of Shares (and rights over Shares) that have been accepted for repurchase under the Offer and shall also set out the results of the Offer.

The announcement must state the following:

(a) the total number of shares and rights over shares for which acceptances of the Offer have been received;

(b) the total number of shares and rights over shares held, controlled or directed by the Concert Group and parties acting in concert with any of them before the offer period; and

(c) the total number of shares and rights over shares acquired or agreed to be acquired during the offer period by the Company, the Concert Group and parties acting in concert with any of them.

The announcement must include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Concert Group and parties acting in concert with any of them has borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

The announcement must also specify the percentages of the relevant classes of share capital of the Company, and the percentages of voting rights of the Company represented by these numbers of Shares.

Except with the consent of the Executive, the Board should not announce any material new information (including trading results, profit or dividend forecasts, asset valuations or proposals for dividend payments or for any material acquisition or disposal or major transactions) after the 39th day following the posting of the Circular. Where a matter which might give rise to such announcement being made after the 39th day is known to the Company, every effort should be made to bring forward the date of the announcement, but, where this is not practicable, or where the matter arises after that date, the Executive will normally give its consent to a later announcement. If an announcement of the kind referred to in this paragraph is made after the 39th day, the Executive will normally be prepared to grant an extension of "Day 46" and/or "Day 60" as appropriate pursuant to Rule 16.1 and Rule 15.5 of the Takeovers Code respectively.

RIGHT OF WITHDRAWAL

(a) Acceptance of the Offer tendered by the Independent Shareholders or by their agent(s) on their behalf shall be irrevocable and cannot be withdrawn except in the circumstances set out below in sub-paragraph (b) below.

(b) If the Company is unable to comply with the requirements set out in the paragraph headed "Announcements" above, the Executive may require that the Accepting Shareholders who have tendered acceptances of the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

In such case, upon any Accepting Shareholder(s) withdraw(s) the acceptance, the Company shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Title Document(s) lodged with the Acceptance Form(s) or the relevant Share certificate(s) collected by the Company or its agents(s) on behalf of that Accepting Shareholders (where appropriate) to the Accepting Shareholder(s).

In calculating the total number of the Shares represented by the Acceptance Forms, acceptances which are not in all respects in order or are subject to verification will be stated separately.

INTERPRETATION

A reference in the Circular to a Shareholder includes a reference to a person who, by reason of an acquisition or transfer of Shares, is entitled to execute an Acceptance Form and in the event of more than one person executing an Acceptance Form, the provisions of the Circular apply to them jointly and severally.

A reference in the Circular and the Acceptance Form to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural, and vice versa.

The Bonus CBs will be issued subject to and with the benefit of the Deed Poll to be executed by the Company 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 CBs will be set out in the certificates for the Bonus CBs and will include provisions to the effect set out below.

The Bonus CBs will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and the provisions of the Deed Poll, a copy of the draft of which is available for inspection by the Shareholders at the head office and principal place of business of the Company located at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any Business Day, up to and including the date of the SGM.

1. STATUS AND VOTING RIGHTS

(A) Status

The Bonus CB constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonus CB shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. No application will be made for a listing of the Bonus CB on the Stock Exchange or any other stock exchange.

(B) Voting Rights

The Bonus CB Holder shall not be entitled to attend or vote at any meetings of the Company by reason only it being the Bonus CB Holder.

2. FORM AND TITLE

(A) Form

The Bonus CB is issued in registered form. A bond certificate (each, a "**Certificate**") will be issued to each Bonus CB Holder in respect of its registered holding of the Bonus CB. The Bonus CB and the Certificate will be numbered with an identifying number which will be recorded on the relevant Certificate and in the register of Bonus CB Holders (the "**CB Register**") kept by or on behalf of the Company.

(B) Title

The holder of the Bonus CB whose name is entered in the CB Register will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it or any entry on the CB Register) and no person will be liable for so treating the holder.

3. TRANSFERS OF BONUS CB AND ISSUE OF CERTIFICATES

(A) Transfer

The Bonus CB Holder may only assign or transfer the Bonus CB to the transferee subject to the consent of the Company. The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Bonus CB by any connected person of the Company.

The Bonus CB may be assigned or transferred in whole or in part (in whole multiples of HK$1,000,000) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Bonus CB, including making any necessary applications to the Stock Exchange for the said approval (if required).

Notwithstanding the condition provided in this paragraph 3(A), the Bonus CB Holder shall be permitted at any time to transfer the Bonus CB to a transferee who is a wholly-owned subsidiary of the Bonus CB Holder or a holding company of the Bonus CB Holder who owns the entire issued share capital of the Bonus CB Holder provided that the Bonus CB will be re-transferred to the Bonus CB Holder immediately upon the transferee ceasing to be a wholly-owned subsidiary of the Bonus CB Holder or a holding company of the Bonus CB Holder who owns the entire issued share capital of the Bonus CB Holder.

(B) Transfer form

A transfer of the Bonus CB shall be effected by completing and signing, by both the transferor and the transferee under the hand of one of their officers duly authorised in writing or otherwise by a duly authorised person thereof, a prescribed form of transfer which is available to be obtained at the office of the CB Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being).

(C) Registration

The Certificate must be delivered for registration during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the office of CB Registrar (or such other registrar appointed from time to time to act as the registrar and transfer agent of the Bonus CB) at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being) accompanied by (i) a duly executed transfer form (which is available at the above CB Registrar’s office); (ii) in case of the execution of the transfer form on behalf of a corporation by its officers, the authority of that person or those persons to do so; and (iii) such other evidence (including legal opinions) as the Company may reasonably require if the transfer form is executed by some other person on behalf of the Bonus CB Holder. The Company shall, within ten (10) Business Days of receipt of such documents from the Bonus CB Holder, cancel the existing Certificate and issue a new Certificate in favour of the transferee or assignee as applicable.

(D) Delivery of new Certificates

The Certificate to be issued upon a transfer of Bonus CB will, within ten (10) Business Days of receipt by the CB Registrar of the form of transfer accompanied by the documents referred to in paragraph 3(C) above, be made available for personal collection by the holder entitled to the Bonus CB during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the office of the CB Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being) and upon production of such identification papers as may be reasonably requested by the Company.

Where some but not all the amount of the Bonus CB in respect of which a Certificate is issued are to be transferred or converted, a new Certificate in respect of the Bonus CB not so transferred or converted will, within ten (10) Business Days of delivery of the original Certificate to the CB Registrar, be made available for collection by such holder during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the office of the CB Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being) upon production of such identification papers as may be reasonably requested by the Company.

(E) Formalities free of charge

Registration of transfer of the Bonus CB will be effected upon (a) payment of a fee of HK$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each Certificate cancelled or each new Certificate issued, whichever number of the Certificates cancelled/issued is higher; and (b) payment (or the giving of such indemnity as the Company may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(F) Closure of CB Register

The Bonus CB Holder may not require the transfer of the Bonus CB to be registered during the period of seven days ending on the due date for any payment of any interest on the Bonus CB.

4. DISTRIBUTIONS

The Bonus CB will have no entitlement to interest but:

(a) if and whenever the Company shall pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (other than the Capitalisation Issue referred to in condition 4(b) below) to its Shareholders (the "**Distribution**"), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time pay or distribute to each Bonus CB Holder an amount of cash or other assets the subject matter of the Distribution which is equal to (a) the amount of cash or other assets the subject matter of the Distribution per Share receivable by the Shareholders under the Distribution, multiplied by (b) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CB then outstanding been converted on the relevant date for determining entitlement to the Distribution;

(b) if and whenever the Company shall issue any Shares, debentures or other securities, credited as full-paid, out of or by way of capitalisation of its profits or reserves, and/or share premium account to its Shareholders (the "**Capitalisation Issue**"), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, issue to each Bonus CB Holder either, at the option of the Company (a) such number of Shares, debentures or securities which is equal to (1) the number of such Shares, debentures or securities receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CB in such amount which would on conversion thereof entitle the holders of such convertible bonds to such number of Shares as is equal to (1) the number of Shares receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue; and

(c) if and whenever the Company shall offer to issue Shares or other securities by way of rights to its Shareholders (the "**Rights Issue**"), the Company shall, subject to compliance with the relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time offer to each Bonus CB Holder for subscription either, at the option of the Company (a) such number of Shares or securities which is equal to (i) the number of such Shares or securities offered by the Company to the Shareholders in respect of each issued Share held by them under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CB in such amount which would on conversion thereof entitle the holder of such convertible bonds to such number of Shares as is equal to (i) the number of Shares offered for subscription by the Shareholders in respect of each issued Share held by the Shareholders under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue.

5. CONVERSION

(A) Conditions

Provided that any conversion of the Bonus CB (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bonus CB Holder which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules, the Bonus CB Holder shall, subject to compliance with the procedures set out in the Conditions, have the right at any time after the issue of the Bonus CB to convert the whole or part of the outstanding principal amount of the Bonus CB registered in its name into Shares (the "**Conversion Rights**").

(B) Number of conversion Shares

The number of Shares to be issued on each conversion will be determined by dividing the principal amount specified in the Conversion Notice (as defined below) by the Conversion Price (as defined below) applicable on the Conversion Date (as defined below). Fractions of Shares will not be issued on conversion and the amount representing such fraction will be retained by the Company and no payment will be made to the Bonus CB Holder in respect of such fraction, provided always that for the purpose of determining whether any (and if so what) fraction of a share arises, if the Conversion Right represented by a Certificate and any one or more other Certificates are exercised on the same Conversion Date by the Bonus CB Holder, then the Conversion Rights represented by the Bonus CB shall be aggregated.

(C) Conversion Price

The conversion price (the "**Conversion Price**") for the Bonus CB shall be equal to HK$0.01 per Share, subject to adjustments as hereinafter described.

The Deed Poll contains detailed provisions relating to the adjustment of the Conversion Price. The following is a summary of, and is subject to, the provisions of the Deed Poll:

(a) The Conversion Price shall (except as otherwise mentioned in the following sub-paragraphs of this paragraph 5(C)) be adjusted as provided in the Deed Poll in case of an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision.

(b) Except as mentioned in the following sub-paragraphs of this paragraph 5(C), no such adjustment as referred to in sub-paragraph (a) of this paragraph 5(C) 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 any conversion of the Bonus CB) to acquire Shares;

(ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;

(iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying 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 any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount 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 120 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.

(c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) of this paragraph 5(C), in any circumstances where the directors of the Company shall consider that an adjustment to the Conversion 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 Conversion 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 rate or with a different time from that provided for under the said provisions, the Company may appoint an approved financial advisor or the auditors of the Company for the time being 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 advisor or auditors of the Company for the time being (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 advisor or auditors of the Company for the time being (as the case may be) to be in its opinion appropriate.

(d) If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved financial advisor or the auditors of the Company for the time being to consider whether any adjustment to the Conversion Price is appropriate (and if such approved financial advisor or auditors of the Company for the time being (as the case may be) shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).

(e) Any adjustment to the Conversion Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up. No adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward.

(f) Every adjustment to the Conversion Price will be certified by the auditors of the Company for the time being or an approved financial advisor and notice of each adjustment (giving the relevant particulars) will be given to the Bonus CB Holder. Any such certificate(s) of the auditors of the Company for the time being or (as the case may be) of the relevant approved financial advisor will be available for inspection at the principal office of the Company in Hong Kong or any other office notified to the Bonus CB Holder (the "**Specified Office**").

(g) If application of any of the provisions referred to in this paragraph 5(C) would but for this sub-paragraph (g) result in the Conversion Price being reduced so that on conversion Shares shall fall to be issued at a discount to their nominal value, then the Conversion Price shall be adjusted to an amount equal to the nominal value of one Share.

(D) Conversion Procedure

(i) Conversion Notice: To exercise the Conversion Right attaching to the Bonus CB, the holder thereof must complete, execute and deposit either by personal delivery or by facsimile at its own expense during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the office of the CB Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being) a notice of conversion (a "**Conversion Notice**") in the prescribed form (which is available at the Specified Office) together with the Certificate. The Conversion Notice once given shall not be revocable. In each case, compliance must be made by the Bonus CB Holder of all applicable exchange control, fiscal and other laws and regulations relating to the exercise of the Conversion Rights and the allotment and issue to it and the holding by it of the Shares.

Any calculation by the Company of the number of Shares falling to be issued on a conversion shall, in the absence of manifest error, be conclusive and binding on the Bonus CB Holder.

(ii) Conversion Date: in respect of an exercise of a Conversion Right, the conversion date (the "**Conversion Date**") in respect of the Bonus CB will be deemed to be the 30th Business Day of the Hong Kong Stock Exchange following the surrender of the Certificate by the Bonus CB Holder(s) with the Conversion Notice and the Bonus CB Holder(s) will be deemed to be the holder(s) of the conversion Shares with effect from the aforesaid conversion date.

(iii) Stamp Duty etc.: The Company shall pay any capital, stamp and registration duties arising on the allotment and issue of the conversion Shares.

(iv) Delivery of share certificates: As soon as practicable, and in any event not later than ten (10) Business Days after the Conversion Date, the Company shall register the Bonus CB Holder (or such other person(s) as it may direct in the Conversion Notice) as holder(s) of the relevant number of Shares in the Register and will be made available for personal collection by the holder of such Bonus CB during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the office of the CB Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or such other place being the registered office of the CB Registrar for the time being) or send by post at the risk of the Bonus CB Holder to the address of the Bonus CB Holder in the Register a certificate (or certificates) for the relevant Shares in the name of the Bonus CB Holder or such other person(s) as it may direct in the Conversion Notice.

If the number of Shares falling to be allotted and issued upon the exercise of any Conversion Rights shall exceed the number of unissued Shares in respect of which approval for listing has been granted by the Listing Committee of the Hong Kong Stock Exchange, the performance of the obligations of the Company under this paragraph 5(D)(iv) regarding the issue, deposit and delivery of Shares shall, in respect only of such excess number of Shares, be postponed to the Business Day next following the day on which approval for listing of such Shares has been granted (provided that such postponement shall not exceed 21 days after the Conversion Date).

(v) Ranking of Shares: The Shares issued upon conversion of the Bonus CB will in all respects rank pari passu with the Shares in issue on the date of allotment and issue of such Shares and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant Conversion Date. A holder of Shares issued on conversion of the Bonus CB shall not be entitled to any rights the record date for which precedes the relevant Conversion Date.

(E) Company's Undertakings

The Company will give certain undertakings in the Deed Poll that so long as any amount of the Bonus CB remain outstanding it will (a) maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) subject to the provisions of paragraph 5(D)(iv) above, obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights on the Hong Kong Stock Exchange and will forthwith give notice to the Bonus CB Holder of the de-listing of the Shares by the Stock Exchange.

(F) Consolidation, Amalgamation or Merger

In the case of any consolidation, amalgamation or merger of the Company with any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation), or in the case of any sale or transfer of all, or substantially all, of the assets of the Company, the Company will forthwith notify the Bonus CB Holder of such event in accordance with paragraph 11 below and (subject to any restriction prescribed by law) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute an instrument supplemental to the Instrument to ensure that the Bonus CB Holder will have the right (during the period in which such Bonus CB shall be convertible) to convert such Bonus CB into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bonus CB immediately prior to such consolidation, amalgamation, merger, sale or transfer. The above provisions of this paragraph 5(F) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

6. PAYMENTS

(A) Method of payment

Any payment payable under the Bonus CB which would otherwise be due on a non-Business Day shall instead be due and payable on the immediately succeeding Business Day. All payments due under the conditions to the Bonus CB will be paid to the Bonus CB Holder as shown on the CB Register at the close of business on the due date for payment. Payments will be made net of any applicable bank charges by transfer in Hong Kong dollars to the registered account of the Bonus CB Holder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed at the risk of the Bonus CB Holder to the registered address of the Bonus CB Holder if it does not have a registered account.

(B) Registered Accounts and Addresses

For the purposes of this paragraph 6, the Bonus CB Holder's registered account means the Hong Kong dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the CB Register at the close of business on the Business Day before the due date for payment, and the Bonus CB Holder's registered address means its address appearing on the CB Register at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or (save as provided in paragraph 6(A) above) expenses shall be charged to the Bonus CB Holder in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions will be given and, where payment is to be made by cheque, the cheque will be mailed, on the due date for payment.

7. REDEMPTION, CANCELLATION

(A) Redemption

The Bonus CB shall not be subject to redemption save and except that in the event of voluntary dissolution, liquidation or winding up of the Company, the Bonus CB shall be mandatorily converted into the Shares at the then applicable Conversion Price.

(B) Cancellation

Any amount of the Bonus CB which is converted will forthwith be cancelled. Certificate in respect of the Bonus CB cancelled will be forwarded to or to the order of the Company and such Bonus CB may not be reissued or resold.

8. TAXATION

The Company shall be entitled to withhold from all payments of principal by the Company any amounts required to be withheld under the applicable law, rule and regulations for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (including without limitation, deduction or withholding on account of taxation on the overall turnover, income, taxation income or capital gain of the Bonus CB Holder imposed or levied by or on behalf of Hong Kong or other jurisdiction or any authority thereof or therein having the power to tax). If the Company is so required to make such withholdings or deductions, payment of the net amount after such deduction or withholdings to the Bonus CB Holder will constitute full discharge of the Company's obligations to make such payments.

9. RESTRICTED HOLDERS

No Conversion Rights represented by the Bonus CB may be exercised by any person who is a Restricted Holder (as hereinafter defined), and the exercise of any Conversion Rights by the Bonus CB Holder shall constitute a confirmation, representation and warranty by the Bonus CB Holder to the Company that the Bonus CB Holder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by the Bonus CB Holder to enable it to exercise legally and validly the relevant Conversion Rights, to hold (or, if applicable, to have such person(s) as it may nominate in the Conversion Notice hold) the Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Shares. For the purposes of this paragraph, a "Restricted Holder" means a Bonus CB Holder (or, if applicable, such person(s) as it may nominate in the Conversion Notice to whom the Shares arising on conversion are to be issued) who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Bonus CB Holder in the manner provided in the Conversion Notice and the conditions or the performance by the Company of the obligations expressed to be assumed by it under the Deed Poll or the conditions to the Bonus CB or the allotment and issue and holding of the conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

10. REPLACEMENT OF CERTIFICATES

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced the Company upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of such fee not exceeding HK$50 as the Company may determine. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11. NOTICES

(A) The Bonus CB Holder shall register with the Company an address either in Hong Kong or elsewhere to which notices can be sent and if the Bonus CB Holder shall fail to do so, notice may be given to the Bonus CB Holder 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 up the same for three days at the Specified Office for the time being of the Company.

(B) A notice shall be given by personal delivery, prepaid registered mail (registered airmail in the case of an overseas address to where airmail service is available).

(C) Notices sent by personal delivery or prepaid registered mail or the posting of the same at the Specified Office as provided by sub-paragraph (A) of this paragraph shall be deemed to have been served on the first day after such delivery or the deposit of the letter with postal authorities or in a postbox or, as the case may be, the first day after the first posting up of such notice.

(E) All notices to the Bonus CB Holder shall be validly given if mailed to them at its address in the CB Register.

(F) Any communication to the Company shall be by letter delivered personally or by facsimile transmission to it at Unit 3409, Shun Tak Centre, West Tower, 168 – 200 Connaught Road Central, Hong Kong or (if different) its registered office for the time being in Hong Kong, fax no. (+852)2191-9888, Attention: Company Secretary (or such other number as shall be notified in writing by the Company to the Bonus CB Holder). Any such communication will take effect, in the case of delivery, at the time of delivery or, in the case of facsimile transmission, at the time of despatch.

12. GOVERNING LAW AND JURISDICTION

The Bonus CB and the Deed Poll are governed by, and shall be construed in accordance with the laws of Hong Kong. In relation to any legal action or proceedings arising out of or in connection with the Deed Poll and/or the Bonus CB, the Company has in the Deed Poll and the Bonus CB Holder shall irrevocably submit to the non-exclusive jurisdiction of courts of Hong Kong.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is the audited consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position of the Group for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and the unaudited consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position of the Group for the six months ended 30 June 2012 as extracted from the relevant published financial statements of the Group.

The annual reports of the Company (i) for the year ended 31 December 2009 has been published on 29 April 2010; (ii) for the year ended 31 December 2010 has been published on 26 April 2011; and (iii) for the year ended 31 December 2011 has been published on 30 April 2012. The interim report of the Company for the six months ended 30 June 2012 has been published on 30 August 2012. All the above reports of the Company have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinastar.com.hk).

The auditor's reports in respect of the Group's consolidated financial statements for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 did not contain any qualified opinion. The consolidated income statement, consolidated statement of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

No qualified opinion had been given in the auditor's reports of the Company for each of the three years ended 31 December 2011.

The Company had no items which are exceptional or extraordinary because of size, nature or incidence for each of the three years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012.

Save for the Company declared and paid a special dividend of approximately HK$64.84 million on 21 October 2011 and 24 November 2011 respectively, representing HK3.3 cents per Share to the Shareholders whose names appeared on the Register on 17 November 2011, the Company did not declare or pay out any dividend for each of the three years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December			For the six months ended
	2009	2010	2011	30 June 2012
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	543,429	864,261	1,096,762	593,521
Cost of sales	(98,810)	(239,153)	(481,744)	(286,404)
Gross profit	444,619	625,108	615,018	307,117
Other revenue	10,104	25,293	18,972	12,700
Other income	55,088	27,802	1,421	173
Administrative expenses	(236,101)	(455,812)	(462,600)	(217,035)
Marketing, selling and distribution expenses	(9,514)	(5,810)	(16,059)	(22,823)
Share-based payment expenses	(8,039)	(8,238)	–	–
Gain/(loss) arising on change in fair value of financial assets classified as held for trading	15,622	28,707	(68,837)	(8,188)
Gain arising on change in fair value of investment properties	19,652	12,270	–	–
Impairment loss recognised in respect of goodwill	(40,278)	(8,975)	–	–
Impairment loss recognised in respect of film rights	–	(1,339)	(619)	–
Impairment loss recognised in respect of films in progress	–	–	(15,928)	–
Impairment loss recognised in respect of intangible assets	–	(197,973)	(700,085)	(7,300)
Profit/(loss) from operations	251,153	41,033	(628,717)	(64,644)
Finance costs	(22,272)	(15,695)	(31,456)	(22,817)
Share of losses of jointly controlled entities	–	–	(1,344)	(2)
Share of losses of associates	(14)	(1)	(8)	–
(Loss)/gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	(31,565)	882	–	–
Loss on disposal of subsidiaries	(30,059)	–	–	–
Profit/(loss) before tax	167,243	26,219	(661,525)	41,825
Taxation (charge)/credit	(2,848)	(1,392)	7,419	256
Profit/(loss) for the year/period	164,395	24,827	(654,106)	42,081
Attributable to:				
Owners of the Company	204,388	(8,083)	(683,234)	2,691
Non-controlling interests	(39,993)	32,910	29,128	39,390
	164,395	24,827	(654,106)	42,081
Earnings/(loss) per share				
Basic	HK cents 197.44*	HK cents (2.37)	HK cents (55.38)	HK cents 0.14
Diluted	HK cents 192.69*	HK cents (2.37)	HK cents (55.38)	HK cents 0.12

* The figures were restated in accordance with Hong Kong Financial Reporting Standards.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December			For the six months and
	2009	2010	2011	30 June 2012
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(loss) for the year/period	164,395	24,827	(654,106)	42,081
Other comprehensive income				
Exchange differences arising on translation of foreign operations	39	(171)	16	(29)
Reclassification adjustments relating to foreign operations disposed during the year	–	–	24	–
Fair value adjustment on available for sale financial assets	9,800	–	–	–
Other comprehensive income/(loss) for the year	9,839	(171)	40	(29)
Total comprehensive income/(loss) for the year	174,234	24,656	(654,066)	42,052
Total comprehensive income/(loss) attributable to:				
Owners of the Company	214,227	(8,254)	(683,196)	2,664
Non-controlling interests	(39,993)	32,910	29,130	39,388
	174,234	24,656	(654,066)	42,052

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December			At
	2009	**2010**	**2011**	**30 June 2012**
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	773,254	721,381	637,702	587,822
Interests in leasehold land	484,333	464,731	507,359	495,926
Investment properties	61,310	73,580	–	–
Goodwill	8,975	–	3,030	3,030
Intangible assets	989,205	791,232	100,729	92,816
Convertible notes receivable	20,015	–	–	–
Interests in jointly controlled entities	–	–	28,656	28,654
Interests in associates	–	7,985	7,977	2,377
	2,337,092	2,058,909	1,285,453	1,210,625
Current assets				
Inventories	1,091	1,657	38,639	34,663
Stock of properties	–	–	550,312	557,760
Film rights	22,914	21,321	19,761	19,761
Films in progress	19,238	19,038	3,150	3,150
Trade receivables	105,428	69,337	143,008	94,555
Deposits, prepayments and other receivables	396,968	441,059	396,386	675,686
Conversion options embedded in convertible notes receivable	10,908	–	–	–
Held for trading investments	97,641	94,050	50,797	42,609
Amounts due from associates	16,435	13,714	16,854	19,072
Prepaid tax	1,100	180	86	168
Cash and bank balances	173,188	625,827	903,094	672,464
	844,911	1,286,183	2,122,087	2,119,888
Assets classified as held for sale	8,272	–	–	–
	853,183	1,286,183	2,122,087	2,119,888
Total assets	3,190,275	3,345,092	3,407,540	3,330,513
Capital and reserves				
Share capital	22,965	43,340	19,647	20,325
Reserves	2,052,157	2,259,435	1,948,945	1,958,384
Equity attributable to owners of the Company	2,075,122	2,302,775	1,968,592	1,978,709
Non-controlling interests	244,271	277,181	306,317	339,139
Total equity	2,319,393	2,579,956	2,274,909	2,317,848

	At 31 December			At
	2009	2010	2011	30 June 2012
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank borrowings	178,275	450,000	400,000	375,000
Obligation under finance lease	305	201	153	97
Convertible bonds	–	–	339,187	340,183
Deferred tax liabilities	86,682	88,063	84,253	83,988
	265,262	538,264	823,593	799,268
Current liabilities				
Bank overdraft	178,764	–	–	–
Bank borrowings	232,631	50,000	66,674	69,573
Obligation under finance lease	96	96	128	111
Trade payables	21,426	25,038	139,080	67,266
Deposits received, accruals and other payables	132,201	60,470	68,244	57,942
Tax payable	–	–	4	4
Amount due to an associate	–	25,766	34,906	18,303
Amounts due to non-controlling interests	40,502	65,502	2	198
	605,620	226,872	309,038	213,397
Total liabilities	870,882	765,136	1,132,631	1,012,665
Total equity and liabilities	3,190,275	3,345,092	3,407,540	3,330,513
Net current assets	247,563	1,059,311	1,813,049	1,906,419
Total assets less current liabilities	2,584,655	3,118,220	3,098,502	3,117,116

Details of the financial information of the Group for the three financial years ended 31 December 2009, 31 December 2010 and 31 December 2011 respectively have been set out in the Company's annual reports for the financial years ended 31 December 2009, 31 December 2010 and 31 December 2011 and for the six months ended 30 June 2012 has been set out in the Company's interim report for the six months ended 30 June 2012. All of these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.chinastar.com.hk.

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2011 as extracted from the annual report of the Company for the year ended 31 December 2011:

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated Income Statement
For the year ended 31st December 2011

	Notes	**2011** *HK$'000*	**2010** *HK$'000*
Turnover	7	1,096,762	864,261
Cost of sales		(481,744)	(239,153)
Gross profit		615,018	625,108
Other revenue	8	18,972	25,293
Other income	9	1,421	27,802
Administrative expenses		(462,600)	(455,812)
Marketing, selling and distribution expenses		(16,059)	(5,810)
Share-based payment expenses		–	(8,238)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading		(68,837)	28,707
Gain arising on change in fair value of investment properties		–	12,270
Impairment loss recognised in respect of goodwill		–	(8,975)
Impairment loss recognised in respect of film rights	28	(619)	(1,339)
Impairment loss recognised in respect of films in progress	29	(15,928)	–
Impairment loss recognised in respect of intangible assets	22	(700,085)	(197,973)
(Loss)/profit from operations		(628,717)	41,033
Finance costs	10	(31,456)	(15,695)
Share of losses of jointly controlled entities		(1,344)	–
Share of losses of associates		(8)	(1)
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable		–	882
(Loss)/profit before tax	11	(661,525)	26,219
Taxation credit/(charge)	12	7,419	(1,392)
(Loss)/profit for the year		(654,106)	24,827
Attributable to:			
Owners of the Company		(683,234)	(8,083)
Non-controlling interests		29,128	32,910
		(654,106)	24,827
Loss per share	14		
Basic		HK cents (55.38)	HK cents (2.37)
Diluted		HK cents (55.38)	HK cents (2.37)

The accompanying notes form an integral part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in note 13.

Consolidated Statement of Comprehensive Income
For the year ended 31st December 2011

	2011	2010
	HK$'000	*HK$'000*
(Loss)/profit for the year	(654,106)	24,827
Other comprehensive income		
Exchange differences arising on translation of foreign operations	16	(171)
Reclassification adjustments relating to foreign operations disposed during the year	24	–
Other comprehensive income/(loss) for the year	40	(171)
Total comprehensive (loss)/income for the year	(654,066)	24,656
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	(683,196)	(8,254)
Non-controlling interests	29,130	32,910
	(654,066)	24,656

Consolidated Statement of Financial Position
At 31st December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	17	637,702	721,381
Interests in leasehold land	18	507,359	464,731
Investment properties	19	–	73,580
Goodwill	21	3,030	–
Intangible assets	22	100,729	791,232
Convertible notes receivable	23	–	–
Interests in jointly controlled entities	24	28,656	–
Interests in associates	25	7,977	7,985
		1,285,453	2,058,909
Current assets			
Inventories	26	38,639	1,657
Stock of properties	27	550,312	–
Film rights	28	19,761	21,321
Films in progress	29	3,150	19,038
Trade receivables	30	143,008	69,337
Deposits, prepayments and other receivables	31	396,386	441,059
Conversion options embedded in convertible notes receivable	23	–	–
Held for trading investments	32	50,797	94,050
Amounts due from associates	33	16,854	13,714
Prepaid tax		86	180
Cash and bank balances	34	903,094	625,827
		2,122,087	1,286,183
Total assets		3,407,540	3,345,092
Capital and reserves			
Share capital	35	19,647	43,340
Reserves		1,948,945	2,259,435
Equity attributable to owners of the Company		1,968,592	2,302,775
Non-controlling interests		306,317	277,181
Total equity		2,274,909	2,579,956

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Bank borrowings	37	400,000	450,000
Obligation under finance lease	38	153	201
Convertible bonds	39	339,187	–
Deferred tax liabilities	40	84,253	88,063
		823,593	538,264
Current liabilities			
Bank borrowings	37	66,674	50,000
Obligation under finance lease	38	128	96
Trade payables	41	139,080	25,038
Deposits received, accruals and other payables	42	68,244	60,470
Tax payables		4	–
Amount due to an associate	33	34,906	25,766
Amounts due to non-controlling interests	33	2	65,502
		309,038	226,872
Total liabilities		1,132,631	765,136
Total equity and liabilities		3,407,540	3,345,092
Net current assets		1,813,049	1,059,311
Total assets less current liabilities		3,098,502	3,118,220

Statement of Financial Position

At 31st December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Interests in subsidiaries	20	2,273,803	1,965,158
Convertible notes receivable	23	–	–
		2,273,803	1,965,158
Current assets			
Amounts due from subsidiaries	20	560,117	166,174
Deposits, prepayments and other receivables	31	559	804
Conversion options embedded in convertible notes receivable	23	–	–
Amount due from an associate	33	7,873	7,864
Cash and bank balances	34	240,479	395,529
		809,028	570,371
Total assets		3,082,831	2,535,529
Capital and reserves			
Share capital	35	19,647	43,340
Reserves	36	2,656,989	2,394,525
Total equity		2,676,636	2,437,865
Non-current liabilities			
Amounts due to subsidiaries	20	38,938	83,695
Convertible bonds	39	339,187	–
Deferred tax liability	40	1,784	–
		379,909	83,695
Current liabilities			
Deposits received, accruals and other payables	42	26,286	13,969
Total liabilities		406,195	97,664
Total equity and liabilities		3,082,831	2,535,529
Net current assets		782,742	556,402
Total assets less current liabilities		3,056,545	2,521,560

Consolidated Statement of Changes in Equity

For the year ended 31st December 2011

The Group	Share capital HK$'000	Share premium HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Exchange reserve HK$'000 (note c)	Statutory reserve HK'000 (note d)	Share-based payment reserve HK$'000 (note e)	Convertible bonds reserve HK$'000 (note f)	Properties revaluation reserve HK$'000 (note g)	Capital reduction reserve HK$'000 (note h)	Retained earnings/ (Accumulated losses) HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
	Attributable to owners of the Company												
At 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
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(8,083)	(8,083)	32,910	24,827
Other comprehensive income													
Exchange alignment	–	–	–	(171)	–	–	–	–	–	–	(171)	–	(171)
Total comprehensive (loss)/ income for the year	–	–	–	(171)	–	–	–	–	–	(8,083)	(8,254)	32,910	24,656
Exercise of listed warrants	1	1	–	–	–	–	–	–	–	–	2	–	2
Exercise of share options	528	10,367	–	–	–	(1,393)	–	–	–	–	9,502	–	9,502
Expiry of share options	–	–	–	–	–	(4,243)	–	–	–	4,243	–	–	–
Issue of new shares upon rights issue	14,446	130,018	–	–	–	–	–	–	–	–	144,464	–	144,464
Placement of shares	5,400	70,200	–	–	–	–	–	–	–	–	75,600	–	75,600
Released on disposal of investment properties	–	–	–	–	–	–	–	(5,330)	–	5,330	–	–	–
Share issuing expenses	–	(1,899)	–	–	–	–	–	–	–	–	(1,899)	–	(1,899)
Share-based payment expenses	–	–	–	–	–	8,238	–	–	–	–	8,238	–	8,238
Transfer to statutory reserve	–	–	–	–	259	–	–	–	–	(259)	–	–	–
At 31st December 2010 and 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	–	–	316,008	216,840	2,302,775	277,181	2,579,956
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(683,234)	(683,234)	29,128	(654,106)
Other comprehensive income													
Exchange alignment	–	–	–	38	–	–	–	–	–	–	38	2	40
Total comprehensive income/ (loss) for the year	–	–	–	38	–	–	–	–	–	(683,234)	(683,196)	29,130	(654,066)
Capital reduction	(44,206)	–	44,206	–	–	–	–	–	–	–	–	–	–
Exercise of listed warrants	–	2	–	–	–	–	–	–	–	–	2	–	2
Exercise of share option	–	1	–	–	–	–	–	–	–	–	1	–	1
Expiry of share options	–	–	–	–	–	(6,844)	–	–	–	6,844	–	–	–
Income tax relating to transactions with owners of the Company	–	–	–	–	–	–	(1,937)	–	–	–	(1,937)	–	(1,937)
Issue of new shares upon rights issue	14,735	353,650	–	–	–	–	–	–	–	–	368,385	–	368,385
Non-controlling interests arising on acquisition	–	–	–	–	–	–	–	–	–	–	–	6	6
Payment of dividends	–	–	–	–	–	–	–	–	–	(64,836)	(64,836)	–	(64,836)
Placement of shares	5,778	34,672	–	–	–	–	–	–	–	–	40,450	–	40,450
Recognition of equity component of convertible bonds	–	–	–	–	–	–	11,740	–	–	–	11,740	–	11,740
Share issuing expenses	–	(4,792)	–	–	–	–	–	–	–	–	(4,792)	–	(4,792)
Transfer to statutory reserve	–	–	–	–	28	–	–	–	–	(28)	–	–	–
At 31st December 2011	19,647	992,954	1,100,247	926	287	53,134	9,803	–	316,008	(524,414)	1,968,592	306,317	2,274,909

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 amount 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 realizable 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 dollar) 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 bonds 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 bonds reserve until the convertible bonds are either converted (in which case it is transferred to share premium) or the convertible bonds 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 reclassification, the accumulative increase in the fair value of properties at the date of reclassification in excess of any previous impairment losses is included in the properties revaluation reserve.

(h) 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 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(661,525)	26,219
Adjustments for:			
Interest expenses		31,456	15,695
Interest income		(6,783)	(3,177)
Amortisation of intangible assets		217	–
Depreciation and amortisation of property, plant and equipment and leasehold land		126,966	108,264
Loss/(gain) on disposal of financial assets classified as held for trading		2,490	(6,558)
Loss/(gain) arising on change in fair value of financial assets classified as held for trading		66,347	(22,149)
Gain arising on change in fair value of investment properties		–	(12,270)
Gain on early redemption of convertible notes receivables		–	(26,983)
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable		–	(882)
Impairment loss recognised in respect of trade receivables		394	–
Impairment loss recognised in respect of goodwill		–	8,975
Impairment loss recognised in respect of film rights		619	1,339
Impairment loss recognised in respect of films in progress		15,928	–
Impairment loss recognised in respect of intangible assets		700,085	197,973
Loss on disposal of property, plant and equipment		265	713
Loss on derecognition of a subsidiary		24	–
Reversal of impairment loss on trade receivables and other receivables		–	(14)
Share of losses of associates		8	1
Share of losses of jointly controlled entities		1,344	–
Share-based payment expenses		–	8,238

	Notes	2011 HK$'000	2010 HK$'000
Operating cash flows before movements in working capital		277,835	295,384
Increase in stock of properties		(550,312)	–
Decrease/(increase) in inventories		3,309	(566)
Decrease in film rights		941	254
(Increase)/decrease in films in progress		(40)	200
(Increase)/decrease in trade receivables		(71,470)	36,091
Decrease in deposits, prepayments and other receivables		4,942	10,923
(Increase)/decrease in amounts due from associates		(3,140)	2,721
Increase in trade payables		104,431	3,612
Decrease in deposits received, accruals and other payables		(14,658)	(71,731)
Increase in amount due to an associate		9,140	25,766
(Decrease)/increase in amounts due to non-controlling interests		(65,520)	25,000
Cash (used in)/generated from operations		(304,542)	327,654
Tax refund		152	909
Net cash (used in)/generated from operating activities		(304,390)	328,563
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		6,783	1,965
Acquisition of interests in associates		(8)	(1)
Acquisition of jointly controlled entities		(30,000)	–
Advance to associates		–	(7,985)
Acquisition of subsidiaries (net cash and cash equivalent)	43	(28,086)	–
Deposit paid for investment		–	(55,000)
Refund of deposit for investment		55,000	–
Net proceeds from disposal of assets classified as held for sale		–	8,272
Proceeds from disposal of financial assets classified as held for trading		7,919	44,085
Proceeds from disposal of property, plant and equipment		–	804
Purchase of financial assets classified as held for trading		(33,503)	(11,787)
Purchases of property, plant and equipment and leasehold land		(10,627)	(38,306)
Repayment from associates		8	–
Redemption of convertible notes receivable		–	60,000
Net cash (used in)/generated from investing activities		(32,514)	2,047

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(16,843)	(15,695)
Dividend paid		(64,836)	–
Issue of convertible bonds		350,000	–
Net bank loan raised		–	500,000
New obligation under finance lease		73	–
Proceeds from issue of shares		368,385	144,464
Proceeds from exercise of warrants		2	2
Proceeds from placement of shares		40,450	75,600
Proceeds from exercise of share options		1	9,502
Repayment of obligations under finance lease		(141)	(104)
Repayment of bank loans		(58,144)	(410,906)
Share issuing expenses		(4,792)	(1,899)
Net cash generated from financing activities		614,155	300,964
Increase in cash and cash equivalents		277,251	631,574
Cash and cash equivalents at the beginning of the year		625,827	(5,576)
Effect of foreign exchange rate changes		16	(171)
Cash and cash equivalents at the end of the year			
Cash and bank balances	34	903,094	625,827

Notes to the Financial Statements

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, sales of Chinese health products, investing in operations which receive profit streams from the gaming promotion business, property and hotel investment, and property development.

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 2011. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous standard. Specifically, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised standard whilst such entities were not treated as related parties of the Group under the previous standard. The related party disclosures set out in note 48 to the financial statements have been changed to reflect the application of the revised standard. Changes have been applied retrospectively.

Save as described above, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years, The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1st July 2011
2 Effective for annual periods beginning on or after 1st January 2012
3 Effective for annual periods beginning on or after 1st July 2012
4 Effective for annual periods beginning on or after 1st January 2013
5 Effective for annual periods beginning on or after 1st January 2014
6 Effective for annual periods beginning on or after 1st January 2015

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 the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The financial statements have been prepared on the historical cost basis except for certain investment properties and financial instrument that are measured at fair values, as explained in the accounting policies below.

(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 statements from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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.

Changes in the Group's ownership interest in existing subsidiaries

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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

(c) Business combinations

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 assets or liabilities 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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see accounting policy below);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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations achieved in stages were accounted for as separate step. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(e) Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds the Group's 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(f) Interests in joint controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The results of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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 a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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 a jointly controlled entity. 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.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

(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.

Revenue from sale of goods is recognised when the goods are delivered and titles have passed.

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

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 is recognised upon the provision of the accommodation services has been rendered. Revenue from food and beverage sales and other ancillary services are recognised upon the provision of goods and services have been rendered.

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) Intangible assets

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or 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.

(i) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 consolidated 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.

Building transferred from investment properties is stated at deemed cost, which is equal to its fair value at the date of change in use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is recognised so as to write off the cost of items or property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Buildings	2% – 5%
Leasehold improvements	20% – 33%
Furnitures, fixtures and equipments	10% – 50%
Motor vehicles	15% – 20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(j) Interests in leasehold land

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "interests in leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

(k) Investment properties

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

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

An investment property is transferred at fair value to property, plant and equipment when the property, begins to be occupied by the owner. Gain or loss arising from change in fair value of the investment property upon the transfer is included in the income statement.

(l) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset 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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(m) 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 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in jointly controlled entities and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. 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.

(n) 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 in profit or loss in the period in which they are incurred.

(o) Stock of properties

Stock of properties, which are held for trading, is stated at the lower of cost and net realisable value.

Properties under development classified as stock of properties which are developed in the ordinary course of business are included in current assets at the lower of cost and net realisable value.

The cost of properties under development comprises land costs, construction costs, borrowing costs capitalised according to the Group's accounting policy and directly attributable expenses incurred during the development period.

Net realisable value is estimated by the management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of completed and costs to be incurred in selling the property.

A write-down or provision for properties under development is made if the net realisable value is lower than expected as result of change in market condition and/or significant variation in the budgeted development cost.

The amount of any write-down of or provision for properties under development held for sale is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated on first-in-first-out or weighted average basis as appropriate. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

(q) 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.

Amortised is charged to the consolidated 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.

At the end of each reporting period, both internal and external market information are considered to assess whether there is any indication that film rights are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

(r) 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 losses. Costs include all direct costs associated with the production of films. Costs is transferred to film rights upon completion.

(s) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss (FVTPL) and loans and receivables. 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 financial asset 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, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets are classified as 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 term; or

(ii) on initial recognition it is a part of 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 assets in the consolidated income statement. Fair value is determined in the manner described in note 5.

Loans and receivables

Loan 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 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.

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

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

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

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

(iv) 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.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 interests) are subsequently measured at amortised cost, using the effective interest 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.

Convertible bonds

Convertible bonds 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 bonds 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 bonds 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:

(i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, 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.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(u) Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

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

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

(v) 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.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

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 consolidated 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 policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(w) Employee benefits

Bonuses

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

Retirement benefit obligations

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

The employees of the Group's subsidiaries in PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions under the schemes.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Long service payment

The Group's net obligations in respect of long service payment to its employees on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefits that the employees have earned in return for their services in the current and prior periods.

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-based payment 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 recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment 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-based payment 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.

(x) Provisions

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.

(y) Related party transactions

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

(z) Segment reporting

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

(a) *Estimated impairment of intangible assets and goodwill*

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating unit to which goodwill and intangible assets has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) *Trade receivables*

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivable balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade 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 consolidated 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 judgement and are satisfied that the method of valuation is reflective of the current market conditions. Should there be 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.

(f) *Impairment of film rights*

Impairment assessments on film rights are performed at the end of each reporting period with reference to both internal and external market information, for example, sales forecast based on expected popularity of the respective titles, the expected production, sales and distribution costs to be reviewed to conclude the sales, and the general economic condition of the relevant markets.

(g) Current income tax

The Group's subsidiaries that operate in the PRC and Macau are subject to PRC Enterprise Income Tax and Macau Complementary Tax respectively. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

(h) Estimated net realisable value on properties under development classified as stock of properties

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

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss	50,797	94,050
Loans and receivables (including cash and bank balances)	1,458,439	1,148,190
Financial liabilities		
Amortised cost	1,047,314	677,073

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and bank balances)	2,083,755	1,536,228
Financial liabilities		
Amortised cost	404,411	97,664

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, bank borrowings, trade receivables, deposits and other receivables, amounts due from associates, trade payables, deposits received, accruals and other payables, amounts due to an associate/non-controlling interests, obligation under finance lease, convertible bonds and cash and bank balances. Details of the 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 and the Company operates mainly in Hong Kong, PRC and Macau and majority of transactions are dominated in Hong Kong dollars ("HK$"), Macau Pataca ("MOP") and Renminbi ("RMB"). The Group and the Company are exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against MOP and RMB. The Group and the Company currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group and the Company 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 and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Assets		
MOP	278,415	181,318
RMB	2,553	–
Liabilities		
MOP	635,571	648,314
RMB	151	–

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Assets		
RMB	288	103
Liabilities		
RMB	–	–

Sensitivity analysis on foreign exchange risk

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in the HK$ against MOP and RMB 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group and the Company where the denomination of the loan is in a currency other than the currency of the lender of the borrower. A positive number below indicates an increase in profit where the relevant currencies strengthen 5% (2010: 5%) against the HK$. For a 5% (2010: 5%) weakening of the relevant currencies against the HK$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Impact of MOP		
Profit or loss	17,858	23,350
Impact of RMB		
Profit or loss	120	–

	The Company	
	2011	**2010**
	HK$'000	*HK$'000*
Impact of RMB		
Profit or loss	14	5

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) Equity 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. The Group's equity price risk is mainly concentrated on equity securities operating in processing and sales of mining and development and provision of medical information digitalisation system quoted in the Stock Exchange. In addition, the Group will consider hedging the risk exposure should the need arise.

Sensitivity analysis

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

If equity prices had been 5% higher/lower, the Group's post tax profit for the year ended 31st December 2011 would increase/decrease by HK$2,540,000 (2010: HK$4,703,000). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

(iii) Cash flow and fair value interest rate risk

The Group is exposured to changes in interest rates is mainly attributable to its time deposits and bank borrowings. Bank borrowings at variable rates expose the Group to fair value interest rate risk (see note 37 for details of these bank 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 both 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 (2010: 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 (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post tax profit for the year ended 31st December 2011 would decrease/increase by HK$2,333,000 (2010: decrease/increase by HK$2,500,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk

At 31st December 2011, 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 provided by the Group 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 delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, 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 does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

The Group and the Company 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.

At 31st December 2011, the Group has banking facilities amounting to HK$563,000,000 (31st December 2010: HK$536,000,000).

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

The Group

		At 31st December 2011				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings	2.0-3.5%	68,780	414,000	–	482,780	466,674
Trade payables	–	139,080	–	–	139,080	139,080
Deposits received, accruals and other payables	–	68,244	–	–	68,244	68,244
Obligation under finance lease	5.00-5.99%	135	161	–	296	281
Convertible bonds	8.837%	–	369,161	–	369,161	339,187
Amount due to an associate	–	34,906	–	–	34,906	34,906
Amounts due to non-controlling interests	–	2	–	–	2	2
Total		311,147	783,322	–	1,094,469	1,048,374

		At 31st December 2010				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
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

The Company

	Weighted average effective interest rate	At 31st December 2011 On demand or within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Deposits received, accruals and other payables	–	26,286	–	–	26,286	26,286
Amounts due to subsidiaries	–	–	38,938	–	38,938	38,938
Convertible bonds	8.837%	–	369,161	–	369,161	339,187
Total		26,286	408,099	–	434,385	404,411

	Weighted average effective interest rate	At 31st December 2010 On demand or within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Deposits received, accruals and other payables	–	13,969	–	–	13,969	13,969
Amounts due to subsidiaries	–	–	83,695	–	83,695	83,695
Total		13,969	83,695	–	97,664	97,664

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. At 31st December 2011, the aggregate undiscounted principal amounts of these bank loans amounted approximately to HK$8,388,000 (2010: nil). Taking into account the Group's consolidated financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within 5 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflow will amount approximately to HK$7,543,000.

(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 price 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; and
- 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 financial statements approximate to their fair value.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31st December 2011 and 2010, 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.

The Group

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2011				
Held for trading investments	50,797	–	–	50,797
At 31st December 2010				
Held for trading investments	94,050	–	–	94,050

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

Reconciliation of Level 3 fair value measurement of financial assets

	The Group and the Company Conversion options embedded in convertible notes Receivable	
	2011	**2010**
	HK$'000	*HK$'000*
At 1st January	–	10,908
Gains recognised in profit or loss	–	882
Settlements	–	(11,790)
At 31st December	–	–

The table above only includes financial assets. The gain on conversion options embedded in convertible notes receivables has been recognised in the consolidated income statement. The financial asset has been redeemed in 2010.

(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 net debts (which include bank borrowings, obligation under finance lease and convertible bonds) and equity attributable to owners of the Company, comprising issued capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and other sources of the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issue of new debt or the redemption of existing debt.

The Group aimed at maintaining a gearing ratio of not more than 50%. The gearing ratios as at 31st December 2011 and 2010 are as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Total Debt (i)	806,142	500,297
Less: Cash and bank balances	(903,094)	(625,827)
Net cash	(96,952)	(125,530)
Equity (ii)	1,968,592	2,302,775
Net debt to equity ratio	N/A	N/A
Total debt to equity ratio	41%	22%

Notes:

(i) Debt comprises bank borrowings, obligations under finance lease and convertible bonds as detailed in notes 37, 38 and 39 respectively.

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

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision-makers (the "CODM"), for the purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has five reportable segments – film distribution operations, hotel and gaming service operations, gaming promotion operations, property development operations, and Chinese health products sales operations. The segmentations are based on the information about the operations of the Group that management uses to make decisions.

The Group's measurement methods used to determine reported segment profit or loss remain unchanged from 2010.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

The principal products and services of each of these operations 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 and provision of related gaming promotion business
Property development operations	–	Investing and development of properties located in Macau
Chinese health products sales operations	–	Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services

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

	Segment revenue		Segment results	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Film distribution operations	1,602	1,317	(16,037)	(520)
Hotel and gaming service operations	949,260	725,130	58,375	64,333
Gaming promotion operations	117,436	137,814	(583,961)	(70,349)
Property development operations	–	–	(33)	–
Chinese health products sales operations	28,464	–	(278)	–
	1,096,762	864,261	(541,934)	(6,536)
Reconciliation from segment results to (loss)/profit before tax				
Unallocated corporate income			5,824	34,249
(Loss)/gain arising on change in fair value of financial assets classified as held for trading			(68,837)	28,707
Gain arising on change in fair value of investment properties			–	12,270
Unallocated corporate expenses			(56,578)	(42,471)
(Loss)/profit before tax			(661,525)	26,219

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

Segment results represent the (loss suffered)/profit earned by each segment without allocation of change in fair value of financial assets classified as held for trading and change in fair value of investment properties and unallocated corporate income and 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

	2011	2010
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
– Film distribution operations	35,294	60,011
– Hotel and gaming service operations	1,162,866	1,248,717
– Gaming promotion operations	141,246	801,144
– Property development operations	550,312	–
– Chinese health products sales operations	68,824	–
Total segment assets	1,958,542	2,109,872
Unallocated assets	1,448,998	1,235,220
	3,407,540	3,345,092
LIABILITIES		
Segment liabilities		
– Film distribution operations	7,511	21,215
– Hotel and gaming service operations	600,686	624,648
– Gaming promotion operations	60	10
– Property development operations	–	–
– Chinese health products sales operations	38,074	–
Total segment liabilities	646,331	645,873
Unallocated liabilities	486,300	119,263
	1,132,631	765,136

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

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

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

(c) Other segment information

	Film distribution operations		Hotel and gaming service operations		Gaming promotion operations		Property development operations		Chinese health products sales operations		Unallocated		Consolidated	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	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*
Amounts included in the measure of segment profit or loss or segment assets:														
OTHER INFORMATION														
Amortisation of film rights	1,441	254	–	–	–	–	–	–	–	–	–	–	1,441	254
Amortisation of intangible assets	–	–	–	–	–	–	–	–	217	–	–	–	217	–
Amortisation of interests in leasehold land	–	80	20,992	19,763	–	–	–	–	–	–	1,874	–	22,866	19,843
Depreciation of property, plant and equipment	–	729	101,986	87,692	–	–	–	–	199	–	1,915	–	104,100	88,421
Impairment loss recognised in respect of goodwill	–	–	–	–	–	8,975	–	–	–	–	–	–	–	8,975
Impairment loss recognised in respect of film rights	619	1,339	–	–	–	–	–	–	–	–	–	–	619	1,339
Impairment loss recognised in respect of films in progress	15,928	–	–	–	–	–	–	–	–	–	–	–	15,928	–
Impairment loss recognised in respect of trade receivables	394	–	–	–	–	–	–	–	–	–	–	–	394	–
Impairment loss recognised in respect of intangible assets	–	–	–	–	700,085	197,973	–	–	–	–	–	–	700,085	197,973
Additions to non-current assets (other than financial instruments)	–	–	4,479	37,903	–	–	–	–	12,862	–	36,123	404	53,464	38,307
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:														
Interests in jointly controlled entities	–	–	–	–	–	–	–	–	–	–	28,656	–	28,656	–
Interests in associates	–	–	–	–	–	–	–	–	–	–	7,977	7,985	7,977	7,985
Share of losses of jointly controlled entities	–	–	–	–	–	–	–	–	–	–	1,344	–	1,344	–
Share of losses of associates	–	–	–	–	–	–	–	–	–	–	8	1	8	1

(d) Information about major customers

Included in revenue arising from hotel and gaming service operations of HK$949,260,000 (2010: HK$725,130,000) are revenue of approximately HK$867,536,000 (2010: HK$659,773,000) which arose from sales to the Group's largest customer. Included in revenue arising from gaming promotion operations of HK$117,436,000 (2010: HK$137,814,000) are revenue of approximately HK$68,669,000 (2010: HK$137,814,000) which 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 2011 and 2010.

(e) Revenue from major products and services

	2011	2010
	HK$'000	*HK$'000*
Film distribution fee income	1,602	1,317
Hotel room income	64,955	52,426
Food and beverage sales	16,769	12,931
Service income from VIP gaming operations	307,178	351,015
Service income from mass table gaming operations	548,390	302,681
Service income from slot machine operations	11,968	6,077
Receive profit streams from gaming promotion business	68,669	137,814
Gaming promotion fees	48,767	–
Sales of Chinese health products	28,464	–
	1,096,762	864,261

(f) Geographical information

The Group's revenue from external customers is mainly derived from its operations in Macau, and non-current assets of the Group are mainly located in Macau.

7. TURNOVER

	2011	2010
	HK$'000	*HK$'000*
Film distribution fee income	1,602	1,317
Hotel room income	64,955	52,426
Food and beverage sales	16,769	12,931
Service income from VIP gaming operations	307,178	351,015
Service income from mass table gaming operations	548,390	302,681
Service income from slot machine operations	11,968	6,077
Receive profit streams from gaming promotion business	68,669	137,814
Gaming promotion fees	48,767	–
Sales of Chinese health products	28,464	–
	1,096,762	864,261

8. OTHER REVENUE

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	6,783	1,965
Imputed interest income from convertible notes receivable	–	1,212
Rental income	–	17
Management fee income	1,845	2,560
Other ancillary hotel revenue	10,344	19,539
	18,972	25,293

9. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Net foreign exchange gain	504	595
Reversal of impairment loss on trade receivables and other receivables	–	14
Gain on early redemption of convertible notes receivable	–	26,983
Others	917	210
	1,421	27,802

10. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings – wholly repayable within five years	16,843	15,664
Finance lease	31	31
Imputed interest on convertible bonds	14,582	–
	31,456	15,695

11. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging/(crediting):

	2011	2010
	HK$'000	*HK$'000*
Amortisation of film rights (included in cost of sales)	1,441	254
Amortisation of interests in leasehold land	22,866	19,843
Amortisation of intangible assets	217	–
Auditors' remuneration	1,190	1,330
Cost of inventories (included in cost of sales)	25,682	5,048
Depreciation of property, plant and equipment	104,100	88,421
Employee benefit expenses *(note 15)*	109,123	102,334
Impairment loss recognised in respect of goodwill	–	8,975
Impairment loss recognised in respect of film rights	619	1,339
Impairment loss recognised in respect of films in progress	15,928	–
Impairment loss recognised in respect of trade receivables	394	–
Impairment loss recognised in respect of intangible assets	700,085	197,973
Loss on disposal of property, plant and equipment	265	713
Loss/(gain) on disposal of financial assets classified as held for trading	2,490	(6,558)
Loss/(gain) arising on change in fair value of financial assets classified as held for trading	66,347	(22,149)
Operating lease rental in respect of rented premises	6,366	1,487

12. TAXATION CREDIT/(CHARGE)

	2011	2010
	HK$'000	*HK$'000*
The taxation credit/(charge) is as follow:		
Current tax:		
Hong Kong	–	–
Macau Complementary Tax	(4)	–
PRC Enterprise Income Tax	(3)	–
Other jurisdictions	–	–
	(7)	–
Over/(under) provision in prior year		
Other jurisdictions	62	(11)
	62	(11)
Deferred tax:		
Current year	7,364	(1,381)
Total taxation credit/(charge) for the year	7,419	(1,392)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. Macau subsidiaries are subject to Macau Complementary Tax at 12% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 in 2010 as assessable profit for the year was set off against the tax losses brought forward from previous years and exempt for tax liability.

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

	2011	2010
	HK$'000	*HK$'000*
(Loss)/profit before tax	(661,525)	26,219
Tax at Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	109,152	(4,326)
Tax effect of:		
Share of results of associates	1	–
Share of results of jointly controlled entities	222	–
Income not taxable for tax purpose	21,401	27,900
Expenses not deductible for tax purpose	(131,354)	(36,665)
Estimated tax losses not recognised	(5,353)	(5,746)
Utilisation of tax losses previously not recognised	9,635	14,465
Exemption for tax liability in Macau Complementary tax	64	10
Different tax rates of subsidiaries operating in other jurisdictions	3,651	2,970
Tax credit/(charge) for the year	7,419	(1,392)

13. DIVIDEND

	2011	2010
	HK$'000	*HK$'000*
Dividend recognised as distributions during the year:		
Special dividend paid		
– HK3.3 cents per share on 1,964,721,160 shares	64,836	–

The directors of the Company do not recommend any payment of final dividend for the year ended 31st December 2011 and 2010.

14. LOSS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	(683,234)	(8,083)

	2011	2010
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	1,233,768,361	340,406,483

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

The weighted average number of ordinary shares for the year ended 31st December 2011 and 31st December 2010 for the purpose of basic and diluted loss per share has been adjusted and restated respectively resulting from the capital reorganisation and the rights issue completed on 9th May 2011 and 29th June 2011 respectively.

As the Company's outstanding convertible bonds, share options and warrants where applicable had an anti-dilutive effect to the basic loss per share calculation for the current and prior year, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore, the basic and diluted losses per share calculations for the respective years are equal.

15. EMPLOYEE BENEFIT EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Directors' remuneration	9,720	7,395
Directors' fee	393	360
Salaries and other allowances	84,074	71,506
Share-based payment	–	8,238
Retirement benefits scheme contributions	1,205	1,504
Staff welfare expenses	13,731	13,331
	109,123	102,334

(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$10,149,000 (2010: HK$8,170,000). The remuneration of every director of the Company for the year ended 31st December 2011 and 31st December 2010 is as below:

Name of director	Fees		Salaries and other allowances		Retirement benefits scheme contributions		Share-based payment		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	4,570	3,450	12	12	–	–	4,582	3,462
Ms. Chen Ming Yin, Tiffany	–	–	4,310	3,170	12	12	–	–	4,322	3,182
Ms. Li Yuk Sheung	–	–	840	775	12	12	–	379	852	1,166
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Tang Chak Lam, Gilbert *(Note 1)*	73	–	–	–	–	–	–	–	73	–
Mr. Leung Hok Man *(Note 2)*	80	120	–	–	–	–	–	–	80	120
	393	360	9,720	7,395	36	36	–	379	10,149	8,170

Notes:

1. Mr. Tang Chak Lam, Gilbert was appointed as independent non-executive director on 24th May 2011.

2. Mr. Leung Hok Man was resigned as independent non-executive director on 1st September 2011.

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 (2010: two) directors of the Company whose emoluments are reflected in note (a) above and amounted to HK$8,904,000 (2010: HK$6,644,000). The emoluments payable to the remaining three individuals (2010: three) during the year were as follow:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other allowances	5,820	5,049
Retirement benefits scheme contributions	24	36
Share-based payment	–	1,316
	5,844	6,401

The aggregated emoluments of each of these remaining three (2010: three) highest paid individuals fell within the following bands:

	Number of individuals 2011	2010
HK$1,000,000 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	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 employees of 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) The employees of the Group's subsidiaries in PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions under the schemes.

(d) During the year, the retirement benefits schemes contributions net of forfeited contributions of HK$390,000 (2010: HK$1,000) amounted to approximately HK$962,000 (2010: HK$1,359,000).

17. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings HK$'000	Leasehold improvements HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1st January 2010	287,551	293,611	241,793	3,493	826,448
Additions	2,233	5,365	30,467	–	38,065
Disposals	–	(180)	(3,963)	–	(4,143)
At 31st December 2010 and 1st January 2011	289,784	298,796	268,297	3,493	860,370
Additions	–	4,872	3,412	2,343	10,627
Acquisition through business combination	–	912	1,061	–	1,973
Transfer from investment properties	8,086	–	–	–	8,086
Disposals	–	(103)	(767)	–	(870)
At 31st December 2011	297,870	304,477	272,003	5,836	880,186
Accumulated depreciation					
At 1st January 2010	6,633	15,024	28,589	2,948	53,194
Charge for the year	8,121	38,601	41,239	460	88,421
Eliminated on disposals	–	(21)	(2,605)	–	(2,626)
At 31st December 2010 and 1st January 2011	14,754	53,604	67,223	3,408	138,989
Charge for the year	11,664	39,501	52,518	417	104,100
Eliminated on disposals	–	(20)	(585)	–	(605)
At 31st December 2011	26,418	93,085	119,156	3,825	242,484
Carrying amount					
At 31st December 2011	271,452	211,392	152,847	2,011	637,702
At 31st December 2010	275,030	245,192	201,074	85	721,381

At 31st December 2011, buildings with carrying amount of approximately HK$263,147,000 (2010: HK$274,198,000) have been pledged to secure general banking facilities granted to the Group (note 45).

The carrying amount of furniture, fixtures and equipment includes an amount of approximately HK$326,000 (2010: HK$273,000) in respect of assets held under finance leases.

18. INTERESTS IN LEASEHOLD LAND

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Cost		
At 1st January	521,975	521,734
Additions	–	241
Transfer from investment properties	65,494	–
At 31st December	587,469	521,975
Accumulated amortisation		
At 1st January	57,244	37,401
Charge for the year	22,866	19,843
At 31st December	80,110	57,244
Carrying amount		
At 31st December	507,359	464,731

The carrying amounts of interests in leasehold land shown above comprise:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Land in Hong Kong, held on medium-term leases	66,527	2,907
Land in Macau, held on medium-term leases	440,832	461,824
	507,359	464,731

At 31st December 2011, interests in leasehold land with carrying amount of approximately HK$440,832,000 (2010: HK$461,824,000) have been pledged to secure general banking facilities granted to the Group (note 45).

Amortisation expenses on prepaid lease payments of approximately HK$22,866,000 (2010: HK$19,843,000) has been charged to the consolidated income statement for the year.

19. INVESTMENT PROPERTIES

	The Group	
	2011	2010
	HK$'000	*HK$'000*
At 1st January	73,580	61,310
Transfer to property, plant and equipment *(note 17)*	(8,086)	–
Transfer to interests in leasehold land *(note 18)*	(65,494)	–
Increase in fair value	–	12,270
At 31st December	–	73,580

At 1st January 2011, investment properties of HK$73,580,000 was transferred to leasehold land and buildings at its fair value, which was determined on the basis of a valuation carried out by Grant Sherman Appraisal Limited as at the date of transfer.

At 31st December 2010, the fair values of the Group's investment properties was 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 who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in relevant market.

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.

At 31st December 2010, no investment properties was pledged to secure general banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

The carrying amounts of investment properties shown above comprise:

	2011	**2010**
	HK$'000	*HK$'000*
Investment properties in Hong Kong, held on medium-term leases	–	73,580

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2011	**2010**
	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	2,490,800	2,096,070
Impairment loss recognised	(1,215,586)	(1,129,501)
	1,275,214	966,569
	2,273,803	1,965,158

Amounts due from subsidiaries of HK$2,490,800,000 (2010: HK$2,096,070,000), net of impairment of HK$1,215,586,000 (2010: HK$1,129,501,000) are interest-free, unsecured and has no fixed repayment term.

The remaining balances due from/(to) subsidiaries included in the current assets and liabilities are unsecured, interest-free, receivable and repayable on demand.

The carrying amounts of the interests in subsidiaries are 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 2011 are set out in note 49.

21. GOODWILL

	The Group 2011 HK$'000	The Group 2010 HK$'000
Cost		
At 1st January	117,678	117,678
Additions recognised from business combinations occurred during the year *(note 43)*	3,030	–
At 31st December	120,708	117,678
Impairment		
At 1st January	117,678	108,703
Impairment loss recognised	–	8,975
At 31st December	117,678	117,678
Carrying amount		
At 31st December	3,030	–

Impairment testing of goodwill

The carrying amount of goodwill (before recognition of impairment loss) at the end of the reporting period was allocated to cash generating units ("CGUs") as follows:

	The Group 2011 HK$'000	The Group 2010 HK$'000
Sales of Chinese health products	3,030	–
Rights in sharing of profit streams from the gaming promotion business	8,975	8,975
Film production	108,703	108,703
	120,708	117,678

The carrying amount of goodwill (net of accumulated impairment losses) at the end of the reporting period was allocated to CGUs as follows:

	2011 HK$'000	2010 HK$'000
Sales of Chinese health products	3,030	–
Rights in sharing of profit streams from the gaming promotion business	–	–
Film production	–	–
	3,030	–

At 31st December 2011, goodwill has been allocated for impairment testing purposes to the CGU of sales of Chinese health products.

Goodwill associated with the CGU of sales of Chinese health products arose on 27th October 2011 from business combination (note 43).

At 31st December 2011, the directors of the Company assessed the recoverable amount of the CGU of sales of Chinese health products with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and no impairment associated with the CGU of sales of Chinese health products was recognised in the year.

The recoverable amount of the CGU of sales of Chinese health products has been determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 16.53% per annum and cash flows beyond the five-year period are extrapolated using a steady 3% growth rate per annum. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount of the CGU of sales of Chinese health products to exceed the aggregate recoverable amount of the CGU of sales of Chinese health products.

At 31st December 2010, the directors of the Company assessed the recoverable amount of the CGU of rights in sharing of profit stream from 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 rights in sharing of profit streams from gaming promotion business was impaired by approximately HK$8,975,000.

The recoverable amount of the CGU of rights in sharing of profit stream from gaming promotion business has been determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 17.45% per annum and cash flows beyond the five-year period are extrapolated using a steady 2% growth rate per annum. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include gross margin, growth and discount rate, such estimation is based on past experience and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount of the CGU of rights in sharing of profit stream from gaming promotion business to exceed the aggregate recoverable amount of the CGU of rights in sharing of profit stream from gaming promotion business.

22. **INTANGIBLE ASSETS**

The Group	Rights in sharing of profit streams	Trademarks	Customers relationship	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st January 2010, 31st December 2010, and 1st January 2011	989,205	–	–	989,205
Additional amounts recognised from business combinations occurred during the year *(note 43)*	–	7,345	2,454	9,799
At 31st December 2011	989,205	7,345	2,454	999,004
Accumulated amortisation and impairment				
At 1st January 2010	–	–	–	–
Impairment loss recognised	197,973	–	–	197,973
At 31st December 2010 and 1st January 2011	197,973	–	–	197,973
Charge for the year	–	130	87	217
Impairment loss recognised	700,085	–	–	700,085
At 31st December 2011	898,058	130	87	898,275
Carrying amount				
At 31st December 2011	**91,147**	**7,215**	**2,367**	**100,729**
At 31st December 2010	791,232	–	–	791,232

Other than the rights in sharing of profit streams, which has indefinite useful lives, the intangible assets are amortised on a straight-line basis over the following periods:

Trademarks	10 years
Customers relationship	5 years

The above trademarks and customers relationship are acquired as part of a business combination during the year (note 43).

Impairment testing of intangible assets

For the purpose of impairment testing, rights in sharing of profit streams, trademarks and customers relationship are allocated, at acquisition, to the CGUs that are expected to benefit from such intangible assets.

The intangible assets associated with the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated 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 of 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.

At 31st December 2011, the directors of the Company assessed the recoverable amount of the CGU of intangible assets with regard to the rights in sharing of profit streams from the gaming promotion business with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that intangible assets associated with rights in share of profit streams from the gaming promotion business was impaired by approximately HK$700,085,000 (2010: HK$197,973,000).

The recoverable amount of the CGU of the rights in sharing of profit streams from gaming promotion business has been determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 20.83% per annum (2010: 17.45% per annum) and cash flows beyond the five-year period are extrapolated using a zero growth rate (2010: 2% per annum). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include gross margin, growth and discount rate, such estimation is based on past experience and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount of the CGU of the rights in sharing of profit streams from gaming promotion business to exceed the aggregate recoverable amount of the CGU of the rights in sharing of profit streams from gaming promotion business.

For the year ended 31st December 2011, impairment loss of an amount of approximately HK$700,085,000 regarding the CGU of rights in sharing of profit streams from gaming promotion business was mainly attributable to the following factors:

- Intense competition in the VIP gambling market since the opening of new hotels; and
- The rolling turnover from the VIP gambling has drop substantially.

The above factors were considered in cash flow projections.

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 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)*	–	882
Redemption of convertible notes receivable *(note)*	(21,227)	(11,790)
At 31st December 2010, 1st January 2011 and at 31st December 2011	–	–

Note:

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 Holdings Limited 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 income statement.

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Cost of investments in jointly controlled entities		
Unlisted in Hong Kong	30,000	–
Share of losses in jointly controlled entities	(1,344)	–
	28,656	–

Details of the Group's jointly controlled entities at 31st December 2011 are set out in note 51 to the financial statements.

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

	2011	**2010**
	HK$'000	*HK$'000*
Current assets	57,324	–
Current liabilities	(12)	–
Net assets	57,312	–
Group's share of net assets of jointly controlled entities	28,656	–
Turnover	–	–
Loss before tax	(2,688)	–
Group's share of loss of jointly controlled entities	(1,344)	–
Group's share of other comprehensive income of jointly controlled entities	–	–

25. INTERESTS IN ASSOCIATES

	The Group 2011 HK$'000	2010 HK$'000
Cost of investments in associates		
Unlisted in Macau	8	1
Unlisted in Hong Kong	–	–
	8	1
Share of losses in associates	(8)	(1)
	–	–
Amount due from an associate	7,977	7,985
	7,977	7,985

The Group has not recognised losses amounting to HK$4,939,000 (2010: HK$2,956,000) for the associates for the year ended 31st December 2011. The accumulated losses not recognised were HK$9,257,000 (2010: HK$4,318,000).

During the year, the Group acquired a 13.33% additional interest in Avatar Limited from a third party at a consideration of HK$7,767.

The amount due from an associate is unsecured, interest-free and no fixed repayment terms.

Details of the Group's associates at 31st December 2011 are set out in note 50 to the financial statements.

Summarised financial information in respect of the Group's associates is set out below:

	2011 HK$'000	2010 HK$'000
Total assets	73,037	63,957
Total liabilities	(101,901)	(81,524)
Net liabilities	(28,864)	(17,567)
Group's share of net assets of associates	–	–
Turnover	21,733	17,921
Loss for the year	(16,058)	(12,026)
Group's share of loss of associates	(8)	(1)
Group's share of other comprehensive income of associates	–	–

26. INVENTORIES

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Food materials and supplies	38,625	1,504
Finished goods	14	153
	38,639	1,657

27. STOCK OF PROPERTIES

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Properties for sale under development expected to be completed within normal operating cycle included under current assets	550,312	–

The stock of properties at 31st December 2011 is located in Macau. The carrying amounts of stock of properties shown above are as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Properties for sale under development in Macau held under medium-term leases	550,312	–

28. FILM RIGHTS

The Group	HK$'000
Cost	
At 1st January 2010, 31st December 2010 and 1st January 2011	300,919
Additions	500
Expired film rights	(25,281)
At 31st December 2011	276,138
Amortisation and impairment	
At 1st January 2010	278,005
Amortisation for the year	254
Impairment loss recognised in the year	1,339
At 31st December 2010 and 1st January 2011	279,598
Amortisation for the year	1,441
Impairment loss recognised in the year	619
Expired film rights	(25,281)
At 31st December 2011	256,377
Carrying amount	
At 31st December 2011	**19,761**
At 31st December 2010	21,321

Impairment testing of film rights

For the purpose of impairment testing, film rights have been allocated to the CGU of distribution of film rights.

The film rights allocated to film production business which amortisation of film rights will not exceed twenty years.

At 31st December 2011, the directors of the Company assessed the recoverable amount of the CGU of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent qualified professional valuers, and determined that film rights was impaired by approximately HK$619,000 (2010: HK$1,339,000).

The recoverable amount of the CGU of film rights has been determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by management of the Company covering a five-year period and discount rate of 19.8% per annum (2010: 19.33% per annum) and cash flows beyond the five-year period are extrapolated using zero growth rate (2010: zero). This growth rate does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, growth rate and discount rate, such estimation is based on past experience and management's expectations of the market development. Management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount of film rights to exceed the aggregate recoverable amount of film rights.

29. FILMS IN PROGRESS

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Films in progress	19,078	19,038
Less: Provision for impairment loss	(15,928)	–
	3,150	19,038

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

In light of the stage of film production, the Group regularly reviewed the progress of film production to assess the feasibility of continuing the production of each film. During the year ended 31st December 2011, the management of the Company decided to suspense the production of certain films in different stage of production due to the prevail market circumstances, and determined that HK$15,928,000 (2010:Nil) was impaired and recognised in the consolidated income statement.

30. TRADE RECEIVABLES

The Group's trade receivables arose from (i) film distribution, (ii) hotel and gaming service, (iii) gaming promotion and (iv) Chinese health products sales for the year.

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Trade receivables from:		
Film distribution	3,692	6,272
Hotel and gaming service	87,196	54,310
Gaming promotion	50,099	9,912
Chinese health products sales	3,539	–
	144,526	70,494
Less: Allowance for doubtful debts	(1,518)	(1,157)
	143,008	69,337

The following is an aging analysis of trade receivables, presented based on the invoice date and net of allowance for doubtful debts:

	2011	**2010**
	HK$'000	*HK$'000*
0 to 30 days	138,166	64,152
31 to 60 days	912	609
61 to 90 days	1,580	–
91 to 180 days	175	–
Over 180 days	2,175	4,576
	143,008	69,337

The average credit period granted to customers ranges from 30 to 90 days.

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1st January	1,157	1,164
Impairment loss recognised	394	–
Foreign exchange translation gain	(31)	–
Amounts written off as uncollectible	(2)	(7)
At 31st December	1,518	1,157

Trade receivables disclosed above included amounts (see below for aging analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

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

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Over 90 days	2,350	4,576

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately HK$2,350,000 (2010: HK$4,576,000) 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 end of the reporting period.

31. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits for investment	360,000	415,000	–	–
Other deposits	16,949	15,230	72	–
Prepayments	8,880	9,732	487	712
Other receivables	10,557	1,097	–	92
	396,386	441,059	559	804

Deposits for investment 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 and outstanding loans which has been refund to the Company on 15th February 2012. Details of the transaction are set out in note 48(a).

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

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Over 90 days	576	158

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.

32. HELD FOR TRADING INVESTMENTS

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong, at fair value	50,797	94,050

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 listed securities are determined with reference to quoted market bid prices.

33. AMOUNTS DUE FROM/(TO) ASSOCIATES/NON-CONTROLLING INTERESTS – THE GROUP AND THE COMPANY

The amounts due from/(to) associates/non-controlling interests of the Group and the Company are unsecured, interest-free, receivable and repayable on demand.

34. CASH AND BANK BALANCES

Bank balance carry interest at floating rates and placed with creditworthy banks with no recent history of default. 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.

For the purpose of the consolidated statement of cash flows, cash and bank balances include cash on hand and at banks. Cash and bank balances at 31st December 2011 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		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	903,094	625,827	240,479	395,529

At 31st December 2011, cash and bank balances denominated in MOP and RMB are approximately HK$23,640,000 and HK$2,493,000 respectively. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the foreign exchange control promulgated imposed by the PRC government.

35. SHARE CAPITAL

	Number of shares		Amount	
	2011	**2010**	**2011**	**2010**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each (2010: HK$0.01 each)				
Authorised:				
At 1st January	50,000,000	50,000,000	500,000	500,000
Share consolidation *(note b(i))*	(45,000,000)	–	–	–
Capital reduction *(note b(ii))*	–	–	(450,000)	–
Capital increase *(note b(iii))*	45,000,000	–	450,000	–
At 31st December	50,000,000	50,000,000	500,000	500,000
Issued and fully paid:				
At 1st January	4,333,933	2,296,496	43,340	22,965
Placement of shares *(note a)*	577,855	540,000	5,778	5,400
Share consolidation *(note b(i))*	(4,420,610)	–	–	–
Capital reduction *(note b(ii))*	–	–	(44,206)	–
Issue of new shares upon rights issue *(note c)*	1,473,541	1,444,643	14,735	14,446
Exercise of share options *(note d)*	1	52,790	–	528
Exercise of listed warrants	1	4	–	1
At 31st December	1,964,721	4,333,933	19,647	43,340

Notes:

(a) On 27th January 2011, the Company allotted and issued an aggregate 577,855,000 new shares of HK$0.01 each to independent investors at a price of HK$0.07 per share. The net proceeds of approximately HK$39,895,000 were used as part of the consideration of the acquisition of the property leasehold rights over Lot 6B, Lot 6C, Lot 6D and Lot 6E located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") as announced by the Company on 7th January 2011 (the "Acquisition").

(b) At a special general meeting of the Company held on 6th May 2011, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every ten issued and unissued existing shares of par value of HK$0.01 each be consolidated into one consolidated share of HK$0.10 each of the Company (the "Consolidated Share")

(ii) Capital reduction: (1) 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; (2) the authorised 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 authorised 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 (3) 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: the authorised share capital of the Company be increased from HK$50,000,000 divided into 5,000,000,000 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 completed on 9th May 2011.

(c) On 29th June 2011, the Company allotted and issued 1,473,540,870 rights shares ("Rights Shares") of the Company of HK$0.01 each at a subscription price of HK$0.25 per share on the basis of three Rights Shares for every one share held on 7th June 2011 by way of rights issue. The net proceed was approximately HK$364,148,000, of which approximately HK$360,000,000 was intended to be used to fund the financial needs for developing the Sites and/or the remaining for general working capital of the Group.

(d) During the year ended 31st December 2011, an option holder exercised her option right to subscribe for 1,243 shares at exercise price of HK$0.144 per share. The net proceeds from the exercise of option rights amounted to HK$179.

Warrants

(a) 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 (the "2010 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 from 15th June 2010 to 14th June 2012 (both days inclusive). The subscription price was adjusted to HK$0.835 per share due to the completion of rights issue of the Company on 11th August 2010, placement of shares of the Company on 27th January 2011, Capital Reorganisation, issue of Rights Shares and payment of a special dividend on 18th November 2011.

During the year ended 31st December 2010, 4,205 new shares were issued on the conversion of the 2010 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.

During the year ended 31st December 2011, 1,290 new shares were issued on the conversion of the 2010 Warrants at the subscription price of HK$1.82 per share.

At 31st December 2011, the Company had outstanding 2010 Warrants of approximately HK$111,523,000. The exercise in full of the 2010 Warrants would result in the issue of approximately 133,561,000 shares of the Company.

(b) On 29th June 2011, the Company issued one bonus warrant for every five Rights Shares taken up under the rights issue. Total amount of approximately HK$73,677,000 warrants (the "2011 Warrants") were issued at an initial subscription price of HK$0.25 per shares (subject to adjustment) and exercisable at any time during the period from 29th June 2011 to 28th December 2012 (both days inclusive).

During the year ended 31st December 2011, no 2011 Warrants were converted. As at 31st December 2011, the Company had outstanding 2011 Warrants of approximately HK$73,677,000. The exercise in full of the 2011 Warrants would result in the issue of approximately 355,928,000 shares of the Company.

36. RESERVES

The Company	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Share-based payment reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	Capital reduction reserve HK$'000 (Note e)	Retained earnings HK$'000	Total HK$'000
At 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
Exercise of listed warrants	1	–	–	–	–	–	1
Exercise of share options	10,367	–	(1,393)	–	–	–	8,974
Expiry of share options	–	–	(4,243)	–	–	4,243	–
Issue of new shares under rights issue	130,018	–	–	–	–	–	130,018
Placement of shares	70,200	–	–	–	–	–	70,200
Share issuing expenses	(1,899)	–	–	–	–	–	(1,899)
Share-based payment expenses	–	–	8,238	–	–	–	8,238
At 31st December 2010 and 1st January 2011	609,421	1,076,965	59,978	–	316,008	332,153	2,394,525
Loss for the year	–	–	–	–	–	(110,242)	(110,242)
Capital reduction	–	44,206	–	–	–	–	44,206
Exercise of listed warrants	2	–	–	–	–	–	2
Exercise of shares options	1	–	–	–	–	–	1
Expiry of share options	–	–	(6,844)	–	–	6,844	–
Income tax relating to transactions with owners of the Company	–	–	–	(1,937)	–	–	(1,937)
Issue of new shares under rights issue	353,650	–	–	–	–	–	353,650
Payment of dividends	–	–	–	–	–	(64,836)	(64,836)
Placement of shares	34,672	–	–	–	–	–	34,672
Recognition of equity component of convertible bonds	–	–	–	11,740	–	–	11,740
Share issuing expenses	(4,792)	–	–	–	–	–	(4,792)
At 31st December 2011	992,954	1,121,171	53,134	9,803	316,008	163,919	2,656,989

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 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 bonds 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 bonds reserve until the convertible bonds are either converted (in which case it is transferred to share premium) or the convertible bonds 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.

37. BANK BORROWINGS

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Bank loans:		
Secured	450,000	500,000
Unsecured	16,674	–
	466,674	500,000
Carrying amount repayable:		
Within one year	58,286	50,000
More than one year, but not exceeding two years	50,000	50,000
More than two years, but not more than five years	350,000	400,000
Over five years	–	–
	458,286	500,000
Carrying amount of banks loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	8,388	–
	466,674	500,000
Less: Amount shown under current liabilities	(66,674)	(50,000)
Amount shown under non-current liabilities	400,000	450,000

At 31st December 2011, the Group had a secured bank term loan with remaining balance of HK$450,000,000. The secured bank term loan is secured by the Group's leasehold land and buildings with carrying amount of approximately HK$440,832,000 (2010: HK$461,824,000) and HK$263,147,000 (2010: HK$274,198,000) respectively. The secured bank term loan is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable within 5 years by 15 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.

At 31st December 2011, the Group had unsecured bank loan of HK$3,200,000 that granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region ("HKSAR"). The unsecured bank loan is 80% guaranteed by the government of HKSAR and 100% personally guaranteed by an ex-shareholder of NPH Holdings Limited ("NPH"), respectively. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 32 equal consecutive monthly installments of HK$100,000 each and contains a clause of repayable on demand and thus classified as current liabilities.

At 31st December 2011, the Group had unsecured import trade loans of approximately HK$8,286,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH, interest bearing at 2% per annum over 1 month HIBOR and repayable on demand.

At 31st December 2011, the Group had unsecured bank loan of approximately HK$5,188,000. The unsecured bank loan is personally guaranteed by an ex-shareholder of NPH. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 49 consecutive monthly installments of approximately HK$106,000 each and a final payment of approximately HK$14,000 at the maturity date of the loan and contains a clause of repayable on demand and thus classified as current liabilities.

All interest-bearing bank borrowings are denominated in Hong Kong dollar.

38. OBLIGATIONS UNDER FINANCE LEASE

	The Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance lease:				
Within one year	155	125	128	96
In the second to fifth years	186	271	153	201
	341	396	281	297
Less: Future finance charges	(60)	(99)	–	–
	281	297	281	297
Less: Amount shown under current liabilities			(128)	(96)
Amount shown under non-current liabilities			153	201

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 are charged at commercial rates ranging from 5.00% to 5.99% (2010: 5.99%) per annum 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 obligations under finance lease are secured by the lessor's charge over the leased assets. Obligations under finance lease are denominated in Hong Kong dollar.

39. CONVERTIBLE BONDS

On 7th July 2011, the Company issued unsecured convertible bonds in the principal amount of HK$350,000,000 to Wingo Consultants Limited ("Wingo"), a wholly owned subsidiary of Eternity Investment Limited. The bonds are interest bearing at 8% per annum. The holder of the bonds may convert the bonds into ordinary shares of the Company at any time before the maturity date on 16th July 2016 at an initial conversion price of HK$0.44 per share. The conversion price was adjusted to HK$0.36 due to the payment of a special dividend by the Company on 16th November 2011. Details of the transaction are set out in the Company's circular dated 1st April 2011. If the bonds have not been converted, they will be redeemed on 16th July 2016 at principal amount.

The bonds contain two components, liability and equity elements. The equity element is presented in equity heading "convertible bonds reserve". The effective interest rate of the liability component on initial recognition is 8.837%.

The Group and the Company	*HK$'000*
Proceeds of issue	350,000
Liability component at date of issue	(338,260)
Equity component	11,740
Liability component at date of issue	338,260
Interest charged and calculated at an effective interest rate at 8.837%	14,582
Interest paid and payable	(13,655)
Liability component at 31st December 2011	339,187

40. DEFERRED TAX LIABILITIES

The Group

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

	Fair value adjustment on acquisition of subsidiaries	Convertible bonds	Fair value changes of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1st January 2011	80,888	–	7,175	88,063
Recognised directly in equity	–	1,937	–	1,937
Through business combinations *(note 43)*	1,617	–	–	1,617
Credit to the consolidated income statement	(36)	(153)	(7,175)	(7,364)
At 31st December 2011	82,469	1,784	–	84,253

At 31st December 2011, the Group had unused estimated tax losses of approximately HK$399,493,000 (2010: HK$425,445,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams and unrecognised tax losses could be carried forward indefinitely.

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

The Company	**Convertible bonds**
	HK$'000
At 1st January 2010, 31st December 2010 and 1st January 2011	–
Recognised directly in equity	1,937
Credit to income statement	(153)
At 31st December 2011	1,784

No deferred tax assets has been recognised in respect of estimated tax losses of approximately HK$115,029,000 (2010: HK$102,347,000) due to the unpredictability of future profit streams and unrecognised tax losses could be carried forward indefinitely.

41. TRADE PAYABLES

The Group's trade payables arose from (i) film distribution, (ii) hotel and gaming service and (iii) Chinese health products sales for the year.

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Trade payables from:		
Film distribution	4,107	7,153
Hotel and gaming service	122,545	17,885
Chinese health products sales	12,428	–
	139,080	25,038

The aging analysis of the trade payables is as follow:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
0 to 30 days	128,025	14,267
31 to 60 days	3,855	2,444
61 to 90 days	1,765	233
91 to 180 days	1,188	917
Over 180 days	4,247	7,177
	139,080	25,038

42. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	14,449	16,917	10,000	10,000
Accruals	46,294	40,951	15,918	3,230
Provision for long services payment	1,060	–	–	–
Other payables	6,441	2,602	368	739
	68,244	60,470	26,286	13,969

The movement of provision for long services payment is as follow:

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1st January	–	–
Acquisition through business combination	1,060	–
At 31st December	1,060	–

The Group provides for probable future long service payments expected to be made to employees under the Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group at the end of the reporting period.

43. BUSINESS COMBINATIONS

On 27th October 2011, the Group acquired the 100% equity interest in NPH at a total consideration of HK$50,000,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$3,030,000. NPH is engaged in sales of Chinese and other medicines, pharmaceutical products, health products and dried seafood products to wholesalers and retailer as well as Chinese clinical services.

Consideration transferred

	HK$'000
Cash	50,000

Acquisition-related costs amounting to approximately HK$110,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year in the consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Carrying amount before acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	1,973	–	1,973
Inventory	40,291	–	40,291
Intangible assets *(note 22)*	–	9,799	9,799
Trade receivables	2,595	–	2,595
Deposits paid, prepayments and other receivables	15,269	–	15,269
Cash at bank and in hand	21,914	–	21,914
Trade payables	(9,611)	–	(9,611)
Deposits received, accruals and other payables	(8,777)	–	(8,777)
Tax payables	(1)	–	(1)
Obligation under finance lease	(21)	–	(21)
Bank borrowings	(24,818)	–	(24,818)
Amount due from a non-controlling interest	(26)	–	(26)
Deferred tax liabilities	–	(1,617)	(1,617)
Net identifiable assets and liabilities	38,788	8,182	46,970
Goodwill arising on acquisition			3,030
			50,000

Goodwill arose in the acquisition of NPH because the cost of the combination included a control premium paid to acquire the business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of NPH.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of NPH

	HK$'000
Cash paid	50,000
Less: cash and cash equivalent balances acquired	(21,914)
Net cash outflow	28,086

Included in the loss for the year is HK$64,000 attributable to the additional business generated by NPH. Turnover for the year includes HK$28,464,000 in respect of NPH.

Had the acquisition been completed on 1st January 2011, total group revenue for the year would have been approximately HK$1,159,479,000, and loss for the year would have been approximately HK$651,704,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January 2011, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and loss of the Group had NPH been acquired at the beginning of the current year, the directors have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after business combination.

44. LEASE COMMITMENTS

The Group as lessee

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the period:		
Premises	6,366	1,487

At the end of the reporting period, 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	
	2011	**2010**
	HK$'000	*HK$'000*
Within one year	9,494	1,491
In the second to fifth year inclusive	5,803	1,219
	15,297	2,710

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. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

45. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings of the Group:

	2011	**2010**
	HK$'000	*HK$'000*
Buildings	263,147	274,198
Leasehold land	440,832	461,824
	703,979	736,022

46. CAPITAL COMMITMENTS

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

	The Group	
	2011	**2010**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for:		
Acquisition of subsidiaries *(note 48(a))*	540,000	540,000
Acquisition of property leasehold rights *(note 48(b))*	–	495,000
Capital contribution of joint controlled entities	–	30,000
	540,000	1,065,000

47. EQUITY SETTLED SHARE-BASED TRANSACTION

The New Option Scheme

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 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 196,472,116, which represented approximately 10% 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 from 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 movements of the Company's share options held by the Company's substantial shareholders, directors, the Group's employees and other participants during the year ended 31st December 2011 and 31st December 2010:

Category of Participants	Name of scheme	Exercisable period#	Exercise price per share HK$	Outstanding as at 01.01.2010	Expired during 2010	Adjustment during 2010	Granted during 2010 (Note i)	Exercised during 2010	Transfer between category during 2010	Outstanding as at 31.12.2010 and 01.01.2011	Expired during 2011	Adjustment during 2011*	Exercised during 2011	Outstanding as at 31.12.2011
Substantial shareholders and directors of the Company**	Old Option Scheme	28.03.2000 – 27.03.2010	642.260	24,096	(24,096)	–	–	–	–	–	–	–	–	–
		02.06.2000 – 01.06 2010	311.260	10,910	(10,910)	–	–	–	–	–	–	–	–	–
	New Option Scheme	16.07.2002 – 15.07.2012	371.400*	5,786	–	260	–	–	–	6,046	–	(5,024)	–	1,022
		17.07.2003 – 16.07.2013	122.141*	11,942	–	538	–	–	–	12,480	–	(10,368)	–	2,112
				52,734	(35,006)	798	–	–	–	18,526	–	(15,392)	–	3,134
Director of the Company***	New Option Scheme	16.07.2002 – 15.07.2012	371.400*	28,993	–	1,305	–	–	–	30,298	–	(25,172)	–	5,126
		17.07.2003 – 16.07.2013	122.141*	59,709	–	2,687	–	–	–	62,396	–	(51,838)	–	10,558
		17.07.2009 – 16.07.2010	0.268	10,395,000	(10,395,000)	–	–	–	–	–	–	–	–	–
		13.05.2010 – 12.05.2011	1.440*	–	–	832,275	18,495,000	–	–	19,327,275	(1,932,727)	(17,394,548)	–	–
				10,483,702	(10,395,000)	836,267	18,495,000	–	–	19,419,969	(1,932,727)	(17,471,558)	–	15,684
Employees of the Group	Old Option Scheme	28.03.2000 – 27.03.2010	642.260	6,274	(6,274)	–	–	–	–	–	–	–	–	–
		02.06.2000 – 01.06.2010	311.260	10,909	(10,909)	–	–	–	–	–	–	–	–	–
	New Option Scheme	16.07.2002 – 15.07.2012	371.400*	57,988	–	6,523	–	–	86,982	151,493	–	(125,855)	–	25,638
		17.07.2003 – 16.07.2013	122.141*	59,709	–	9,236	–	–	145,549	214,494	–	(178,196)	–	36,298
		13.12.2004 – 12.12.2014	112.527*	156,786	–	17,556	–	–	233,350	407,692	–	(338,699)	–	68,993
		04.02.2005 – 03.02.2015	116.486*	515,042	–	28,239	–	–	112,493	655,774	–	(544,798)	–	110,976
		30.12.2005 – 29.12.2015	52.361*	172,856	–	10,130	–	–	52,262	235,248	–	(195,437)	–	39,811
		21.11.2006 – 20.11.2016	59.942*	313,571	–	17,638	–	–	78,393	409,602	–	(340,286)	–	69,316
		25.05.2007 – 24.05.2017	90.930*	566,650	–	44,178	–	–	415,092	1,025,920	–	(852,305)	–	173,615
		27.06.2007 – 26.06.2017	90.475*	377,331	–	29,032	–	–	267,842	674,205	–	(560,111)	–	114,094
		23.10.2007 – 22.10.2017	42.977*	1,592,696	–	101,435	–	–	661,438	2,355,569	–	(1,956,936)	–	398,633
		21.08.2008 – 20.08.2018	5.543*	5,887,464	–	379,424	–	–	2,544,174	8,811,062	–	(7,320,033)	–	1,491,029
		17.07.2009 – 16.07.2010	0.268	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	(32,327,075)	–	–	–
		13.05.2010 – 12.05.2011	1.440*	–	–	5,038,515	111,967,000	–	–	117,005,515	(11,700,427)	(105,303,845)	(1,243)	–
				54,178,276	(44,478,183)	7,073,981	183,132,000	(40,230,000)	4,597,575	164,273,649	(44,027,502)	(117,716,501)	(1,243)	2,528,403
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	371.400*	115,976	–	1,305	–	–	(86,982)	30,299	–	(25,171)	–	5,128
		17.07.2003 – 16.07.2013	122.141*	184,354	–	1,746	–	–	(145,549)	40,551	–	(33,687)	–	6,864
		13.12.2004 – 12.12.2014	112.527*	308,868	–	3,398	–	–	(233,350)	78,916	–	(65,562)	–	13,354
		04.02.2005 – 03.02.2015	116.486*	261,439	–	6,702	–	–	(112,493)	155,648	–	(129,308)	–	26,340
		30.12.2005 – 29.12.2015	52.361*	324,024	–	12,229	–	–	(52,262)	283,991	–	(235,933)	–	48,058
		21.11.2006 – 20.11.2016	59.942*	235,179	–	7,055	–	–	(78,393)	163,841	–	(136,114)	–	27,727
		25.05.2007 – 24.05.2017	90.930*	801,568	–	17,391	–	–	(415,092)	403,867	–	(335,521)	–	68,346
		27.06.2007 – 26.06.2017	15.311	267,842	–	–	–	–	(267,842)	–	–	–	–	–
		23.10.2007 – 22.10.2017	42.977*	1,119,966	–	20,634	–	–	(661,438)	479,162	–	(398,074)	–	81,088
		21.08.2008 – 20.08.2018	5.543*	3,612,872	–	48,091	–	–	(2,544,174)	1,116,789	–	(927,803)	–	188,986
		07.01.2010 – 06.01.2011	0.172	–	–	2,066,400	58,480,000	(12,560,000)	–	47,986,400	(47,986,400)	–	–	–
		13.05.2010 – 12.05.2011	1.440*	–	–	4,700,925	104,465,000	–	–	109,165,925	(10,916,593)	(98,249,332)	–	–
				7,232,088	–	6,885,876	162,945,000	(12,560,000)	(4,597,575)	159,905,389	(58,902,993)	(100,536,505)	–	465,891
				71,946,800	(54,908,189)	14,796,922	364,572,000	(52,790,000)	–	343,617,533	(104,863,222)	(235,739,956)	(1,243)	3,013,112
Weighted average exercise price				2.15	0.75		0.15	0.17		0.49	0.31		1.44	39.32

The following share options granted under the New Option Scheme were exercised during the year ended 31st December 2011 and 31st December 2010:

Exercise date	Category of Participants	Number of share options exercised	Share price at exercise date
28th April 2011	Employees of the Group	1,243	HK$0.522
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 options which remained outstanding during the year have been adjusted due to completion of the capital reorganisation and 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.

Notes:

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

(ii) No share option was cancelled for the year ended 31st December 2011 (2010: nil).

Share-based payment expenses

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

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

	Options grant on 13/5/2010	Options grant on 7/1/2010
Weighted average share price at measurement date *(HK$)*	0.150	0.176
Weighted average exercise price *(HK$)*	0.150	0.180
Expected volatility (expressed as weighted average volatility)	52.68%	59.58%
Number of years for option life (expressed as weighted average life)	1	1
Expected dividends	–	–
Risk-free interest rate	0.16%	0.16%
Weighted average fair value at measurement date *(HK$)*	0.0205	0.0264

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 ("Bestjump"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Ms Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director and a substantial shareholder of the Company, in respect of the acquisition (the "C7 Acquisition") of the entire equity interest of Modern Vision (Asia) Limited and Reform Base Holdings Limited (collectively referred as the "Target Companies") and outstanding loans in aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate 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 bonds 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 interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial 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 ("Macau Land"). The C7 Acquisition is regarded as a connected transaction pursuant to chapter 14A of the Listing Rules. Details of the C7 Acquisition were set out in the Company's circular dated 17th August 2009. The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had further extended to 31st December 2012. One of the conditions to completion is the publication by the Macau government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau government. In the third quarter of 2010, the Macau government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. Afterwards, the Macau government has not yet issued any update on the master zoning guideline. On 15th February 2012, C7 Acquisition was terminated and the deposit was refunded. Details of the termination are set out in note 52(c).

(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 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 constituted a very substantial acquisition and a connected transaction of the Company under the Listing Rules and was approved by the independent shareholders of the Company in a special general meeting held on 7th June 2011. The Acquisition was completed on 10th June 2011. Details of the Acquisition are set out in the Company's circular dated 20th May 2011.

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

	2011	**2010**
	HK\$'000	*HK\$'000*
Nature of transactions		
Income received from associates:		
Rental and utilities fee	5,141	5,249
Management fee income	1,845	160
Expenses paid to associates:		
Entertainment and staff messing paid	10,071	11,679
Income received from companies with common directors:		
Management fee income *(note)*	–	2,400

Note:

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.

(d) 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:

	2011	**2010**
	HK$'000	*HK$'000*
Salaries and other allowances	14,250	10,086
Retirement benefits scheme contributions	83	64
Share-based payment	–	1,505
	14,333	11,655

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/ registered capital held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered 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 US$1	Investment holding
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of cable right
Charm Faith Holdings Limited *(note e)*	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/ registered capital held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
China Star 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 d)*	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		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		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
China Star Movie Limited (formerly known as China Star Production Services Limited)	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Film production
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights
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 e)*	Incorporated	Macau	Quota capital	50	MOP100,000	Provision of casino management service
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding

Name of subsidiary	Form of business structure	Country/ place of incorporation/ formation	Class of shares/ quota capital/ registered capital held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
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&e)*	Incorporated	Macau	Quota capital	50	MOP500,000	Provision of hotel services in Macau and property investment, and investment holding
Nam Pei Hong Sum Yung Drugs Company Limited	Incorporated	Hong Kong	Ordinary	100	12,000 ordinary shares of HK$100 each	Ginseng & dried seafood trading and retail
Newrich (H.K.) Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Property holding
NPH Holdings Limited	Incorporated	British Virgin Islands	Ordinary	100	50,000 shares of US$1 each	Investment holding
NPH Sino-Meditech Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Investment holding
One Hundred Years of Film Company Limited	Incorporated	Hong Kong	Ordinary	100	3,000,000 ordinary shares of HK$1 each	Film production
Poo Yuk Loong Food (Shenzhen) Company Limited *(note c)*	Incorporated	PRC	Registered	100	RMB 3,000,000	Ginseng & dried seafood trading and retail
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
中山市古鎮南臻參茸海味店 *(note c)*	Incorporated	PRC	Registered	70	RMB 100,000	Ginseng & dried seafood trading

Notes:

(a) Operating internationally.

(b) Operating in Macau.

(c) Operating in PRC.

(d) 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.

(e) One of the common shareholder of Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and Charm Faith Holdings Limited ("Charm Faith") who holding 49% voting power has agreed to follow the voting and management decision of the Company. Therefore, Hotel LKF and Charm Faith 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/registered capital held by the Group %	Issued and fully paid share capital/ registered capital	Principal activities
Avatar Limited*	Incorporated	Macau	Quota capital	40.0	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	100 ordinary shares of HK$1 each	Investment holding

* Operating in Macau.

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

51. PARTICULARS OF JOINTLY CONTROLLED ENTITIES

The following table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results and assets of the Group.

Name of jointly controlled entity	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Issued and fully paid share capital/ registered capital	Principal activities
				%		
China Star Film Group Limited	Incorporated	British Virgin Islands	Ordinary	50	60 ordinary shares of HK$1,000,000 each	Investment holding
China Star Film Production Limited	Incorporated	Hong Kong	Ordinary	50	1 ordinary share of HK$1	Production and distribution of films

52. EVENTS AFTER THE REPORTING PERIOD

(a) On 11th January 2012, Exceptional Gain Profits Limited (Exceptional Gain"), a wholly owned subsidiary of the Company and SJM – Investment Limited ("SJM-I") entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% equity interest of the issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith, a company beneficially owned 1% of the issued quotas of Classic, at a total consideration of HK$13,000,007.80. The agreements were completed on 31st January 2012 and the Company become interested in 51% equity interest in Hotel LKF, Charm Faith and Classic. Details of the transaction are set out in the Company's announcement dated 11th January 2012.

(b) On 15th February 2012, China Star Entertainment (BVI) Limited ("CSBVI") and Mr. Heung entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith, a company beneficially owned 1% of the issued quotas of Classic. The LKF Acquisition constituted 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. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic will become wholly owned subsidiaries of the Company upon completion of the LKF Acquisition. Details of the transaction are set out in the Company's announcement dated 21st February 2012.

(c) On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the C7 Acquisition as disclosed in note 48(a). Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the C7 Acquisition in order to release the Group's internal resource for the LKF Acquisition. Deposits of HK$360,000,000 was refunded to the Group, of which HK$335,000,000 was used as first deposit in LKF Acquisition. Details of the transaction are set out in the Company's announcement dated 21st February 2012.

53. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29th March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

FINANCIAL REVIEW

For the year ended 31st December 2011, the Group's turnover increased by 27% to approximately HK$1,096,762,000 (2010: HK$864,261,000).

Loss from operations and loss for the year amounted to approximately HK$628,717,000 and HK$654,106,000 respectively as compared to profit from operations and profit for the year of HK$41,033,000 and HK$24,827,000 respectively for last year. The incur of a substantial loss was mainly attributable to an impairment loss of HK$700,085,000 (2010: HK$197,973,000) recognised in respect of the intangible assets with regard to the decrease in sharing of profit streams from investments in gaming and entertainment 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 gaming promoters at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. Taking out the effect of this impairment loss recognised, the Group would recorded profit from operations and profit for the year amounted to approximately HK$71,368,000 and HK$45,979,000 respectively.

The loss attributable to owners of the Company increased from HK$8,083,000 to HK$683,234,000 for the year ended 31st December 2011.

DIVIDEND

The board of directors of the Company declared and paid a special dividend of HK3.3 cents per share to the shareholders of the Company whose names appear on the register of members of the Company on 17th November 2011. The directors do not recommend the payment of a final dividend for the year ended 31st December 2011.

BUSINESS REVIEW

The Group has five reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; (4) property development operations; and (5) Chinese health products sales operations.

Of the total turnover amount for the year, HK$949,260,000 or 86% was generated from hotel and gaming service operations, HK$117,436,000 or 11% was generated from gaming promotion operations, HK$1,602,000 or 0% was generated from film distribution operations, HK$nil or 0% was generated from property development operations and HK$28,464,000 or 3% was generated from Chinese health products sales operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau ("Lan Kwai Fong") which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and services provided to the casino situated in Lan Kwai Fong (the "Casino LKF") which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited ("Classic"). Lan Kwai Fong presents a total of approximately 200 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop and a spa.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will shared certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31st December 2011, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 121 slot machines.

The Group had shared revenue and segment profit of approximately HK$949,260,000 (2010: HK$725,130,000) and HK$58,375,000 (2010: HK$64,333,000) from the hotel and gaming service operations, an increase of 31% and a decrease of 9% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room sales of HK$64,955,000 (2010: HK$52,426,000), food and beverage sales of HK$16,769,000 (2010: HK$12,931,000) and services income of HK$307,178,000 (2010: HK$351,015,000), HK$548,390,000 (2010: HK$302,681,000) and HK$11,968,000 (2010: HK$6,077,000) received from VIP table gaming, mass table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment profit of HK$58,375,000 (2010: HK$64,333,000). This year, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK$79,105,000 per month which represented increase of 31% from HK$60,428,000 per month in 2010, mainly reflecting 81% increase in monthly service income from mass table gaming to HK$45,699,000 per month in 2011 from HK$25,223,000 per month in 2010, which was partly offset by 12% decrease in monthly service income from VIP gaming to HK$25,598,000 per month in 2011 from HK$29,251,000 per month in 2010. The significantly improvement in revenue from mass table gaming and slight decrease in segment profit was mainly because Lan Kwai Fong has incurred a one off payment on review of the whole operation and subsequent strategy of the Casino LKF in the beginning of the year 2011 which has bring the improvement in revenue in 2011 and expected to bring subsequent improvement on the future revenue.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK$117,436,000 (2010: HK$137,814,000) and HK$583,961,000 (2010: HK$70,349,000) from the gaming promotion operations respectively.

Although Macau's casino gaming industry earned record revenue in year 2011, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promotor commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue was worsen as new hotels and casinos including Encore at Wynn Macau and Galaxy Macau, which opened in April 2010 and May 2011 respectively. The impact was particularly apparent for Galaxy Macau after its opening in May 2011. The number of gaming tables occupied by Ocho were also shifted to new or other promoters with better performance. The decrease in revenue sharing also decrease the expected cash inflow from this operation. As at 31st December 2011, the directors assessed the recoverable amounts of the profit streams from the gaming promotion operation in Ocho with reference to the valuations performed by an independent firm of professional valuers and thus recognised an impairment loss of HK$700,085,000 (2010: HK$197,973,000) in respect of the intangible assets for the year ended 31st December 2011.

Film Distribution Operations

Film distribution operations included production and distribution of motion pictures and television drama series and provision of other film related services. During the year, the Group did not distributed any new film and new productions are in planning stage.

In year 2011, turnover for film distribution operations amounted to HK$1,602,000 (2010: HK$1,317,000) and its segment loss amounted to HK$16,037,000 (2010: HK$520,000) which was mainly attributable to impairment losses recognised in respect of film rights and films in progress in an aggregate amount of HK$16,547,000 in the year.

Property Development Operations

Property development operations included sales of properties located in Macau after the completion of the Acquisition (as defined below). The Sites will developed into commercial units and residential apartments for sale.

In year 2011, the Group had shared no revenue and segment loss of approximately HK$33,000 from the property development operations since the Group is in the progress of preparing the master development plan of the Sites (as defined below) for submission to Macau Government for approval.

Chinese Health Products Sales Operations

Chinese health products sales operations included sales of chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services after the completion of the acquisition of group headed by NPH Holdings Limited ("NPH") on 28th October 2011. One of the subsidiary of NPH, Nan Pei Hong Sum Yung Drugs Company Limited has engaged in the business of trading and retail of "Sum Yung" and dried seafood products since 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

From 28th October 2011 (completion date of acquisition of NPH) to 31st December 2011, the Group had shared revenue and segment loss of approximately HK$28,464,000 and HK$278,000 from the Chinese health products sales operations respectively.

Geographical Segments

For the geographical segments, as revenue from hotel and gaming service operations and gaming promotion operations are all sourced in Macau, almost 97% turnover of the Group during this year were come from Macau.

Administration Expenses

For the year ended 31st December 2011, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$335,634,000, a 3% decrease from HK$347,548,000 as compared to the last corresponding year. The decrease was mainly attributable to the decrease in casino management fees paid by Classic and partly offset by the increase in the staffs costs and overhead expenses in the hotel and gaming service operations during the year. Such management fees paid decreased because it was charged on a pro rata basis of gross win from VIP table gaming that had decreased by around 12% in the year 2011. Employee benefit expenses increased 7% from HK$102,334,000 to HK$109,123,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2011, the Group had total assets of approximately HK$3,407,540,000 and a net current assets of HK$1,813,049,000, representing a current ratio of 6.9 (2010: 5.7). The Group had cash and bank balances of approximately HK$903,094,000 (2010: HK$625,827,000). As at 31st December 2011, the Group had total borrowings of HK$806,142,000 which comprised a secured bank term loan of HK$450,000,000 ("Term Loan"), unsecured bank loans in aggregate amount of HK$16,674,000, an outstanding convertible bonds with liabilities component of HK$339,187,000 and obligation under lease HK$281,000. The Term Loan was interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 15 equal consecutive quarterly installments of HK$12,500,000 each and a final repayment for the remaining balance. The unsecured bank loans comprised import trade loans ("Import Loans") of HK$8,286,000, unsecured bank loan ("Unsecured Loan") of HK$5,188,000 and unsecured bank loan of HK$3,200,000 granted under the Special Loan Guarantee Scheme of the Government of HKSAR ("Government Loan"). The Import Loans were interest bearing at 2% over 1 month HIBOR, repayable within 1 year and guaranteed by an ex-shareholder of a subsidiary of the Company. The Unsecured Loan was interest bearing at 2.5% over one month HIBOR, repayable by 49 equal consecutive monthly installments of approximately HK$106,000 per month and a final repayment for the remaining balance and guaranteed by an ex-shareholder of a subsidiary of the Company. The Government Loan was interest bearing at 2.5% per annum over 1 month HIBOR, repayable on demand and 80% guaranteed by the Government of HKSAR and 100% guaranteed by an ex-shareholder of a subsidiary of the Company. The outstanding convertible bonds were unsecured, interest bearing at coupon rate of 8% per annum and will mature on 6th July 2016. The convertible bonds carry the right to convert into shares of the Company at an adjusted conversion price of HK$0.36 per share as of 31st December 2011. As at 31st December 2011, the Group had banking facilities amounting to HK$563,000,000 which were utilised to the extent of HK$520,286,000. The Group's gearing was low during the year with total debts of HK$806,142,000 against owners' equity of HK$1,968,592,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 41% (2010: 22%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, Renminbi and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2011, the Group had no contingent liability.

On 11th August 2010, the Company raised net proceeds of approximately HK$141,460,000 by the issue of 1,444,643,184 rights shares, of which approximately HK$100,460,000 were originally intended to be used for reducing the Group's bank borrowings and approximately HK$41,000,000 were intended to be used for financing hotel operation of the Group or general working capital of the Group. The Company announced on 9th February 2011 that it had restructured the outstanding bank borrowings with better terms and longer repayment period with the bank. In view of the Acquisition (as defined below), the Company intended to change the use of proceeds of the rights issue and applied the net proceeds of approximately HK$100,460,000 to satisfy part of the total consideration for the Acquisition. The remaining balance of HK$41,000,000 had been used for financing hotel operation of the Group and general working capital of the Group as intended.

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 used as part of the consideration for the Acquisition (as defined below).

On 21st January 2011, the Company and Eternity Investment Limited ("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 million in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and carry the right to convert into shares at an initial conversion price of HK$0.80 per share (subject to adjustment) after the Capital Reorganisation (as defined below) and will mature on the fifth anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK$649.5 million will be used for financing the Acquisition (as defined below), the development of the Sites (as defined below) and/or the general working capital of the Group. On 7th July 2011, first tranche convertible bonds in the principal amount of HK$350 million were issued to a company procured by Eternity. According to the provisions of the instruments dated 7th July 2011 constituting the convertible bonds, the directors of the Company considered that an adjustment to the conversion price would be required as a result of the completion of the Rights Issue (as defined below) and bonus issue of 2011 Warrants (as defined below) on 29th June 2011. As a result, the conversion price has been adjusted from HK$0.80 per share to HK$0.44 per share with effect from 7th July 2011. The conversion price has further adjusted to HK$0.36 per share on 18th November 2011 as a result of the payment of a special dividend by the Company.

On 9th May 2011, the Company completed a capital reorganisation ("Capital Reorganisation") of the Company comprising (a) 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"); (b) 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 authorised 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 authorised 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 (c) capital increase that the authorised 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.

On 29th June 2011, the Company raised approximately HK$368,385,000 before expenses by way of rights issue (the "Rights Issue") of 1,473,540,870 rights shares at a subscription price of HK$0.25 each on the basis of three rights shares for every one shares held on 7th June 2011 with the issue of bonus warrants (the "2011 Warrants") on the basis of one bonus warrant for every five rights shares taken up under the Rights Issue. The estimated net proceeds were approximately HK$363,530,000, of which approximately HK$360,000,000 were intended to be used to fund the financial needs for developing the Sites (as defined below) and/or the remaining of approximately HK$3,530,000 were intended to be used for general working capital of the Group.

During the year ended 31st December 2011, an option holder exercised her option rights to subscribe for 1,243 shares at exercise price of HK$0.144 per share. The net proceeds from the exercise of option rights amounted to HK$179.

MATERIAL ACQUISITIONS

On 7th January 2011, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company and KH Investment Holdings Limited ("KH Investment") formed a joint venture company, China Star Film Group Limited (the "JV Company") for an investment cost of HK$30,000,000 each. CSBVI and KH Investment beneficially interested in 50% each of the JV Company. The JV Company is principally engaged in production and distribution of films.

On 23rd December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company (the "Purchaser"), the Company, Sociedade de Turismo e Diversoes de Macau, S.A. (the "Vendor") and Mr. Heung Wah Keung ("Mr. Heung"), 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 titles of the Sites) at a consideration of HK$550 million (the "Acquisition"). The Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and was approved by the independent shareholders of the Company in a special general meeting held on 7th June 2011. The Acquisition was completed on 10th June 2011. The Sites will be developed into commercial and office units and residential apartments for sale.

On 19th October 2011, CSBVI and Well Gain (Asia) Limited ("Well Gain") entered into a sale and purchase agreement pursuant to which CSBVI has conditionally agreed to acquire and Well Gain has conditionally agreed to sell 50,000 shares of US$1.00 each in the entire share capital of NPH at a total consideration of HK$50,000,000. NPH and its subsidiaries, collectively Poo Yuk Loong Limited, NPH Sino-Meditech Limited, Nam Pei Hong Sum Yung Drugs Company Limited, Poo Yuk Loong Food (Shenzhen) Company Limited, Most Trade Enterprises Limited and 中山市古鎮南臻參茸海味店, are principally engaged in the business of sales of ginseng, dried seafood and pharmaceutical products. The acquisition was completed on 28th October 2011 and the Group started to consolidate the results of the group headed by NPH.

TERMINATION OF THE PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL OF MODERN VISION (ASIA) LIMITED AND REFORM BASE HOLDINGS LIMITED AND THE SALE LOANS

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement (the "2009 Sale and Purchase Agreement") pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had further extended to 31st December 2012.

One of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. Afterwards, the Macau Government has not yet issued any update on the master zoning guideline. On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the 2009 Sale and Purchase Agreement. Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition (as defined below) was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the 2009 Sale and Purchase Agreement in order to release the Group's internal resource for the LKF Acquisition. Deposits of HK$360,000,000 was refund to the Group, of which HK$335,000,000 was used as first deposit in LKF Acquisition.

EVENTS AFTER THE REPORTING PERIOD

On 11th January 2012, Exceptional Gain Profits Limited ("Exceptional Gain"), a wholly owned subsidiary of the Company and SJM – Investment Limited ("SJM-I") entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% equity interest of the issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith Holdings Limited ("Charm Faith"), a company beneficially owned 1% of the issued quotas of Classic, at a total consideration of HK$13,000,007.80. The agreements were completed on 31st January 2012 and the consideration was financed from internal resources of the Group. After completion, the Company become interested in 51% equity interest in Hotel LKF, Charm Faith and Classic.

On 15th February 2012, CSBVI and Mr. Heung entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase 100% of the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith. The LKF Acquisition constituted 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. The consideration will be financed by the internal resources of the Group, including partial deposit refunded from Ms. Chen in the termination of the 2009 Sale and Purchase Agreement. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic will become wholly owned subsidiaries of the Company upon completion of the LKF Acquisition.

EMPLOYEES

As at 31st December 2011, the Group employed 726 staffs (2010: 556 staffs) with employees benefit expenses of HK$109,123,000 (2010: HK$102,334,000). 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, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

According to the Macau Government Statistics and Census Service, visitation to Macau increased by over 12% to establish a new record of around 28 million in 2011. With the continuous growth of visitation to Macau, the Group is optimistic about the prospect and future development of Macau and thus continues to pursue its strategy of growing its business in Macau.

The performance of the hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the future. In these few years, it has successfully positioned to be an boutique hotel with excellent services and guest satisfaction. Given the moderate size of Lan Kwai Fong, we can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP gaming operations and thus Casino LKF has spend resources to expand its market share in the mass table gaming operations and was proved to be successful in the year 2011 and we would continue this strategy in the near future. The LKF Acquisition enhances the Group to solidify its profitability and capture the full potential growth in the hotel and gaming service operations.

The development of the Sites not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it in to commercial units and residential apartment for sale. Given the superb location of the Sites which is adjacent to Lan Kwai Fong, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Whalf and Sands Casino and the recognized and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development project will be another success project of the Group.

In the next few years, the Group will focus on development of the Sites and expect the outlook of the Macau's property market to be positive.

The following is the full text of the unaudited condensed consolidated results of the Group for the six months ended 30 June 2012 as extracted from the interim report of the Company for the six months ended 30 June 2012:

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors of China Star Entertainment Limited (the "Company") presents the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2012 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30th June 2012

		Six months ended 30th June	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**593,521**	470,930
Cost of sales		**(286,404)**	(165,862)
Gross profit		**307,117**	305,068
Other revenue	*5*	**12,700**	8,810
Other income	*6*	**173**	183
Administrative expenses		**(217,035)**	(217,527)
Marketing, selling and distribution expenses		**(22,823)**	(6,541)
Loss arising on change in fair value of financial assets classified as held for trading		**(8,188)**	(17,757)
Impairment loss recognised in respect of intangible assets	*13*	**(7,300)**	(73,830)
Profit/(loss) from operations		**64,644**	(1,594)
Finance costs	*7*	**(22,817)**	(8,542)
Share of results of associates		**–**	431
Share of results of jointly controlled entities		**(2)**	28
Profit/(loss) before tax	*8*	**41,825**	(9,677)
Taxation credit	*9*	**256**	7,239
Profit/(loss) for the period		**42,081**	(2,438)
Attributable to:			
Owners of the Company		**2,691**	(27,992)
Non-controlling interests		**39,390**	25,554
		42,081	(2,438)
Earnings/(loss) per share			
Basic	*10*	**HK cents0.14**	HK cents(6.34)
Diluted	*10*	**HK cents0.12**	HK cents(6.34)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2012

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	**42,081**	(2,438)
Other comprehensive income		
Exchange differences on translation of foreign operations		
Exchange differences arising during the period	**(29)**	168
Reclassification adjustments upon disposal	**–**	24
Other comprehensive (loss)/income for the period	**(29)**	192
Total comprehensive income/(loss) for the period	**42,052**	(2,246)
Total comprehensive income/(loss) attributable to:		
Owners of the Company	**2,664**	(27,800)
Non-controlling interests	**39,388**	25,554
	42,052	(2,246)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30th June 2012

	Notes	At 30th June 2012 HK$'000 (Unaudited)	At 31st December 2011 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	**587,822**	637,702
Interests in leasehold land		**495,926**	507,359
Goodwill		**3,030**	3,030
Intangible assets	13	**92,816**	100,729
Interests in jointly controlled entities		**28,654**	28,656
Interests in associates		**2,377**	7,977
		1,210,625	1,285,453
Current assets			
Inventories		**34,663**	38,639
Stock of properties		**557,760**	550,312
Film rights		**19,761**	19,761
Films in progress		**3,150**	3,150
Trade receivables	14	**94,555**	143,008
Deposits, prepayments and other receivables	15	**675,686**	396,386
Held for trading investments		**42,609**	50,797
Amounts due from associates		**19,072**	16,854
Prepaid tax		**168**	86
Cash and bank balances		**672,464**	903,094
		2,119,888	2,122,087
Total assets		**3,330,513**	3,407,540
Capital and reserves			
Share capital	16	**20,325**	19,647
Reserves		**1,958,384**	1,948,945
Equity attributable to owners of the Company		**1,978,709**	1,968,592
Non-controlling interests		**339,139**	306,317
Total equity		**2,317,848**	2,274,909

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30th June 2012

	Notes	At 30th June 2012 HK$'000 (Unaudited)	At 31st December 2011 HK$'000 (Audited)
Non-current liabilities			
Bank borrowings	17	**375,000**	400,000
Obligation under finance lease		**97**	153
Convertible bonds	18	**340,183**	339,187
Deferred tax liabilities		**83,988**	84,253
		799,268	823,593
Current liabilities			
Bank borrowings	17	**69,573**	66,674
Obligation under finance lease		**111**	128
Trade payables	19	**67,266**	139,080
Deposits received, accruals and other payables		**57,942**	68,244
Tax payables		**4**	4
Amount due to an associate		**18,303**	34,906
Amounts due to non-controlling interests		**198**	2
		213,397	309,038
Total liabilities		**1,012,665**	1,132,631
Total equity and liabilities		**3,330,513**	3,407,540
Net current assets		**1,906,491**	1,813,049
Total assets less current liabilities		**3,117,116**	3,098,502

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2012

	Attributable to owners of the Company											
	Share capital *HK$'000* (Unaudited)	Share premium *HK$'000* (Unaudited)	Contributed surplus *HK$'000* (Unaudited)	Exchange reserve *HK$'000* (Unaudited)	Statutory reserve *HK$'000* (Unaudited)	Share-based payment reserve *HK$'000* (Unaudited)	Convertible bonds reserve *HK$'000* (Unaudited)	Capital reduction reserve *HK$'000* (Unaudited)	Retained earnings/ (Accumulated losses) *HK$'000* (Unaudited)	Sub-total *HK$'000* (Unaudited)	Non-controlling interests *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
At 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	–	316,008	216,840	2,302,775	277,181	2,579,956
(Loss)/profit for the period	–	–	–	–	–	–	–	–	(27,992)	(27,992)	25,554	(2,438)
Other comprehensive income for the period	–	–	–	192	–	–	–	–	–	192	–	192
Total comprehensive (loss)/income for the period	–	–	–	192	–	–	–	–	(27,992)	(27,800)	25,554	(2,246)
Placement of shares	5,778	34,672	–	–	–	–	–	–	–	40,450	–	40,450
Capital reduction	(44,206)	–	44,206	–	–	–	–	–	–	–	–	–
Exercise of share options	–	1	–	–	–	–	–	–	–	1	–	1
Expiry of share options	–	–	–	–	–	(6,845)	–	–	6,845	–	–	–
Issue of shares under rights issue	14,735	353,650	–	–	–	–	–	–	–	368,385	–	368,385
Share issuing expenses	–	(4,792)	–	–	–	–	–	–	–	(4,792)	–	(4,792)
Exercise of listed warrants	–	2	–	–	–	–	–	–	–	2	–	2
Transfer to statutory reserve	–	–	–	–	28	–	–	–	(28)	–	–	–
At 30th June 2011	19,647	992,954	1,100,247	1,080	287	53,133	–	316,008	195,665	2,679,021	302,735	2,981,756
At 1st January 2012	19,647	992,954	1,100,247	926	287	53,134	9,803	316,008	(524,414)	1,968,592	306,317	2,274,909
Profit for the period	–	–	–	–	–	–	–	–	2,691	2,691	39,390	42,081
Other comprehensive (loss) for the period	–	–	–	(27)	–	–	–	–	–	(27)	(2)	(29)
Total comprehensive (loss)/income for the period	–	–	–	(27)	–	–	–	–	2,691	2,664	39,388	42,052
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(6,434)	(6,434)	(6,566)	(13,000)
Share issuing expenses	–	(193)	–	–	–	–	–	–	–	(193)	–	(193)
Exercise of listed warrants	678	13,402	–	–	–	–	–	–	–	14,080	–	14,080
Transfer to statutory reserve	–	–	–	–	4	–	–	–	(4)	–	–	–
At 30th June 2012	**20,325**	**1,006,163**	**1,100,247**	**899**	**291**	**53,134**	**9,803**	**316,008**	**(528,161)**	**1,978,709**	**339,139**	**2,317,848**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30th June 2012

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	**12,893**	(361,140)
Net cash used in investing activities	**(227,504)**	(40,729)
Net cash (used in)/generated from financing activities	**(15,990)**	370,526
Decrease in cash and cash equivalents	**(230,601)**	(31,343)
Cash and cash equivalents at beginning of the period	**903,094**	625,827
Effect of foreign exchange rate changes	**(29)**	168
Cash and cash equivalents at the end of the period	**672,464**	594,652
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**672,464**	594,652

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2012

1. BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2011.

The Interim Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, which are measured at fair values, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2011, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations described below.

In the current interim period, 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 HKICPA, which are effective for the Group's accounting period beginning on 1st January 2012.

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets

The application of the new and revised HKFRSs in the current periods has no material effect on the Group's financial performance and positions for the current or prior accounting period.

3. SEGMENT INFORMATION

The Group has identified the following operating segments:

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 and provision of related gaming promotion business
Property development operations	–	Investing and development of properties located in Macau
Chinese health products sales operations	–	Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services

Segment information about these businesses is presented bellowed:

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

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Hotel and gaming service operations	**521,662**	420,590	**80,156**	50,671
Gaming promotion operations	**8,648**	48,909	**1,719**	(25,572)
Film distribution operations	**33**	1,431	**(203)**	244
Property development operations	**–**	–	**(33)**	–
Chinese health products sales operations	**63,178**	–	**(524)**	–
	593,521	470,930	**81,115**	25,343
Reconciliation from segment results to profit/(loss) before tax				
Unallocated corporate income			**2,162**	2,539
Loss arising on change in fair value of financial assets classified as held for trading			**(8,188)**	(17,757)
Unallocated corporate expenses			**(33,264)**	(19,802)
Profit/(loss) before tax			**41,825**	(9,677)

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

Segment results represent the profit/(loss) earned/(suffered) by each segment without allocation of central administration costs under the heading of unallocated corporate expenses, change in fair value of financial assets classified as held for trading, income tax expenses and partial other revenue and other income under the heading of unallocated corporate income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) Geographical information

The Group's revenue from external customers is mainly derived from its operations in Macau.

4. TURNOVER

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Film distribution fee income	**33**	1,431
Hotel room income	**42,936**	29,737
Food and beverage sales	**12,176**	7,943
Services income from mass table gaming operations	**359,950**	220,701
Services income from VIP table gaming operations	**98,386**	156,093
Services income from slot machine operations	**8,214**	6,116
Receive profit streams from gaming promotion business	**8,648**	48,909
Sales of Chinese health products	**63,178**	–
	593,521	470,930

5. OTHER REVENUE

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**4,450**	2,660
Management fee income	**1,165**	192
Other ancillary hotel revenue	**7,085**	5,951
Others	**–**	7
	12,700	8,810

6. OTHER INCOME

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net foreign exchange gain	**153**	183
Others	**20**	–
	173	183

7. FINANCE COSTS

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings-wholly repayable within five years	**7,914**	8,527
Finance lease	**16**	15
Imputed interests on convertible bonds	**14,881**	–
Other finance cost	**6**	–
	22,817	8,542

8. PROFIT/(LOSS) BEFORE TAX

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) before tax has been arrived at after charging:		
Amortisation of film rights (included in cost of sales)	**–**	1,161
Amortisation of interests in leasehold land	**11,433**	7,003
Amortisation of intangible assets	**613**	–
Cost of inventories (included in cost of sales)	**44,788**	3,626
Depreciation of property, plant and equipment	**52,245**	46,193
Employee benefit expenses	**65,407**	47,654
Impairment loss recognised in respect of intangible assets	**7,300**	73,830
Loss on disposal of property, plant and equipment	**189**	90
Loss on disposal of financial assets classified as held for trading	**–**	2,490
Loss arising on change in fair value of financial assets classified as held for trading	**8,188**	15,267
Operating lease rental in respect of rental premises	**7,103**	715

9. TAXATION CREDIT

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The taxation credit is as follow:		
Current tax:		
PRC Enterprise Income Tax	**(9)**	–
	(9)	–
Over provision in prior periods:		
Other jurisdictions	**–**	64
	–	64
Deferred tax:		
Current period	**265**	7,175
	256	7,239

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Macau subsidiaries are subject to Macau Complementary Tax at 12% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made for both periods 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 period was set off against the tax losses brought forward from previous years or was exempt for tax liability.

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	**2,691**	(27,992)

	Six months ended 30th June	
	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**1,971,074**	441,498
Effect of dilutive potential ordinary shares: Warrants	**288,240**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**2,259,314**	441,498

The weighted average number of ordinary shares for the six months ended 30th June 2012 for the purpose of diluted earnings per share has been adjusted for the outstanding warrants of the Company during the period.

As the Company's outstanding convertible bonds, warrants (if applicable) and share options where applicable had an anti-dilutive effect to the basic earnings/(loss) per share calculation for the current and prior periods, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted earnings/(loss) per share.

11. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2012 and 2011.

12. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired items of property, plant and equipment with a cost of approximately HK$2,769,000 (2011: HK$8,666,000).

13. INTANGIBLE ASSETS

	Rights in sharing of profit streams	**Trademarks**	**Customers relationship**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st January 2011	989,205	–	–	989,205
Additional amounts recognised from business combinations occurred during the year	–	7,345	2,454	9,799
At 31st December 2011, 1st January 2012 and 30th June 2012	989,205	7,345	2,454	999,004
Accumulated amortisation and impairment				
At 1st January 2011	197,973	–	–	197,973
Amortised for the year	–	130	87	217
Impairment loss recognised	700,085	–	–	700,085
At 31st December 2011 and 1st January 2012	898,058	130	87	898,275
Amortised for the period	–	367	246	613
Impairment loss recognised	7,300	–	–	7,300
At 30th June 2012	905,358	497	333	906,188
Carrying amount				
At 30th June 2012 (Unaudited)	**83,847**	**6,848**	**2,121**	**92,816**
At 31st December 2011 (Audited)	91,147	7,215	2,367	100,729

Other than the rights in sharing of profit streams, which has indefinite useful lives, the intangible assets are amortised on a straight-line basis over the following periods:

Trademarks	10 years
Customers relationship	5 years

The above trademarks and customers relationship are acquired as part of a business combination during the year ended 31st December 2011.

The intangible assets associated with the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated 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 of 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.

At 30th June 2012, the directors of the Company assessed the recoverable amount of intangible assets with regard to the rights in sharing of profit streams from the gaming promotion business with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that intangible assets associated with rights in share of profit streams from the gaming promotion business was impaired by approximately HK$7,300,000 (31st December 2011: HK$700,085,000).

14. TRADE RECEIVABLES

The following is an aging analysis of trade receivables, presented based on the invoice date and net of allowance for doubtful debts:

	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**90,995**	138,166
31 to 60 days	**920**	912
61 to 90 days	**727**	1,580
91 to 180 days	**109**	175
Over 180 days	**1,804**	2,175
	94,555	143,008

The average credit period granted to customers ranges from 30 to 90 days.

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Deposits for investment	**618,000**	360,000
Other deposits	**35,219**	16,949
Prepayments	**10,269**	8,880
Other receivables	**12,198**	10,557
	675,686	396,386

Deposits for investment of HK$618,000,000 represented the cash deposit paid by China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company, pursuant to the sale and purchase agreement entered with Mr. Heung Wah Keung, an executive director and a substantial shareholder of the Company, in respect of the acquisition of the entire equity interest of Most Famous Enterprises Limited. Details of the transaction are set out in note 22(a).

16. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2012	At 31st December 2011	**At 30th June 2012**	At 31st December 2011
	'000	*'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of the period/year	**50,000,000**	50,000,000	**500,000**	500,000
Share consolidation	**–**	(45,000,000)	**–**	–
Capital reduction	**–**	–	**–**	(450,000)
Capital increase	**–**	45,000,000	**–**	450,000
At end of the period/year	**50,000,000**	50,000,000	**500,000**	500,000
Issued and fully paid:				
At beginning of the period/year	**1,964,721**	4,333,933	**19,647**	43,340
Placement of shares	**–**	577,855	**–**	5,778
Share consolidation	**–**	(4,420,610)	**–**	–
Capital reduction	**–**	–	**–**	(44,206)
Issue of shares under rights issue	**–**	1,473,541	**–**	14,735
Exercise of share options	**–**	1	**–**	–
Exercise of listed warrants	**67,770**	1	**678**	–
At end of the period/year	**2,032,491**	1,964,721	**20,325**	19,647

Warrants

During the period, 67,770,327 new shares were issued on the conversion of the warrants of the Company, of which 82,266 shares and 67,688,061 shares were converted at the subscription price of HK$0.835 per share and HK$0.207 per share respectively. As at 14th June 2012, the warrants of the Company issued on 15th June 2010 (warrant code: 972) which carried rights to subscribe in cash for new shares of HK$0.01 each in the capital of the Company at an adjusted subscription price of HK$0.835 per share was expired.

As at 30th June 2012, the Company had outstanding warrants of approximately HK$59,666,000. The exercise in full would result in the issue of approximately 288,240,000 shares of the Company at the adjusted subscription price of HK$0.207 per share (subject to further adjustment).

17. BANK BORROWINGS

	At 30th June 2012 HK$'000 (Unaudited)	At 31st December 2011 HK$'000 (Audited)
Bank loans:		
– Secured	**425,000**	450,000
– Unsecured	**19,573**	16,674
	44,573	466,674
The maturity of the above bank borrowings is as follow:		
Within one year	**62,402**	58,286
Between one and two years	**50,000**	50,000
Between two to five years	**325,000**	350,000
	437,402	458,286
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**7,171**	8,388
	444,573	466,674
Less: Amount shown under current liabilities	**(69,573)**	(66,674)
Amount shown under non-current liabilities	**375,000**	400,000

At 30th June 2012, the Group had a secured bank term loan with remaining balance of HK$425,000,000. The secured bank term loan is secured by the Group's leasehold land and buildings with carrying amount of approximately HK$430,336,000 (31st December 2011: HK$440,832,000) and HK$257,622,000 (31st December 2011: HK$263,147,000) respectively. The secured bank term loan is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable by 13 remaining 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.

At 30th June 2012, the Group had unsecured bank loan of HK$2,600,000 that granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region ("HKSAR"). The unsecured bank loan is 80% guaranteed by the government of HKSAR and 100% personally guaranteed by an ex-shareholder of NPH Holdings Limited ("NPH"), respectively. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 26 equal consecutive monthly installments of HK$100,000 each and contains a clause of repayable on demand and thus classified as current liabilities.

At 30th June 2012, the Group had unsecured import trade loans of approximately HK$12,402,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH, interest bearing at 2% per annum over 1 month HIBOR and repayable on demand.

At 30th June 2012, the Group had unsecured bank loan of approximately HK$4,571,000. The unsecured bank loan is personally guaranteed by an ex-shareholder of NPH. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 43 consecutive monthly installments of approximately HK$104,000 each and a final payment of approximately HK$99,000 at the maturity date of the loan and contains a clause of repayable on demand and thus classified as current liabilities.

All interest-bearing borrowings are denominated in Hong Kong dollar.

18. CONVERTIBLE BONDS

On 7th July 2011, the Company issued unsecured convertible bonds in the principal amount of HK$350,000,000 to Eternity Finance Group Limited (formerly known as Wingo Consultants Limited), a wholly owned subsidiary of Eternity Investment Limited. The bonds are interest bearing at 8% per annum. The holder of the bonds may convert the bonds into ordinary shares of the Company at any time before the maturity date on 6th July 2016 at an adjusted conversion price of HK$0.36 per share (subject to further adjustment) as at 30th June 2012. Details of the transaction are set out in the Company's circular dated 1st April 2011. If the bonds have not been converted, they will be redeemed on 6th July 2016 at principal amount.

The bonds contain two components, liability and equity elements. The equity element is presented in equity heading "convertible bonds reserve". The effective interest rate of the liability component on initial recognition is 8.837%.

	Liability component	
	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At the beginning of the period/year	**339,187**	–
At the date of issue	**–**	338,260
Interest charged and calculated at an effective interest rate at 8.837%	**14,881**	14,582
Interest paid and payable	**(13,885)**	(13,655)
At the end of the period/year	**340,183**	339,187

19. TRADE PAYABLES

The aging analysis of the trade payables is as follow:

	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**56,157**	128,025
31 to 60 days	**5,419**	3,855
61 to 90 days	**1,010**	1,765
91 to 180 days	**685**	1,188
Over 180 days	**3,995**	4,247
	67,266	139,080

20. LEASE COMMITMENTS

At 30th June 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and staff quarters which fall due as follows:

	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**14,878**	9,494
In the second to fifth year inclusive	**20,513**	5,803
	35,391	15,297

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

21. CAPITAL COMMITMENTS

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

	At 30th June 2012	At 31st December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Authorised and contracted, but not provided for:		
Acquisition of subsidiaries	**–**	540,000
Development expenditure of properties in Macau	**28,760**	–
	28,760	540,000

22. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Interim Financial Statements, the Group entered into the following transactions with related parties:

(a) On 15th February 2012, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company and Mr. Heung Wah Keung ("Mr. Heung") a substantial shareholder and director of the Company entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and 49% equity interests in Charm Faith Holdings Limited ("Charm Faith"), a company beneficially owned 1% of the issued quotas of Classic Management & Services Company Limited ("Classic"). Up to the reporting date, deposits of HK$618,000,000 had been paid and recognised as deposits, prepayment and other receivables in the Interim Financial Statements of the Group at 30th June 2012. Details of the Acquisition were set out in the Company's circular dated 27th June 2012.

(b) During the period, the Group entered into the following transactions with its related companies:

	Six months ended 30th June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Income received from associates:		
Rental income and utilities fee reimbursement	**4,165**	9,246
Management fee income	**408**	192
Expenses paid to associates:		
Entertainment and staff messing paid	**3,543**	4,764

23. EVENTS AFTER THE REPORTING PERIOD

(a) The Acquisition was completed on 17th July 2012 and the Company become interested in 100% equity interests in Hotel LKF, Charm Faith, Classic and Most Famous.

(b) On 4th June 2012, the Company announced that a conditional cash offer (the "Offer") will be made by Get Nice Securities Limited on behalf of the Company to repurchase up to 982,830,877 Shares for cancellation at a price of HK$0.35 per share (the "Announcement"). The Offer will be available for acceptance in respect of shares held by the shareholders of the Company. As at the date of the Announcement, except for those undertaking parties (the "Undertaking Parties") that agreed not to accept the Offer, the consideration for the Offer would be approximately HK$276.52 million (assuming none of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer) and HK$343.99 million (assuming all of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer, except for those held by the Undertaking Parties that have agreed not to exercise or converted their share options, warrants and convertible bonds before the closing of the Offer). As at the date of this report, a copy of the circular, amongst other things, details of the Offer and notice of a special general meeting of the Company is expected to be despatched to the shareholders and holders of the warrants of the Company on or before 6th September 2012. Details of the Offer are set out in the Announcement.

24. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 23rd August 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30th June 2012, the Group's turnover increased by 26% to approximately HK$593,521,000 as compared to HK$470,930,000 for the same period in the previous year.

Profit from operations and profit for the period amounted to approximately HK$64,644,000 and HK$42,081,000 respectively as compared to loss from operations and loss for the period of HK$1,594,000 and HK$2,438,000 respectively for the last corresponding period. The turnaround of the current period's profit was mainly attributable to the decrease in impairment loss of HK$7,300,000 as compared to the last corresponding period of HK$73,830,000 recognised in respect of the intangible assets with regard to the sharing of profit streams from investments in gaming and entertainment 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 junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau.

Profit attributable to owners of the Company for the six months ended 30th June 2012 was HK$2,691,000, representing an increase of 110% from loss of HK$27,992,000 for the last corresponding period.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2012.

Business Review

The Group has five reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; (4) property development operations; and (5) Chinese health products sales operations.

Of the total turnover amount, HK$521,662,000 or 88% was generated from hotel and gaming service operations, HK$8,648,000 or 1% was generated from gaming promotion operations, HK$33,000 or 0% was generated from film distribution operations, HK$nil or 0% was generated from property development operations and HK$63,178,000 or 11% was generated from Chinese health products sales operations.

Hotel and Gaming Service Operatons

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau ("Lan Kwai Fong") which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and services provided to the casino situated in Lan Kwai Fong (the "Casino LKF") which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited ("Classic"). Lan Kwai Fong presents a total of appropriately 200 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop, spa and medical clinic.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will shared certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 30th June 2012, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 126 slot machines.

The Group had shared revenue and segment profit of approximately HK$521,662,000 (2011: HK$420,590,000) and HK$80,156,000 (2011: HK$50,671,000) from the hotel and gaming service operations, an increase of 24% and 58% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK$42,936,000 (2011: HK$29,737,000), food and beverage sales of HK$12,176,000 (2011: HK$7,943,000) and service income received from mass table gaming, VIP table gaming and slot machines of HK$359,950,000 (2011: HK$220,701,000), HK$98,386,000 (2011: HK$156,093,000) and HK$8,214,000 (2011: HK$6,116,000) respectively. Hotel and gaming service operations recorded an aggregate segment profit of approximately HK$80,156,000 (2011: HK$50,671,000). This period, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations increased to approximately HK$86,944,000 per month from HK$70,098,000 per month in the first half of 2011, mainly reflecting 63% increase in monthly service income from mass table gaming to HK$59,992,000 per month from HK$36,784,000 per month in first half of 2011, which was partly offset by 37% decrease in monthly service income from VIP table gaming to HK$16,398,000 per month from HK$26,016,000 per month in the first half of 2011.

Gaming Promotion Operations

The Group had shared revenue of approximately HK$8,648,000 (2011: HK$48,909,000) and segment profit of HK$1,719,000 as compared to segment loss of HK$25,572,000 from the gaming promotion operations, a decrease of 82% and an increase of 107% respectively.

Since the end of the last year, the growth in revenue from casino VIP room slowed down and even declined in July 2012. Besides, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also impact and decreased the expected cash inflow from this operation and thus impairment loss in respect of the intangible assets of HK$7,300,000 (2011: HK$73,830,000) was recognised. After the substantial impairment recognised in the year ended 31st December 2011, the decrease in gaming revenue during this period is comparately stable and thus the impairment loss recognised in respect of intangible assets was substantially decreased.

Film Distribution Operations

Film distribution operations included production and distribution of motion pictures and television drama series and provision of other film related services. During the six months ended 30th June 2012, the Group did not distributed any new film and new productions are in planning stage.

In the first half of the year 2012, turnover for film distribution operations amounted to HK$33,000 (2011: HK$1,431,000) and its segment loss amounted to HK$203,000 as compared to segment profit of HK$244,000 for the last corresponding period.

Property Development Operations

Property development operations included sales of properties located in Macau after the completion of the acquisition of the property leasehold right over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites"). The Sites will developed into commercial units and residential apartments for sale.

Until the first half of the year 2012, the Group had recorded no revenue and shared segment loss of approximately HK$33,000 from the property development operations since the development plan of the Sites is in the process of seeking approval from the appropriate authority.

Chinese Health Products Sales Operations

Chinese health products sales operations included sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services after the completion of the acquisition of the group headed by NPH Holdings Limited ("NPH") on 28th October 2011. One of the subsidiary of NPH, Nan Pei Hong Sum Yung Drugs Company Limited has engaged in the business of trading and retail of "Sum Yung" and dried seafood products since 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

The Group had shared revenue and segment loss of approximately HK$63,178,000 and HK$524,000 from the Chinese health products sales operations respectively.

Geographical segments

For the geographical segments, turnover of the Group during this period were mainly come from Macau as revenue from hotel and gaming service operations, gaming promotion operations and property development operations are all sourced in Macau.

Administration Expenses

For the six months ended 30th June 2012, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$153,357,000, a 7% decrease from HK$164,331,000 as compared to the last corresponding period. The decrease was mainly attributable to the decrease in casino management fees paid by Lan Kwai Fong, which were partly offset by the increase in the staffs costs and overhead expenses in the hotel and gaming service operations during the period. Such management fees decreased because it was based on a fixed percentage of service income from VIP table gaming that had decreased in the first half of the year from the last corresponding period. Employee benefit expenses increased 37% to HK$65,407,000 from HK$47,654,000 in the first half of 2011.

Liquidity and Financial Resources

As at 30th June 2012, the Group had total assets of approximately HK$3,330,513,000 and a net current assets of HK$1,906,491,000, representing a current ratio of 9.9 (31st December 2011: 6.9). The Group had cash and cash balances of approximately HK$672,464,000 (31st December 2011: HK$903,094,000). As at 30th June 2012, the Group had total borrowings of HK$784,964,000 which comprised a secured bank term loan with remaining balance of HK$425,000,000 (the "Term Loan"), unsecured bank loans in aggregate amount of HK$19,573,000, an outstanding convertible bonds with liabilities component of HK$340,183,000 and obligation under finance lease of HK$208,000. The Term Loan was interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 13 equal consecutive quarterly installments of HK$12,500,000 each and a final repayment for the remaining balance. The unsecured bank loans comprised import trade loans (the "Import Loans") of HK$12,402,000, unsecured bank loan (the "Unsecured Loan") of HK$4,571,000 and unsecured bank loan of HK$2,600,000 granted under the Special Loan Guarantee Scheme of the Government of HKSAR (the "Government Loan"). The Import Loans were interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company. The Unsecured Loan was interest bearing at 2.5% per annum over one month HIBOR, repayable by 43 equal consecutive monthly installments of approximately HK$104,000 per month and a final repayment for the remaining balance and guaranteed by an ex-shareholder of a subsidiary of the Company. The Government Loan was interest bearing at 2.5% per annum over one month HIBOR, repayable by 26 equal consecutive monthly installments of HK$100,000 each and 80% guaranteed by the Government of HKSAR and 100% guaranteed by an ex-shareholder of a subsidiary of the Company. The outstanding convertible bonds were unsecured, interest bearing at coupon rate of 8% per annum and will mature on 6th July 2016. The convertible bonds carry the right to convert into shares of the Company at an adjusted conversion price of HK$0.36 per share as of 30th June 2012. As at 30th June 2012, the Group had banking facilities amounting to HK$558,000,000 which were utilised to the extent of HK$524,402,000. The Group's gearing was low during the year with total debts of HK$784,964,000 against owners' equity of HK$1,978,709,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 40% (31st December 2011: 41%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, Renminbi and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2012, the Group had no contingent liability.

On 21st January 2011, the Company and Eternity Investment Limited ("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 million in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and carried the right to convert into shares of the Company at an initial conversion price of HK$0.80 (subject to adjustment) and will mature on the fifth anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK$649.5 million will be used for financing the acquisition of the property leasehold right of the Sites, the development of the Sites and/or the general working capital of the Group. On 7th July 2011, first tranche convertible bonds in the principal amount of HK$350 million were issued to a company procured by Eternity. As at 30th June 2012, the adjusted conversion price of the convertible bonds is HK$0.36 per share. As at 29th June 2012, the Company and Eternity entered into a supplemental agreement pursuant to which both parties agreed to extend the completion date of the second tranche subscription in the principal amount of HK$300 million from 30th June 2012 to 31st December 2013.

On 4th June 2012, the Company announced that a conditional cash offer (the "Offer") will be made by Get Nice Securities Limited on behalf of the Company to repurchase up to 982,830,877 shares for cancellation at a price of HK$0.35 per share. The Offer will be available for acceptance in respect of shares held by shareholders of the Company. As at the date of announcement of the Company, except for those undertaking parties (the "Undertaking Parties") that agreed not to accept the Offer and not to exercise or converted their share options, warrants and convertible bonds before the closing of the Offer, the consideration for the Offer would be approximately HK$276.52 million (assuming none of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer) and HK$343.99 million (assuming all of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer, except for those Undertaking Parties). As at the date of this report, a copy of the circular, amongst other things, details of the Offer and notice of a special general meeting of the Company is expected to be despatched to the shareholders and holders of warrants of the Company on or before 6 September 2012. Details of the Offer are set out in the announcement of the Company dated 4th June 2012.

During the period, 67,770,327 new shares were issued on the conversion of the warrants of the Company, of which 82,266 shares and 67,688,061 shares were converted at the adjusted subscription prices of HK$0.835 per share and HK$0.207 per share respectively. The net proceeds from the conversion of the warrants of the Company amounted to approximately HK$14,080,000 were intended to be used as general working capital of the Group.

Material Acquisitions

On 11th January 2012, Exceptional Gain Profits Limited ("Exceptional Gain"), a wholly owned subsidiary of the Company and SJM – Investment Limited ("SJM-I") entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith Holdings Limited ("Charm Faith"), a company beneficially owned 1% issued quotas of Classic, at a total consideration of HK$13,000,007.80. The agreements were completed on 31st January 2012 and the Company become interested in 51% equity interest in Hotel LKF, Charm Faith and Classic.

On 15th February 2012, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company and Mr. Heung Wah Keung ("Mr. Heung") entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the 100% of the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith. The LKF Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Listing Rules and was approved by the independent shareholders of the Company in a special general meeting held on 16th July 2012. The LKF Acquisition was subsequently completed on 17th July 2012. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic become wholly owned subsidiaries of the Company upon completion of the LKF Acquisition.

Termination of the Proposed Acquisition of the Entire Share Capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and the Sale Loan

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement (the "2009 Sale and Purchase Agreement") pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had further extended to 31st December 2012.

One of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. Afterwards, the Macau Government has not yet issued any update on the master zoning guideline. On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the 2009 Sale and Purchase Agreement. Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the 2009 Sale and Purchase Agreement in order to release the Group's internal resource for the LKF Acquisition.

Employees

As at 30th June 2012, the Group employed 742 staffs (31st December 2011: 726 staffs) with employees benefit expenses of HK$65,407,000 (31st December 2011: HK$109,123,000). 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, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

Prospect

Hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the near future. In these few years, it has successfully positioned to be an boutique hotel with excellent services and guest satisfaction. Given the moderate size of Lan Kwai Fong, we can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP table gaming operations and thus Casino LKF has spend resources to expand its market share in the mass table gaming operations and targeted the high end customers in the mass table gaming and was continued to be successful during this period. The growth in revenue from VIP table gaming operations in Macau was slow down since the end of last year and even set back in July 2012, the strategy in Casino LKF was proved to be effective. After the completion of the LKF Acquisition on 17th July 2012, the Group owned 100% interests in Lan Kwai Fong and can solidify its profitability and capture the full potential growth in the hotel and gaming service operations.

The development of the Sites will be the Group's medium to long term core investments. It will not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it into commercial units and residential apartment for sale and the development plan is currently under the approval of the Macau government. Given the superb location of the Sites which is adjacent to Lan Kwai Fong, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Whalf and Sands Casino and the recognised and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development project will be another success project of the Group.

In the recent years, the Group has improved its profitability by expanding into hotel and gaming service operations. Based on the audited consolidated financial statements for the year ended 31st December 2011, the net assets per share was HK$1.00 ("NAV per Share"). However, the directors have noticed that the trading prices of shares of the Company are well below the NAV per Share and consider the trading prices of shares do not reflect the profitability of the Group. Therefore, the Company proposed the Offer to the shareholders of the Company and provides them a chance to realise their investments at a higher return. Besides, the directors consider that the Offer will lead to an enhancement of NAV per Share and better investor relationship with its shareholders.

4. INDEBTEDNESS OF THE GROUP

Indebtedness

As at the close of business on 30 June 2012, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of the Circular, the Group had outstanding borrowings of approximately HK$803,465,000 which comprised of (i) bank borrowing of HK$444,573,000 in which HK$425,000,000 are secured by the leasehold land and buildings of the Group, bank deposits and quota capital of a subsidiary in Macau; (ii) amount due to a non-controlling interest of approximately HK$198,000 which are unsecured, interest-free and repayable on demand; (iii) amount due to an associate of approximately HK$18,303,000 which is unsecured, interest-free and repayable on demand; (iv) obligation under finance lease of approximately HK$208,000; and (v) the liability component of the convertible bonds of approximately HK$340,183,000.

Contingent liabilities

As at 30 June 2012, 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$563,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30 June 2012, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date of which the latest published audited financial statements of the Company were made up.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma financial information of the Group is prepared for the illustrative purpose of the impact of (1) assuming none of the Share Options and the Warrants II are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date and (2) assuming the Warrants II (except for those held by the Undertaking Parties) are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date.

The unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 was extracted from the unaudited condensed results of the Group as disclosed in Appendix III of this circular.

It has been prepared in accordance with Rule 4.29 of the Listing Rules for illustrative purpose only, to provide the shareholders with information about the impact of the below scenarios (1) and (2), and, because of its hypothetical nature, may not give a true picture of the unaudited consolidated financial position of the Group as at 30 June 2012 had the below scenario (1) and (2) been completed on 30 June 2012 or any future date.

(1) Assuming none of the Share Options and the Warrants II are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date:

	Unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012	Monies received from exercising of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date	Unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practicable Date	Impact of the Offer	Unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 upon completion of the Offer
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assuming none of the Share Options and the Warrants II are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date	1,978,709	3,455	1,982,164	(309,081)	1,673,083
Unaudited consolidated net assets per Share as at 30 June 2012 *(Note 6)*					HK$0.974 per Share
Unaudited pro forma adjusted consolidated net assets per Share as at the Latest Practicable Date *(Note 7)*					HK$0.967 per Share
Unaudited pro forma adjusted consolidated net assets per Share upon completion of the Offer *(Note 8)*					HK$1.424 per Share

(2) Assuming all of the Warrants II (except for those held by the Undertaking Parties) are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date:

	Unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012	Monies received from exercising of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date	Unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practicable Date	Monies receivable assuming exercising of all outstanding Warrants II	Unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 immediately before completion of the Offer	Impact of the Offer	Unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 upon completion of the Offer
	(Note 1)	*(Note 2)*	*(Note 3)*	*(note 11)*	*(Note 12)*	*(Note 13)*	*(Note 14)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assuming all of the Warrants II (except for those held by the Undertaking Parties) are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full at the Latest Practicable Date	1,978,709	3,455	1,982,164	2,211	1,984,375	(312,819)	1,671,556
Unaudited consolidated net assets per Share as at 30 June 2012 *(Note 6)*							HK$0.974 per Share
Unaudited pro forma adjusted consolidated net assets per Share as at the Latest Practicable Date *(Note 7)*							HK$0.967 per Share
Unaudited pro forma adjusted consolidated net assets per Share immediately before completion of the Offer *(Note 15)*							HK$0.963 per Share
Unaudited pro forma adjusted consolidated net assets per Share upon completion of the Offer *(Note 16)*							HK$1.423 per Share

Notes to the unaudited pro forma financial information of the Group

1. The unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 of approximately HK$1,978,709,000 was extracted from the unaudited consolidated financial statements of the Group as disclosed in Appendix III of the Circular.

   The percentage of shareholdings structure of the Company as at 30 June 2012 were 44.22%, 0.39%, 9.84%, 3.35%, 0.00% and 42.20% held by Heung Wah Keung Family Endowment Limited, Mr. Lei Hong Wai, Simple View Investment Limited, Victory Peace Holdings Limited, Dorest Company Limited and public shareholders respectively.

2. The adjustment represents an amount of cash HK$3,455,000 was received as a result of exercising the Warrants II at the adjusted conversion price of HK$0.207 per Share during the period from 1 July 2012 and up to the Latest Practicable Date.

3. The unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 immediately before completion of the Offer of approximately HK$1,982,164,000 is based on the aggregate of the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 as stated in note 1 and monies received from exercise of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date as stated in note 2.

   The percentage of shareholdings structure of the Company after the exercise of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date are 43.86%, 0.39%, 9.76%, 3.32%, 0.00% and 42.67% held by Heung Wah Keung Family Endowment Limited, Mr. Lei Hong Wai, Simple View Investment Limited, Victory Peace Holdings Limited, Dorest Company Limited and public shareholders respectively.

4. The adjustment represents the maximum cash consideration to be payable by the Group for the Offer of approximately HK$309,081,000 which is based on the repurchase of 874,516,306 Shares held by Dorest Company Limited and public shareholders and the estimated expenses of approximately HK$3,000,000 directly attributable to the Offer.

5. The unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 upon completion of the Offer of approximately HK$1,673,083,000 is based on the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practicable Date immediately before completion of the Offer as stated in note 3 and adjusted for the maximum consideration payable under the Offer as stated in note 4.

   The percentage of shareholdings structure of the Company after the impact of the completion of the Offer are 76.50%, 0.68%, 17.03% and 5.79% held by Heung Wah Keung Family Endowment Limited, Mr. Lei Hong Wai, Simple View Investment Limited and Victory Peace Holdings Limited respectively.

6. The unaudited consolidated net assets per Share attributable to the owners of the Company as at 30 June 2012 is calculated as the unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately HK$1,978,709,000 divided by 2,032,491,487 Shares in issue as at 30 June 2012.

7. The unaudited pro forma adjusted consolidated net assets per Share attributable to the owners of the Company as at the Latest Practicable Date is calculated as the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 adjusted for monies received from exercise of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date as stated in note 3 of approximately HK$1,982,164,000 divided by 2,049,182,306 Shares in issue as at the Latest Practicable Date.

8. The unaudited pro forma adjusted consolidated net assets per Share attributable to the owners of the Company upon completion of the Offer is calculated as the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company adjusted for exercise of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date as stated in note 3 and the maximum consideration payable under the Offer as stated in note 4 of approximately HK$1,673,083,000 divided by 1,174,666,000 Shares.

9. The cash payment for the purpose of the Offer is not expected to have any continuing effect of the Group, assuming none of the Share Options and the Warrants II are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full as at the Latest Practicable Date.

10. No adjustment has been made to the unaudited pro forma adjusted consolidated net assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2012 except that the monies received from exercising of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date, assuming none of the Share Options and the Warrants II are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full as at the Latest Practicable Date (Scenario (1)).

11. The adjustment represents an amount of cash to be received of approximately HK$2,211,000 assuming exercising of all outstanding Warrants II of 10,679,423 Shares (except for those held by the Undertaking Parties) at the conversion price of HK$0.207 per Share immediately before completion of the Offer.

    Assuming that no Share Options would be exercised due to their exercise prices are higher than the Offer Price of HK$0.35 per Share.

12. The unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 immediately before completion of the Offer of approximately HK$1,984,375,000 is based on the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practicable Date as stated in note 3 and assuming exercise of all outstanding Warrants II immediately before completion of the Offer as stated in note 11.

    The percentage of shareholdings structure of the Company after exercise the outstanding Warrants II as at the Latest Practicable Date are 43.63%, 0.39%, 9.71%, 3.30%, 0.00% and 42.97% held by Heung Wah Keung Family Endowment Limited, Mr. Lei Hong Wai, Simple View Investment Limited, Victory Peace Holdings Limited, Dorest Company Limited and public shareholders respectively.

13. The adjustment represents the maximum cash consideration to be payable by the Group for the Offer of approximately HK$312,819,000 which is based on the repurchase of 885,195,729 Shares (assuming no Share Option would be exercised) held by Dorest Company Limited and public shareholders after exercising of all outstanding Warrants II as stated in note 11 and the estimated expenses of approximately HK$3,000,000 directly attributable to the Offer.

14. The unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 upon completion of the Offer of approximately HK$1,671,556,000 is based on the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2012 immediately before completion of the Offer as stated in note 12 and adjusted for the maximum consideration payable under the Offer as stated in note 13.

    The percentage of shareholdings structure of the Company after the impact of the completion of the Offer are 76.50%, 0.68%, 17.03% and 5.79% held by Heung Wah Keung Family Endowment Limited, Mr. Lei Hong Wai, Simple View Investment Limited and Victory Peace Holdings Limited respectively.

15. The unaudited pro forma adjusted consolidated net assets per Share attributable to the owners of the Company immediately before completion of the Offer is calculated as the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practical Date as stated in note 3 and assuming exercise of all outstanding Warrants II as stated in note 11 of approximately HK$1,984,375,000 divided by 2,059,861,729 Shares (assuming no Share Option would be exercised).

16. The unaudited pro forma adjusted consolidated net assets per Share attributable to the owners of the Company upon completion of the Offer is calculated as the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at the Latest Practicable Date as stated in note 3, assuming exercise of all outstanding Warrants II as stated in note 11 and adjusted for the maximum consideration payable under the Offer as stated in note 13 of approximately HK$1,671,556,000 divided by 1,174,666,000 Shares.

17. The cash payment for the purpose of the Offer is not expected to have any continuing effect of the Group, assuming all of the outstanding Warrants II (except for those held by the Undertaking Parties) are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full as at the Latest Practicable Date.

18. No adjustment has been made to the unaudited pro forma adjusted consolidated net assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2012 except that the monies received from exercising of the Warrants II during the period from 1 July 2012 and up to the Latest Practicable Date, assuming all of the outstanding Warrants II (except for those held by the Undertaking Parties) are exercised and all shareholders (except for the Undertaking Parties) accept the Offer in full as at the Latest Practicable Date (Scenario (2)).

The following is the text of the report, prepared for the sole purpose of inclusion in the Circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group as 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

28 September 2012

The Directors

China Star Entertainment Limited

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out in Appendix IV on pages 207 to 211 of the circular dated 28 September 2012 (the "Circular") under the headings of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in connection with the proposed conditional cash offer by Get Nice Securities Limited on behalf of China Star Entertainment Limited to repurchase up to 887,901,665 shares in the Company (the "Offer"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Offer might have affected the relevant financial information of the Group.

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

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

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information on the Group with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma 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 Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information on the Group is for illustrative purpose only, based on the judgements and assumptions made by the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the unaudited consolidated financial position of the Group as at 30 June 2012 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information on the Group has been properly compiled by the directors of the Company on the basis stated;

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

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

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

The following is the text of the letter, summary of valuations and valuation certificates received from Grant Sherman Appraisal Limited in connection with its opinion of the market value of the Properties held by the Group in Hong Kong and Macau as at 30 June 2012 prepared for the purpose of incorporation in the Circular.

GRANT SHERMAN APPRAISAL LIMITED

Room 1005 on 10/F AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

28 September 2012

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 to value the property interests held by China Star Entertainment Limited ("the Company") and its subsidiaries (together referred to as "the Group") located the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") and the Macau Special Administrative Region of the People's Republic of China ("Macau"), we confirm that we have carried out inspections, 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 30 June 2012 (the "Valuation Date") for the purpose of incorporation into the circular issued by the Company on the date hereof.

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 in Group I and Group II by direct 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.

Our valuation has been made on the assumption that the owner sells the properties on the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect their values. In addition, no forced sale situation in any manner is assumed in our valuation.

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

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 and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

In valuing the property interests of Group II, we have assumed that the properties will be developed in accordance with the development schedules, covenants, regulations and ordinances given to us, and that the properties will be developed immediately after, completion of negotiation with the government or obtaining approval of development proposals or building plans. We have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term as granted and is entitled to transfer the properties with the residual term without payment of any further premium to the government authorities or any third parties. We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted or can be obtained and renewed without any onerous conditions or undue time delay which might affect their values.

We have not carried out investigation to determine the suitability of the ground conditions or the services for any property development to be erected thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. Moreover, it is assumed that the utilization of the land and improvements will be within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exits, unless noted in valuation certificates.

In order to complying with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the Group, the potential tax liabilities which may arise from the sale of the properties in both Macau and Hong Kong include Profit Tax which is currently at maximum rates of about 12% and 16.5% of the consideration respectively. However, the Group has confirmed to us that it has no intention to dispose the properties in Hong Kong and Macau. Hence, the likelihood of any potential tax liability of these properties being crystallized is remote. In course of our valuation, we have neither verified nor taken into account such tax liabilities.

We have caused land searches in the Land Registry for the properties located in Hong Kong and have caused land searches in the Conservatória do Registo Predial for the properties located in Macau, however, we have not scrutinized the original title documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. In the preparation of our valuation certificates regarding the property interests located in Macau, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser Leong Hon Man Law Office on Macau laws regarding the titles, regulations and ordinances of the properties in Macau ("Macau Legal Opinion").

In valuing the Properties in Group I which are situated in Hong Kong and held under the government leases which will be expired before 30th June 2047, we have taken into account of the statement contained in the Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases would have been extended without payment of premium until 30th June 2047 and that an annual rent of three percent of the rateable values of the properties would be charged from the date of extension.

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 exteriors 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. However, no structural 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 are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

Unless otherwise stated, all sums in our valuation are in Hong Kong Dollars. The exchange rates adopted in valuing the property interests in Macau as at 30 June 2012 was HK$ 1: MOP 1.03. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith the summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Lawrence Chan Ka Wah
MRICS MHKIS RPS(GP)
Director
Real Estate Group

Note: Mr. Lawrence Chan Ka Wah 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 9 years experience in the valuation of properties in Hong Kong, Macau , the PRC and Asian Rim.

SUMMARY OF VALUATION

Group I – Property interests held by the Group for owner's occupation in Hong Kong

	Property	Market Value in existing state as at 30 June 2012 *(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$88,700,000
2.	Units 9 and 10 on 6th Floor, Leader Industrial Centre, Nos. 57-59 Au Pui Wan Street, Shatin, New Territories, Hong Kong	HK$2,860,000
3.	Unit D on 11th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Shatin, New Territories, Hong Kong	HK$12,040,000
	Sub-total	**HK$103,600,000**

Group II – Property interests held by the Group for future development in Macau

4.	A parcel of land known as Lote "B" – Quarteirão 6, situated at Zona de Aterros do Porto Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22608)	HK$273,600,000
5.	A parcel of land known as Quarteirão 6 – Lote "C", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22618)	HK$310,030,000
6.	A parcel of land known as Quarteirão 6 – Lote "D", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22619)	HK$310,030,000
7.	A parcel of land known as Quarteirão 6 – Lote "E", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22620)	HK$310,030,000
	Sub-total	**HK$1,203,690,000**
	Grand Total	**HK$1,307,290,000**

VALUATION CERTIFICATE

Group I – Property interests held by the Group for owner's occupation in Hong Kong

Property	Description and Tenure	Particular of occupancy	Market value in existing state as at 30 June 2012
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 all that portions of the Basement, No.160 Waterloo Road, Kowloon Tong, Kowloon, Hong Kong 1/4th equal and undivided 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 approximately 3,900 sq.ft. (excluding of the flat roof with a saleable area of approximately 1,500 sq.ft.) The property is held under the government lease expiring on 30 June 2047. The Government rent payable for New Kowloon Inland Lot No. 4093 is $2,520 per annum.	The property was occupied by the Company as dormitory as at the Valuation Date.	HK$88,700,000

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 was inspected on 20 June 2012 by our Mr. Will Chan (Bachelor in Land Management.) The external condition of the property is fair.

iii) According to the Approved Kowloon Tong Outlined Zoning Plan No. S/K18/16, the property is zoned as Residential(C)4.

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of occupancy	Market value in existing state as at 30 June 2012
2. Units 9 and 10 on 6th Floor, Leader Industrial Centre Nos.57-59 Au Pui Wan Street, Shatin, New Territories, Hong Kong 6/1,637th equal and undivided 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 property have a total saleable floor area of approximately 1,060 sq.ft. The property is held under New Grant No. 11782 expiring on 30 June 2047. The Government rent payable for Sha Tin Town Lot No. 175 is $300 per annum.	The property was occupied by the Company for storage use as at the Valuation Date.	HK$2,860,000

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) The property was inspected on 12 June 2012 by our by Mr. Will Chan (Bachelor in Land Management). The external condition of the property is fair.

iii) According to the Approved Sha Tin Outlined Zoning Plan No. S/ST/26, the property is zoned for industrial use.

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of occupancy	Market value in existing state as at 30 June 2012
3. Unit D on 11th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Shatin, New Territories, Hong Kong 14/920th equal and undivided 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 property has a total saleable floor area of approximately 5,122 sq.ft. 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.	The property was occupied by the Company for storage use as at the Valuation Date.	HK$12,040,000

Notes:

i) The registered owner of the property is Star Laser Disc Limited (former name of China Star Laser Disc Company), a wholly-owned subsidiary of the Company, registered vide Memorial No. ST689895 dated 15 March, 1993.

ii) The property was inspected on 12 June 2012 by Mr. Will Chan (Bachelor in Land Management). The external condition of the property is fair.

iii) According to the Approved Sha Tin Outlined Zoning Plan No. S/ST/26, the property is zoned for industrial use.

VALUATION CERTIFICATE

Group II – Property interests held by the Group in Macau for future development

Property	Description and Tenure	Particular of occupancy	Market value in existing state as at 30 June 2012
4. A parcel of land known as Lote "B" – Quarteirão 6, situated at Zona de Aterros do Porto Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22608)	The property comprises a parcel of land with a site area of approximately 1,420 sq.m. in trapezium shape. Multi-storey office/commercial development with parking provisions are allowed to be erected thereon. In accordance with the Despatchi no. 27/SATOP/89 dated 26 December 1989 which was later reviewed by Despatchi No. 149/SATOP/97 ("Leases"), published in the Official Gazattes, the maximum permissible gross floor areas of the development on the property are approximately as follows: **Approximate gross floor area** *(sq.m.)* Office 14,994 Commercial 1,996 Carparking 4,320 **Total: 21,310** The property is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing on 13 January 1989. The Government rent of the property is MOP 298,050 per annum during the construction period and after completion, the Government rents will be computed as follows: **Use** – **Government rents per annum** Office/ Commercial – MOP 15 per sq.m. of the gross floor area Carparking space – MOP 10 per sq.m. of the gross floor area	The property was a clear site as at the Valuation Date.	HK$273,260,000

Notes:

(i) According to the information provided by the Group, the total acquisition cost of the property together with properties nos. 5, 6 and 7 is HK$550,000,000 in 2011.

(ii) In the course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Despacho no. 27/SATOP/89 dated 26 December 1989 which was later reviewed by Despacho No. 149/SATOP/97 published in the Gazette No. 49 dated 3 December 1997 and the development restriction stated in Note (vi)(g).

(iii) The property was last inspected by our Mr Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP)) and Ms Fiona K. F. Tsung (BSc (Hons) in Real Estate) on 22 August 2012.

(iv) According to the land search from Conservatória do Registo Predial, the current registered owner of the property with a site area of approximately 1,420 sq.m. is Sociedade de Turismo e Diversões de Macau, SARL, an independent third party.

(v) According to the information provided by the Company, China Star Creative Development Limited is a wholly-owned subsidiary of the Company.

(vi) We have been provided with a legal opinion regarding to the property by the Company's Macau legal adviser, Leong Hon Man Law Office, which contains, inter alia, the following:

(a) According to the published Macau SAR Government land lease grant no. 27/SATOP/89 dated 26 December 1989 and no. 149/SATOP/97 dated 3 December 1997 (the "Lease"), the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM") by the Macau SAR Government ("the Grantor") for a term of 25 years commencing from 26 December 1989, renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the Lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;

(b) The property was granted to Sociedade de Turismo e Diversões de Macau, SARL. Nevertheless, according to the Agreement for Sale and Purchase of Property Leasehold Right" executed by STDM, Triumph Top Limited, China Star Entertainment Limited and Heung Wah Keung dated on 23 December 2010 (the "Agreement"), STDM has promised to transfer the ownership of the leasehold right of the property to China Star Creative Development Limited by the way of appointing China Star Creative Development Limited as the attorney-in-fact of STDM with powers to apply to the Macau SAR Government for the approval of the transfer of the leasehold rights over the property from STDM to China Star Creative Development Limited and STDM has granted the aforesaid powers through a formal power of attorney on 10 June 2011;

(c) In addition, according to the Declaration of Undertaking signed by STDM, STDM warrants, guarantees and undertakes that the Power of Attorney shall not be revoked without prior written consent of China Star Creative Development Limited;

(d) Despite of the legal title of the property is held by STDM, according to the Agreement, the Power of Attorney and the Declaration of Undertaking entered by STDM and China Star Creative Development Limited, the beneficial development rights of the property is held by China Star Creative Development Limited;

(e) Under the property registration, the property has good and marketable title thereto pursuant to the Leases and the property and the rights arising from the Leases thereon are not subject to any Charge or Encumbrance or pending litigation;

(f) Under the Lease, the property shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for office, commercial and parking uses, with the following gross floor areas

Use	**Approximate permissible Gross Floor Area**
Office	14,994 sq.m.
Commercial	1,996 sq.m.
Carparking space	4,320 sq.m.
Total	**21,310 sq.m.**

(g) As regulated and approved by the Despacho of the Executive Chief no. 83/2008, the property is zoned in the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the Regulation of Urban Construction. Thus, the total gross floor area of the property after completion of development would be less than the permissible gross floor area stated in Note (vi)(f).

(h) During the development period the annual rental for the property is MOP 298,050 and after completion of the construction, the annual rental to be paid to the Macau SAR Government shall be MOP 15 per sq.m. of gross floor area for office and commercial uses and MOP 10 per sq.m. of gross floor area for carparking uses;

(i) Under the Lease conditions, the development of the property has to be completed within 60 months commencing on 26 December 1989. Notwithstanding, the non-development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing on 15 April 2010;

(j) The transfer of the interest over the property before its full development is subject to prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Lease; and

(k) China Star Creative Development Limited has the legal rights and powers to develop the property in accordance with the provisions of the Lease, in the event that the transfer of the leasehold right of the property has been approved by Macau SAR Government, China Star Creative Development Limited has the right to freely transfer or sell the property according to the approval of Macau SAR Government.

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of occupancy	Market value in existing state as at 30 June 2012
5. A parcel of land known as Quarteirão 6 – Lote "C", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22618)	The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in rectangular shape. Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon. In accordance with the Despacho no. 148/SATOP/94 dated 21 December 1994 ("Lease"), the maximum permissible gross floor areas of the development on the property are approximately as follows: **Approximate gross floor area** *(sq.m.)* Residential 14,860 Commercial 1,824 Carparking 2,584 **Total: 19,268** The property is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing on 21 December 1994. The Government rent of the property is MOP 201,800 per annum during the construction period and after completion, the Government rents will be computed as follows: **Use** — **Government rents per annum** Residential/carparking space — MOP 10 per sq.m. of the gross floor area Commercial — MOP 15 per sq.m. of the gross floor area	The property was a clear site as at the Valuation Date.	HK$310,030,000

Notes:

(i) According to the information provided by the Group, the total acquisition cost of the property together with properties nos. 4, 6 and 7 is HK$550,000,000 in 2011.

(ii) In the course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Despacho no. 148/SATOP/94 dated 21 December 1994 and the development restriction stated in Note (vi)(g)

(iii) The property was last inspected by our Mr Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP)) and Ms Fiona K. F. Tsung (BSc (Hons) in Real Estate) on 22 August 2012.

(iv) According to the land search from Conservatória do Registo Predial, the current registered owner of the property with a site area of approximately 1,292 sq.m. is Sociedade de Turismo e Diversões de Macau, SARL, an independent third party.

(v) According to the information provided by the Company, China Star Creative Development Limited is a wholly-owned subsidiary of the Company.

(vi) We have been provided with a legal opinion regarding to the property by the Company's Macau legal adviser, Leong Hon Man Law Office, which contains, inter alia, the following:

(a) According to a lease grant no. 148/SATOP/94 dated 21 December 1994 published in the Macau SAR Government Gazette no. 51, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM") by the Macau SAR Government ("the Grantor") for a term of 25 years commencing from 21 December 1994, renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the Lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;

(b) The property was granted to Sociedade de Turismo e Diversões de Macau, SARL. Nevertheless, according to the Agreement for Sale and Purchase of Property Leasehold Right" executed by STDM, Triumph Top Limited, China Star Entertainment Limited and Heung Wah Keung dated on 23 December 2010 (the "Agreement"), STDM has promised to transfer the ownership of the leasehold right of the property to China Star Creative Development Limited by the way of appointing China Star Creative Development Limited as the attorney-in-fact of STDM with powers to apply to the Macau SAR Government for the approval of the transfer of the leasehold rights over the property from STDM to China Star Creative Development Limited and STDM has granted the aforesaid powers through a formal power of attorney on 10 June 2011;

(c) In addition, according to the Declaration of Undertaking signed by STDM, STDM warrants, guarantees and undertakes that the Power of Attorney shall not be revoked without prior written consent of China Star Creative Development Limited;

(d) Despite of the legal title of the property is held by STDM, according to the Agreement, the Power of Attorney and the Declaration of Undertaking entered by STDM and China Star Creative Development Limited, the beneficial development rights of the property is held by China Star Creative Development Limited;

(e) Under the property registration, the property has good and marketable title thereto pursuant to the Leases and the property and the rights arising from the Leases thereon are not subject to any Charge or Encumbrance or pending litigation;

(f) Under the Lease, the property shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for residential, commercial and parking uses, with the following gross floor areas

Use	**Approximate permissible Gross Floor Area**
Residential	14,860 sq.m.
Commercial	1,824 sq.m.
Carparking space	2,584 sq.m.
Total	**19,268 sq.m.**

(g) As regulated and approved by the Despacho of the Executive Chief no. 83/2008, the property is zoned in the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the Regulation of Urban Construction. Thus, the total gross floor area of the property after completion of development would be less than the permissible gross floor area stated in Note (vi)(f).

(h) During the development period the annual rental for the property is MOP 201,800 and after completion of the construction, the annual rental to be paid to the Macau SAR Government shall be MOP 15 per sq.m. of gross floor area for commercial uses and MOP 10 per sq.m. of gross floor area for residential and carparking uses;

(i) Under the Lease conditions, the development of the property has to be completed within 30 months commencing on 21 December 1994. Notwithstanding, the non-development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing on 15 April 2010;

(j) The transfer of the interest over the property before its full development is subject to prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Lease; and

(k) China Star Creative Development Limited has the legal rights and powers to develop the property in accordance with the provisions of the Lease, in the event that the transfer of the leasehold right of the property has been approved by Macau SAR Government, China Star Creative Development Limited has the right to freely transfer or sell the property according to the approval of Macau SAR Government.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market value in existing state as at 30 June 2012
6. A parcel of land known as Quarteirão 6 – Lote "D", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22619)	The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in rectangular shape. Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon. In accordance with the Despatcho no. 148/SATOP/94 dated 21 December 1994 ("Lease"), the maximum permissible Despatcho floor areas of the development on the property are approximately as follows: **Approximate gross floor area** *(sq.m.)* Residential 14,860 Commercial 1,824 Carparking 2,584 **Total: 19,268** The property is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing on 21 December 1994. The Government rent of the property is MOP 201,800 per annum during the construction period and after completion, the Government rents will be computed as follows: **Use** — **Government rents per annum** Residential/carparking space — MOP 10 per sq.m. of the gross floor area Commercial — MOP 15 per sq.m. of the gross floor area	The property was a clear site as at the Valuation Date.	HK$310,030,000

Notes:

(i) According to the information provided by the Group, the total acquisition cost of the property together with properties nos. 4, 5 and 7 is HK$550,000,000 in 2011.

(ii) In the course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Despacho no. 148/SATOP/94 dated 21 December 1994 and the development restriction stated in Note (vi)(g)

(iii) The property was last inspected by our Mr Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP)) and Ms Fiona K. F. Tsung (BSc (Hons) in Real Estate) on 22 August 2012.

(iv) According to the land search from Conservatória do Registo Predial, the current registered owner of the property with a site area of approximately 1,292 sq.m. is Sociedade de Turismo e Diversões de Macau, SARL, an independent third party.

(v) According to the information provided by the Company, China Star Creative Development Limited is a wholly-owned subsidiary of the Company.

(vi) We have been provided with a legal opinion regarding to the property by the Company's Macau legal adviser, Leong Hon Man Law Office, which contains, inter alia, the following:

(a) According to a lease grant no. 148/SATOP/94 dated 21 December 1994 published in the Macau SAR Government Gazette no. 51, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM") by the Macau SAR Government ("the Grantor") for a term of 25 years commencing from 21 December 1994, renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the Lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;

(b) The property was granted to Sociedade de Turismo e Diversões de Macau, SARL. Nevertheless, according to the Agreement for Sale and Purchase of Property Leasehold Right" executed by STDM, Triumph Top Limited, China Star Entertainment Limited and Heung Wah Keung dated on 23 December 2010 (the "Agreement"), STDM has promised to transfer the ownership of the leasehold right of the property to China Star Creative Development Limited by the way of appointing China Star Creative Development Limited as the attorney-in-fact of STDM with powers to apply to the Macau SAR Government for the approval of the transfer of the leasehold rights over the property from STDM to China Star Creative Development Limited and STDM has granted the aforesaid powers through a formal power of attorney on 10 June 2011;

(c) In addition, according to the Declaration of Undertaking signed by STDM, STDM warrants, guarantees and undertakes that the Power of Attorney shall not be revoked without prior written consent of China Star Creative Development Limited;

(d) Despite of the legal title of the property is held by STDM, according to the Agreement, the Power of Attorney and the Declaration of Undertaking entered by STDM and China Star Creative Development Limited, the beneficial development rights of the property is held by China Star Creative Development Limited;

(e) Under the property registration, the property has good and marketable title thereto pursuant to the Leases and the property and the rights arising from the Leases thereon are not subject to any Charge or Encumbrance or pending litigation;

(f) Under the Lease, the property shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for residential, commercial and parking uses, with the following gross floor areas

Use	**Approximate permissible Gross Floor Area**
Residential	14,860 sq.m.
Commercial	1,824 sq.m.
Carparking space	2,584 sq.m.
Total	**19,268 sq.m.**

(g) As regulated and approved by the Despacho of the Executive Chief no. 83/2008, the property is zoned in the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the Regulation of Urban Construction. Thus, the total gross floor area of the property after completion of development would be less than the permissible gross floor area stated in Note (vi)(f).

(h) During the development period the annual rental for the property is MOP 201,800 and after completion of the construction, the annual rental to be paid to the Macau SAR Government shall be MOP 15 per sq.m. of gross floor area for commercial uses and MOP 10 per sq.m. of gross floor area for residential and carparking uses;

(i) Under the Lease conditions, the development of the property has to be completed within 30 months commencing on 21 December 1994. Notwithstanding, the non-development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing on 15 April 2010;

(j) The transfer of the interest over the property before its full development is subject to prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Lease; and

(k) China Star Creative Development Limited has the legal rights and powers to develop the property in accordance with the provisions of the Lease, in the event that the transfer of the leasehold right of the property has been approved by Macau SAR Government, China Star Creative Development Limited has the right to freely transfer or sell the property according to the approval of Macau SAR Government.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market value in existing state as at 30 June 2012
7. A parcel of land known as Quarteirão 6 – Lote "E", situated at Zona de Aterros do Exterior (ZAPE) N° S/N, Sé, Macau (N° da Descrição 22620)	The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in rectangular shape.	The property was a clear site as at the Valuation Date.	HK$310,030,000

Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon.

In accordance with the Despatcho no. 148/SATOP/94 dated 21 December 1994 ("Lease"), the maximum permissible gross floor areas of the development on the property are approximately as follows:

	Approximate gross floor area *(sq.m.)*
Residential	14,860
Commercial	1,824
Carparking	2,584
Total:	**19,268**

The property is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing on 21 December 1994. The Government rent of the property is MOP 201,800 per annum during the construction period and after completion, the Government rents will be computed as follows:

Use	**Government rents per annum**
Residential/ carparking space	MOP 10 per sq.m. of the gross floor area
Commercial	MOP 15 per sq.m. of the gross floor area

Notes:

(i) According to the information provided by the Group, the total acquisition cost of the property together with properties nos. 4, 5 and 6 is HK$550,000,000 in 2011.

(ii) In the course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Despacho no. 148/SATOP/94 dated 21 December 1994 and the development restriction stated in Note (vi)(g)

(iii) The property was last inspected by our Mr Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP)) and Ms Fiona K. F. Tsung (BSc (Hons) in Real Estate) on 22 August 2012.

(iv) According to the land search from Conservatória do Registo Predial, the current registered owner of the property with a site area of approximately 1,292 sq.m. is Sociedade de Turismo e Diversões de Macau, SARL, an independent third party.

(v) According to the information provided by the Company, China Star Creative Development Limited is a wholly-owned subsidiary of the Company.

(vi) We have been provided with a legal opinion regarding to the property by the Company's Macau legal adviser, Leong Hon Man Law Office, which contains, inter alia, the following:

(a) According to a lease grant no. 148/SATOP/94 dated 21 December 1994 published in the Macau SAR Government Gazette no. 51, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM") by the Macau SAR Government ("the Grantor") for a term of 25 years commencing from 21 December 1994, renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the Lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;

(b) The property was granted to Sociedade de Turismo e Diversões de Macau, SARL. Nevertheless, according to the Agreement for Sale and Purchase of Property Leasehold Right" executed by STDM, Triumph Top Limited, China Star Entertainment Limited and Heung Wah Keung dated on 23 December 2010 (the "Agreement"), STDM has promised to transfer the ownership of the leasehold right of the property to China Star Creative Development Limited by the way of appointing China Star Creative Development Limited as the attorney-in-fact of STDM with powers to apply to the Macau SAR Government for the approval of the transfer of the leasehold rights over the property from STDM to China Star Creative Development Limited and STDM has granted the aforesaid powers through a formal power of attorney on 10 June 2011;

(c) In addition, according to the Declaration of Undertaking signed by STDM, STDM warrants, guarantees and undertakes that the Power of Attorney shall not be revoked without prior written consent of China Star Creative Development Limited;

(d) Despite of the legal title of the property is held by STDM, according to the Agreement, the Power of Attorney and the Declaration of Undertaking entered by STDM and China Star Creative Development Limited, the beneficial development rights of the property is held by China Star Creative Development Limited;

(e) Under the property registration, the property has good and marketable title thereto pursuant to the Leases and the property and the rights arising from the Leases thereon are not subject to any Charge or Encumbrance or pending litigation;

(f) Under the Lease, the property shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for residential, commercial and parking uses, with the following gross floor areas

Use	**Approximate permissible Gross Floor Area**
Residential	14,860 sq.m.
Commercial	1,824 sq.m.
Carparking space	2,584 sq.m.
Total	**19,268 sq.m.**

(g) As regulated and approved by the Despacho of the Executive Chief no. 83/2008, the property is zoned in the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the Regulation of Urban Construction. Thus, the total gross floor area of the property after completion of development would be less than the permissible gross floor area stated in Note (vi)(f).

(h) During the development period the annual rental for the property is MOP 201,800 and after completion of the construction, the annual rental to be paid to the Macau SAR Government shall be MOP 15 per sq.m. of gross floor area for commercial uses and MOP 10 per sq.m. of gross floor area for residential and carparking uses;

(i) Under the Lease conditions, the development of the property has to be completed within 30 months commencing on 21 December 1994. Notwithstanding, the non-development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing on 15 April 2010;

(j) The transfer of the interest over the property before its full development is subject to prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Lease; and

(k) China Star Creative Development Limited has the legal rights and powers to develop the property in accordance with the provisions of the Lease, in the event that the transfer of the leasehold right of the property has been approved by Macau SAR Government, China Star Creative Development Limited has the right to freely transfer or sell the property according to the approval of Macau SAR Government.

The following is the text of the letter and valuation certificate 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 30 June 2012 prepared for the purpose of incorporation in the Circular.

DTZ 戴德梁行

Room 1601, 16th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

28 September 2012

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 inspections, 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 30 June 2012 (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 values.

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 Securities on the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

As advised by the Group, the potential tax liability of the properties which would arise on disposal of the properties is Profits Tax of about 12%. However, the likelihood of the relevant tax liability being crystallized is remote as the Group has no plan for the disposal of the properties yet at the current stage.

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 properties, 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
MHKIS, MRICS, RPS (GP)
Senior Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 25 years' experience in valuation of properties in Hong Kong and Macau.

Summary of Valuations

	Property	Capital value in existing state as at 30 June 2012 *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.	1,330,000,000
2.	Units D and E on 3rd Floor of Block 5, Rua do Canal Novo No. 97, 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, Rua Nova da Areia Preta No. 170, Edificio Kin Wa, Macau.	24,000,000
	Total:	1,354,000,000

Valuation Certificate

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012
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 carport 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 17th (no 14/F): 209 hotel guest rooms. 18th: Commercial areas.	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$1,330,000,000

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012
1.		The total gross floor area of the property is approximately 25,299.7 sq.m. (272,326 sq.ft.) (inclusive of area of basement). 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 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 indirect subsidiary of the Group.

(2) The property is subject to a "Hipoteca Voluntaria" ("Legal Charge") and a "Consignacao de Rendimentos" ("Assignment of Rentals and Receivables") both in favour of Banco Industrial E Comercial da China (Macau), S.A..

(3) The Legal Charge and Assignment of Rentals and Receivables were entered into in connection with the Facility Agreement dated 13 December 2010 between Hotel Lan Kwai Fong (Macau) Limitada as borrower and Banco Industrial E Comercial da China (Macau) S.A. as the lender. Under the terms of the Facility Agreement, the lender has agreed, subject to terms and conditions, to make available to the borrower a loan facility of up to MOP546,930,000 for a term of 5 years.

Valuation Certificate

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012
2.	Units D and E on 3rd Floor of Block 5, Rua do Canal Novo No. 97, 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, Rua Nova da Areia Preta No. 170, Edificio Kin Wa, 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 10 years from 13 March 2011. In undertaking our valuation, we have assumed that 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$24,000,000

Notes:

(1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada, a wholly-owned indirect subsidiary of the Group.

(2) The property is subject to a "Hipoteca Voluntaria" ("Legal Charge") and a "Consignacao de Rendimentos" ("Assignment of Rentals and Receivables") both in favour of Banco Industrial E Comercial da China (Macau), S.A..

(3) The Legal Charge and Assignment of Rentals and Receivables were entered into in connection with the Facility Agreement dated 13 December 2010 between Hotel Lan Kwai Fong (Macau) Limitada as borrower and Banco Industrial E Comercial da China (Macau) S.A. as the lender. Under the terms of the Facility Agreement, the lender has agreed, subject to terms and conditions, to make available to the borrower a loan facility of up to MOP546,930,000 for a term of 5 years.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than those relating to the Concert Group and parties acting in concert with it) and confirm having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the circular (other than those expressed by the Concert Group and parties acting in concert with it) 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 in the Circular misleading.

The directors of HWKFE jointly and severally accept full responsibility for the accuracy of the information contained in the 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 the 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 the Circular, the omission of which would make any statement in the 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 Share Options and Warrant II are exercised and all Shareholders (except for the Undertaking Parties) accept in full; (iii) assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and none of the Shareholders accept the Offer; and (iv) assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and all Shareholders accept the Offer in full.

(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:

2,049,182,306	Shares in issue	20,491,823.06

(ii) Assuming none of the Share Options and Warrant II are exercised and all Shareholders (except for the Undertaking Parties) accept in full

Authorised share capital:

		HK$
50,000,000,000	Shares	500,000,000.00

Issued and fully paid share capital or credited as fully paid:

2,049,182,306	Shares in issue	20,491,823.06
(874,516,306)	Shares to be cancelled under the Offer	(8,745,163.06)
1,174,666,000	Completion of the Offer and cancellation of the Shares repurchased	11,746,660.00

(iii) Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and none of the Shareholders accept the Offer

Authorised share capital:

		HK$
50,000,000,000	Shares	500,000,000.00

Issued and fully paid share capital or credited as fully paid:

2,049,182,306	Shares in issue	20,491,823.06
13,385,359	Shares to be issued pursuant to the Share Options and the Warrants II (except for those held by the Undertaking Parties)	133,853.59
2,062,567,665	Completion of the Offer	20,625,676.65

(iv) Assuming all of the Share Options and the Warrants II (except for those held by the Undertaking Parties) are exercised in full and all Shareholders (except for the Undertaking Parties) accept the Offer in full

Authorised share capital:

		HK$
50,000,000,000	Shares	500,000,000.00

Issued and fully paid share capital or credited as fully paid:

2,049,182,306	Shares in issue	20,491,823.06
13,385,359	Shares to be issued pursuant to the Share Options and the Warrants II (except for those held by the Undertaking Parties)	133,853.59
(887,901,665)	Shares to be cancelled under the Offer	(8,879,016.65)
1,174,666,000	Completion of the Offer and cancellation of the Shares repurchased	11,746,660.00

All of the Shares currently in issue rank pari passu in all respects with the Shares then in issue.

As at the Latest Practicable Date, apart from 2,049,182,306 Shares in issue, the Company had (i) 2,976,198 Share Options, entitling the holders thereof to subscribe for 2,976,198 new Shares; (ii) the Warrants II in an aggregate principal amount of HK$56,210,615.34, entitling the holders thereof to subscribe for 271,548,866 new Shares at an adjusted subscription price of HK$0.207 per Share (subject to further adjustment, if required) and (iii) the Issued CBs in an aggregate principal amount of HK$350.00 million carrying rights entitling the holder thereof to convert their principal amount into 972,222,222 new Shares at an adjusted conversion price of HK$0.36 per Share (subject to further adjustment, if required), the Company had no other Shares or other relevant securities (as defined in Note 4 under Rule 22 of the Takeovers Code) of the Company in issue.

Save as disclosed above, the Company had no other outstanding options, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

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.

Save for the Offer, the Company did not repurchase any Shares during the 12-month period immediately preceding the date of the Circular.

On 9 May 2011, the Company completed a capital reorganisation. The capital reorganisation involved (a) share consolidation that every ten (10) issued and unissued shares of the Company of HK$0.01 each being consolidated into one (1) new share of the Company of HK$0.10 each (the "**Consolidated Share(s)**"); (b) 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 was reduced from HK$0.10 to HK$0.01; (ii) the authorised share capital of the Company was 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 authorised 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 the Company of HK$0.01 each; and (iii) the credit arising from the reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (c) capital increase that the authorised share capital of the Company being increased from HK$50,000,000 divided into 5,000,000,000 new shares of the Company of HK$0.01 each to HK$500,000,000 divided into 50,000,000,000 new shares of the Company of HK$0.01 each. Save as disclosed above, the Company did not have other re-organisation of capital during the two financial years immediately preceding the commencement of the Offer.

On 21 October 2011, the Company declared a special dividend of approximately HK$64.84 million, representing HK3.3 cents per Share to the Shareholders whose names appeared on the Register on 17 November 2011. Such dividend was paid on 24 November 2011. Save for the above, the Company did not declare or pay out any dividend during the two years period immediately preceding the date of the Circular. For the six months ended 30 June 2012, the Company does not declare an interim dividend. As at the Latest Practicable Date, the Company does not have any distribution profits and it has no plan or intention to declare any dividend or alter its dividend policy.

Depending on the future results and financial position of the Group, the Board may declare dividends as and when they consider appropriate. The Board does not expect the Offer to have any adverse effect on the ability of the Company to pay dividends or on the dividends or on the dividend policy of the Company.

The Company had issued (a) 1,444,643,184 rights Shares on 11 August 2010 at a subscription price of HK$0.10 per Share on the basis of one rights Share for every two Shares held on 20 July 2010 and the Company received gross proceed of HK$144.46 million as a result of such rights issue; (b) 577,855,000 Shares to independent third parties (the "**Placees**") at a placing price of HK$0.07 per Share on 27 January 2011 and the Company received an aggregate of HK$40.45 million from the Placees as a result of such placing; (c) 1,473,540,870 rights Shares on 29 June 2011 at a subscription price of HK$0.25 per Share on the basis of three rights Shares for every one Share held on 7 June 2011 and the Company received gross proceed of HK$368.38 million as a result of such rights issue; (d) an aggregate 87,761 Shares to the holders of the Warrants I and the Company received an aggregate of HK$71,850 from the holders of the Warrants I as a result of such exercise; (e) an aggregate 84,378,880 Shares to the holders of the Warrants II and received an aggregate of HK$17.47 million from the holders of the Warrants II as a result of such exercise; and (f) 1,243 Shares to an optionholder of the Company at an exercise price of HK$0.144 per Share and received HK$179 from the optionholder of the Company as a result of such exercise. Save for the above, the Company did not issue any other Shares during the two years period immediately preceding the date of the Offer.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

Save for the issue of 82,142 Shares and 84,378,880 Shares pursuant to the Warrants I and the Warrants II respectively, the Company has not issued any Shares since 31 December 2011 (being the end of the last financial year of the Company). Save for the Offer, the Company has not repurchased any Shares since 31 December 2011 (being the end of the last financial year of the Company).

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.

Shareholding interest in the Company of the Concert Group

As at the Latest Practicable Date,

(i) HWKFE is beneficially interested in (i) the 898,686,000 Shares; are (ii) the Warrants II in an aggregate principal amount of HK$43,700,725 which are convertible into 211,114,613 Shares at an adjusted conversion price of HK$0.207 per Share (subject to further adjustment, if required);

(ii) Mr. Heung and Ms. Chen are each beneficially interested in 1,056 Share Options which are exercisable into 1,056 Shares;

(iii) Mr. Lei is beneficially interested in (i) the 7,980,000 Shares; (ii) the Warrants II in an aggregate principal amount of HK$299,250 which are convertible into 1,445,652 Shares at an adjusted conversion price of HK$0.207 per Share (subject to further adjustment, if required); and (iii) 268,150 Share Options which are exercisable into 268,150 Shares;

(iv) Simple View is beneficially interested in (i) the 200,000,000 Shares; and (ii) the Warrants II in an aggregate principal amount of HK$10,000,000 which are convertible into 48,309,178 Shares at an adjusted conversion price of HK$0.207 per Share (subject to further adjustment, if required);

(v) Victory Peace is beneficially interested in the 68,000,000 Shares;

(vi) Dorest is beneficially interested in the 13,702 Shares;

(vii) Eternity Finance is beneficially interested in the Issued CBs in an aggregate principal amount of HK$350.00 million; and

(viii) Eternity is beneficially interested in the Unissued CBs in an aggregate principal amount of HK$300.0 million, if issued.

Save as disclosed immediately above, no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company is held by the Concert Group as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(i) Directors

(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)*	211,116,725 *(Note b)*	1,109,816,427	54.15
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 *(Note a)*	211,116,725 *(Note b)*	1,109,816,427	54.15
Ms. Li Yuk Sheung	Beneficial owner	–	10,558	10,558	0.00

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 898,686,000 Shares by HWKFE which is owned as to 50% by Ms. Chen and as to 50% by Mr. Heung and as to 13,702 Shares by Dorest (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

(b) These underlying Shares comprised (i) outstanding Share Options which are held as to 1,056 Share Options by Mr. Heung and as to 1,056 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) HK$43,700,725 Warrants II convertible into 211,114,613 Shares at an adjusted subscription price of HK$0.207 per Share held by HWKFE.

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 and the Takeovers Code.

(b) Directors' interests in assets of the Company

On 15 February 2012, the Group and Mr. Heung entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and the Group has conditionally agreed to purchase the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel Lan Kwai Fong (Macau) Limited and 49% interest in Charm Faith Holdings Limited, a company beneficially owned 1% of the issued quotas of Classic Management & Services Company Limited. The LKF Acquisition was completed on 17 July 2012.

Save for Mr. Heung and his associates, 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 2011, being the date to which the latest published audited accounts of the Group were made up.

Save as disclosed above and the interest of Mr. Heung in the LKF 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 the 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 entered or was proposing to enter into any service contract with the Company or any other member of the Group or associated companies which (i) (including both continuous and fixed-term contracts) have been entered into or amended within 6 months preceding the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed-term contracts with more than 12 months to run irrespective of the notice period.

(ii) Substantial Shareholders discloseable pursuant to the SFO

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 were as follows:

Name	Capacity	Number of Shares or underlying Shares held	Approximate % of interest held
Eternity Investment Limited	Beneficial owner/ Interests of controlled corporation	1,970,349,582	96.15
Riche (BVI) Limited	Interests of controlled corporation	1,288,531,400	62.88
Heung Wah Keung Family Endowment Limited	Beneficial owner	1,109,800,613	54.15
Eternity Finance Group Limited (formerly known as Wingo Consultants Limited)	Beneficial owner	972,222,222	47.44
Simple View Investment Limited	Beneficial owner	248,309,178	12.12

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.

As at the Latest Practicable Date, save and except for information above, no other Director nor any parties acting in concert with any of them is interested in any Shares or any convertible securities, warrants, options or derivative in respect of Shares.

4. CORPORATE INFORMATION

Board of Directors	*Executive Directors* Mr. Heung Ms. Chen Ms. Li Yuk Sheung *Independent Non-executive Directors* Mr. Hung Cho Sing Mr. Ho Wai Chi, Paul Mr. Tang Chak Lam, Gilbert *Audit Committee* Mr. Ho Wai Chi, Paul Mr. Hung Cho Sing Mr. Tang Chak Lam, Gilbert *Remuneration Committee* Mr. Hung Cho Sing Ms. Chen Mr. Tang Chak Lam, Gilbert *Nomination Committee* Mr. Tang Chak Lam, Gilbert Mr. Heung Mr. Hung Cho Sing
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 and Ms. Chen
Auditors	HLB Hodgson Impey Cheng Limited

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 OFFER

The Company	China Star Entertainment Limited Unit 3409, Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
On behalf of the Company in making the Offer	Get Nice Securities Limited 10/F., Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
Financial adviser to the Company	Nuada Limited 19/F, BLINK 111 Bonham Strand Sheung Wan Hong Kong

Joint independent financial advisers	Donvex Capital Limited 1305-6, 13/F., Carpo Commercial Building 18-20 Lyndhurst Terrace Central, Hong Kong Messis Capital Limited Room 2002, 20/F., Tower One Lippo Centre 89 Queensway Hong Kong
Legal advisers to the Company	*As to Hong Kong Law:* King & Wood Mallesons 9th Floor Hutchison House 10 Harcourt Road Central, Hong Kong *As to Bermuda Law:* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
The Concert Group	HWKFE, Mr. Heung, Ms. Chen and Dorest Unit 3409, Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong Eternity, Mr. Lei, Simple View, Victory Peace, Twin Success and Eternity Finance Unit 3811, Shun Tak Centre West Tower, 168-200 Connaught Road Central Hong Kong
Directors of the Concert Group	**HWKFE** *Directors* Mr. Heung Ms. Chen **Dorest** *Directors* Mr. Heung Ms. Chen

	Eternity *Executive directors* Mr. Lei Mr. Cheung Kwok Wai, Elton Mr. Chan Kin Wah, Billy *Non-executive director* Mr. Cheung Kwok Fan *Independent non-executive directors* Mr. Wan Shing Chi Mr. Ng Heung Yan Mr. Wong Tak Chuen **Twin Success** *Directors* Mr. Lei Mr. Cheung Kwok Wai, Elton **Simple View** *Directors* Mr. Lei Mr. Cheung Kwok Wai, Elton **Victory Peace** *Director* Mr. Lei
Reporting Accountants	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 Relevant Period and up to the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share *HK$*
31 December 2011	0.220
31 January 2012	0.210
29 February 2012	0.237
31 March 2012	0.215
30 April 2012	0.196
Last Trading Day	0.196
31 May 2012*	N/A
29 June 2012	0.345
31 July 2012	0.345
31 August 2012	0.345
Latest Practicable Date	0.34

* Trading in the Shares was suspended from 3 May 2012 to 4 June 2012.

The highest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$0.35 on 25 June 2012, 26 July 2012, 27 July 2012, 16 August 2012, 28 August 2012, 30 August 2012, 10 September 2012 and 11 September 2012 and the lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$0.196 on 26 April 2012, 27 April 2012, 30 April 2012 and 2 May 2012.

The closing price of the Shares on the Stock Exchange on the Last Trading Day was HK$0.196. The Closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK$0.34.

7. INTEREST DISCLOSURE UNDER THE CODES

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.

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 Dorest, Eternity, Simple View, Victory Peace, Twin Success and Eternity Finance

As at the Latest Practicable Date, save for Ms. Chen and Mr. Heung, being the Directors, interested in Dorest as to 60% and as to 40% respectively, the Group and the Directors did not have any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of Dorest, Eternity, Simple View, Victory Peace, Twin Success and Eternity Finance and their respective associates and parties acting in concert with any of them.

During the Relevant Period, none of the Group or the Directors had any dealings in the shares or any options, warrants, derivatives or securities carrying conversion or subscription rights into shares of Dorest, Eternity, Simple View, Victory Peace, Twin Success and Eternity Finance and their respective associates and parties acting in concert with any of them.

Dealings in securities of the Company

During the Relevant Period, save and except for the transfer of 68,000,000 Shares and the Warrants I in an aggregate amount of HK$26,562,347.30 from Simple View to Victory Peace at a price of HK$0.21 per Share and at a price of HK$0.01 per Warrants I respectively on 22 December 2011 for the purpose of group restructuring, none of the Directors or any member of the Concert Group had dealt in the Shares and relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Minority interests 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
Turbo International Co. Ltd.	Long Shong Pictures (H.K.) Limited	40%
Winner's Entertainment Limited	Wong Han Sau, Cecillia	51%

Dealings in the Shares by the Company, the Concert Group and other arrangements

Save and except for the transfer of 68,000,000 Shares and the Warrants I in an aggregate amount of HK$26,562,347.30 from Simple View to Victory Peace at a price of HK$0.21 per Share and at a price of HK$0.01 per Warrant I respectively on 22 December 2011 for the purpose of group restructuring, there has been no dealings of the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Codes) of the Company by the Concert Group during the Relevant Period.

As the relevant Shares and the Warrants I were transferred from Simple View to Victory Peace before negotiations, discussions or the reaching of understandings or agreements with the Director relating to the Offer, such transfers are not disqualifying transactions under the paragraph 3(a) to Schedule VI of the Takeovers Code.

As at the Latest Practicable Date, save and except for (a) the 1,174,679,702 Shares, representing approximately 57.33% of the issued share capital of the Company as at the Latest Practicable Date; (b) the 270,262 Share Options entitling the holders thereof to subscribe for 270,262 new Shares, representing approximately 0.01% of the issued share capital of the Company as at the Latest Practicable Date; (c) the Warrants II in an aggregate amount of HK$53,999,975.00 entitling the holders thereof to subscribe for 260,869,443 new Shares, representing approximately 12.73% of the issued share capital of the Company as at the Latest Practicable Date; and (d) the Issued CBs in an aggregate principal amount of HK$350.00 million carrying rights entitling the holders thereof to convert their principal amount into 972,222,222 new Shares, representing approximately 47.44% of the issued share capital of the Company as at the Latest Practicable Date, held by the Concert Group, the Concert Group 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.

As at the Latest Practicable Date,

(a) save and except for the subscription of the Unissued CBs in an aggregate principal amount of HK$300.00 million, pursuant to the conditional subscription agreement dated 21 January 2011 entered into between the Company and Eternity, the Company, the Concert Group and parties acting in concert with any of them have not entered into any contract or arrangement resulting in the creation of outstanding derivatives in respect of the securities of the Company;

(b) save and except for the Irrevocable Undertakings, the Company, the Directors, the Concert Group and parties acting in concert with any of them has/have not received any indication or irrevocable commitment or arrangements from any Shareholder that it will accept or reject the Offer and to vote in favour of or against the resolution in respect of the Offer and/or the Whitewash Waiver;

(c) save and except for the Irrevocable Undertakings, there are no other arrangements (whether by way of option, agreements, indemnities or otherwise) in relation to the Shares and the shares of HWKFE which may be material to the Offer and/or the Whitewash Waiver;

(d) save as disclosed above, the Company, the Concert Group and parties acting in concert with any of them had not repurchased or dealt in any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period and will not conduct any on-market Share repurchase from the Latest Practicable Date up to and including the date on which the Offer closes, lapse or is withdrawn, as the case may be;

(e) save as disclosed above and save and except for the Irrevocable Undertakings, none of the Company, the Directors, the Concert Group and any parties acting in concert with any of them had dealt for value in their relevant shareholdings (as defined in Note 1 to paragraph 5 of Schedule III to the Repurchase Code) of the Company during the Relevant Period;

(f) 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 an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code and none of the subsidiaries of the Company, pension funds of any member of the Group or advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code had any dealings in any shares, options, derivatives and securities carrying conversion or subscription rights into Shares during the Offer Period and ending with the Latest Practicable Date;

(g) 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;

(h) 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 (i) any member of the Concert Group ; and (ii) an associate (as defined under the Takeovers Code) of HWKFE;

(i) 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 and no such fund managers (as mentioned immediately above in this paragraph) had any dealings in any Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into Shares during the Offer Period and ending with the Latest Practicable Date;

(j) none of the Company, the Directors and the Concert Group and any parties acting in concert with any of them had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(k) no benefit has been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer and/or the Whitewash Waiver;

(l) save and except for the Irrevocable Undertakings, 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 Offer 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 Offer and/or the Whitewash Waiver or otherwise connected with the Offer and/or the Whitewash Waiver;

(m) save and except for the Irrevocable Undertakings, no material contracts had been entered into by HWKFE in which any Director had a material personal interest;

(n) save and except for the conditions of the Offer as disclosed in the Circular and the Irrevocable Undertakings, there was no agreement or arrangement to which the Company, HWKFE and parties acting into concert with any of them was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer;

(o) 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;

(p) 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 the Circular irrevocably committed themselves or undertake to accept or reject the Offer or to vote in favour of or against the relevant resolutions in respect of the Offer and/or the Whitewash Waiver, save and except for the Concert Group under the Irrevocable Undertakings; and

(q) 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; and

(r) there was no agreement, arrangement or understanding whereby any securities to be acquired pursuant to the Offer will be transferred, charged or pledged to any other persons.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Announcement:

(i) a joint venture agreement dated 8 December 2010 entered into between China Star Entertainment (BVI) Limited ("China Star (BVI)"), a wholly-owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited (formerly known as Zhou Zhou Company 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;

(ii) the conditional agreement dated 23 December 2010 entered into between Triumph Top Limited, an wholly owned subsidiary of the Company, and Sociedade de Turismo e Diversoes de Macau, S.A. relating to the sale and purchase of the property leasehold right hold by Sociedade de Turismo e Diversoes de Macau, S.A. under the leasehold of the sites granted by the Macau Government at a total consideration of HK$550 million;

(iii) 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 Shares on a best effort basis at a price of HK$0.07 per Share;

(iv) the conditional subscription agreement dated 21 January 2011 (as supplemented by supplemental agreement dated 28 March 2011) entered into between the Company and Eternity, 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 million in two tranches at their face value;

(v) the underwriting agreement dated 29 March 2011 (as supplemented by the supplemental agreement dated 18 April 2011) entered into between the Company, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited relating to the the issue of the rights Shares by way of rights issue on the basis of three rights Shares for every one Share held at the record date at the subscription price of HK$0.25 per rights Share, with bonus warrants on the basis of one bonus warrant for every five rights Shares taken up, details of which are set out in the announcement of the Company dated 18 April 2011;

(vi) the conditional sale and purchase agreement dated 19 October 2011 entered into between China Star (BVI), a wholly owned subsidiary of the Company, and Well Gain (Asia) Limited relating to the acquisition of the entire issued share capital of the NPH Holdings Limited at a total consideration of HK$50,000,000;

(vii) the conditional sale and purchase agreements dated 11 January 2012 entered into between the Exceptional Gain Profits Limited, a wholly owned subsidiary of the Company, and SJM – Investimentos Limitada relating to the acquisition of 1% equity interest of the issued quotas of Lan Kwai Fong (Macau) and 1% equity interest in the issued share capital of Charm Faith at a total consideration of approximately HK$13,000,000;

(viii) the deed of termination dated 15 February 2012 entered into between Bestjump Holdings Limited and Ms. Chen relation to the termination of the a conditional sale and purchase agreement entered into between Bestjump Holdings Limited and Ms. Chen dated 29 April 2009 relating to the termination of the proposed acquisition of the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited; and

(ix) the conditional sale and purchase agreement dated 15 February 2012 entered into between China Star (BVI) and Mr. Heung, as vendor, relating to the acquisition of the 100% of the entire issued share capital of Most Famous Enterprises Limited and a sale loan at a total consideration of HK$618,000,000.

10. MISCELLANEOUS

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

(ii) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(iii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(iv) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(v) The English text of the Circular shall prevail over the Chinese text.

11. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in the Circular:

Name	Qualification
Get Nice Securities Limited	a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
Messis Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants Certified Public Accountants
Grant Sherman Appraisal Limited	Independent Professional Valuer
DTZ Debenham Tie Leung Limited	Independent Professional Valuer

Each of Get Nice, Donvex, Messis, HLB, Grant Sherman and DTZ has given and has not withdrawn its written consent to the issue of the Circular with the inclusion of its report and references to its name in the form and context in which they appear.

None of Get Nice, Donvex, Messis, HLB, Grant Sherman and DTZ 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.

None of Get Nice, Donvex, Messis, HLB, Grant Sherman and DTZ 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 2011, being the date to which the latest published audited accounts of the Group were made up.

Nuada Limited, the financial adviser to the Company, has given and has not withdrawn its consent to the publication of its name in the Circular.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at (i) Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays; (ii) the website of the Company at www.chinastar.com.hk; and (iii) the website of the SFC at www.sfc.hk from the date of the Circular, up to and including the closing date of the Offer:

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

(b) the memorandum and articles of association of HWKFE;

(c) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(d) the annual reports of the Company for each of the two financial years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012;

(e) the accountants' report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV to the Circular;

(f) the Irrevocable Undertakings;

(g) the letter from the Board the text of which is set out on pages 8 to 28 to the Circular;

(h) the letter from Get Nice, the text of which is set on pages 29 to 38 of the Circular;

(i) the letter from the Independent Board Committee, the text of which is set out on pages 39 and 40 the Circular;

(j) the letter from the Independent Financial Advisers to the Independent Board Committee, the text of which is set out on pages 41 to 63 to the Circular;

(k) the valuation reports on the properties of the Group issued by Grant Sherman, the text of which is set out in Appendix V to the Circular;

(l) valuation report on the properties of the Group issued by DTZ, the text of which is set out in Appendix VI to the Circular;

(m) the written consents of the experts referred to in the section headed "Expert and Consent" in this Appendix; and

(n) the Companies Act;

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

NOTICE IS HEREBY GIVEN that the special general 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 Thursday, 25 October 2012 at 12:00 noon for the following purposes:

1. To consider and, if thought fit, passing with or without modifications the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

(i) "**THAT** the conditional cash offer (the "**Offer**") by Get Nice Securities Limited on behalf of the Company to repurchase up to 877,850,288 shares of HK$0.01 each in the issued share capital of the Company (the "**Shares**") held by the shareholders of the Company (the "**Shareholders**") at a price of HK$0.35 per Share to be paid in cash, subject to the terms and conditions set out in the circular despatched to the Shareholders dated 28 September 2012 (the "**Circular**", a copy of which marked "A" is produced to this meeting and signed by the chairman of this meeting for the purpose of identification) together with the accompanying form of acceptance (a copy of which marked "B" has been produced to the meeting and signed by the chairman of this meeting for the purpose of identification) be approved, without prejudice and in addition to the existing authority of the Company under the general mandate to repurchase Shares granted by the Shareholders at the annual general meeting of the Company held on 28 June 2012, and that any one of the directors of the Company (the "**Directors**") be and is hereby authorised to execute all such documents with or without amendments and to do all such acts and things as he considers desirable, necessary or expedient in connection with or to give effect to any matters relating to or in connection with the Offer including, without limitation, completion of the repurchase of the Shares pursuant to the Offer."

(ii) "**THAT** the waiver (the "**Whitewash Waiver**") granted or to be granted by the executive director (the "**Executive**") of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive in respect of any obligation under The Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") of Heung Wah Keung Family Endowment Limited to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company other than those already owned or agreed to be acquired by it which may, but for the Whitewash Waiver, arise upon completion of the Offer be and is hereby approved, and that any one of the Directors be and is hereby authorised to execute all such documents with or without amendments and to do all such acts and things as he considers desirable, necessary or expedient in connection with or to give effect to any matters relating to or in connection with the Whitewash Waiver."

(iii) "**THAT** conditional upon (a) the Offer (as defined in resolution numbered 1(i) set out in the notice of meeting of which this resolution forms part) becoming or being declared unconditional in all respects; (b) the passing of the ordinary resolution for the Whitewash Waiver (as defined in the resolution numbered 1(ii) set out in the notice of meeting of which this resolution forms part); (c) the passing of the special resolution for the amendments to the bye-laws of the Company as set out in the notice of meeting of which this resolution forms part; and (d) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant and not having withdrawn or revoked the listing of and permission to deal in the Bonus Shares (as hereinafter defined) and the shares of HK$0.01 each in the capital of the Company to be issued upon conversion of the Bonus Convertible Bonds (as defined in the Circular):

(A) upon the recommendation of the Directors, the necessary sum be capitalised from the amount standing to the credit of any of the Company's reserve or fund (including contributed surplus) or any sum standing to the credit of the profit and loss account or otherwise available for distribution and the Directors be and are hereby authorised and directed to apply such sum in paying up in full at par sufficient unissued shares of HK$0.01 each in the capital of the Company (the "**Bonus Shares**"), and that such Bonus Shares shall be issued, allotted and distributed, credited as fully paid, to and amongst the persons whose names appear on the register of members of the Company on the record date to be fixed by the Directors for ascertaining entitlements of the shareholders of the Company thereto (the "**Record Date**") (other than those persons who shall have elected to receive the Bonus Convertible Bonds in lieu of all or part of their entitlements to the Bonus Shares pursuant to the terms of such issue) as holders of shares of HK$0.01 each in the capital of the Company (the "**Shares**") on a basis to be determined by the Directors which shall not exceed four Bonus Shares for every one issued Share held by such Shareholders on the Record Date respectively;

(B) the Bonus Shares to be issued and allotted pursuant to this resolution shall be subject to the memorandum of association and bye-laws of the Company and shall rank pari passu in all respects with the Shares in issue on the Record Date, except that they will not rank for the Possible Bonus Issue (as defined in the Circular);

(C) the terms and conditions of the Deed Poll (as defined in the Circular and a copy of a draft of which marked "C" is produced to this meeting and signed by the chairman of this meeting for the purpose of identification) be and are hereby approved and the Directors be and are hereby authorised to make such variation or amendment thereto as are, in the opinion of the Directors, in the interests of the Company and the creation and issue of the Bonus Convertible Bonds as constituted by the Deed Poll (with such variation or amendments as aforesaid) pursuant to the Possible Bonus Issue to holders of Shares on the Record Date who elect to receive the Bonus Convertible Bonds in lieu of all or part of their entitlements to the Bonus Shares pursuant to terms of such issue be and are hereby also approved;

(D) the Directors be and are hereby authorised to allot and issue shares in the capital of the Company, credited as fully paid, upon conversion of the Bonus Convertible Bonds (the "**Bonus Conversion Shares**") or otherwise in accordance with the terms and conditions of the Bonus Convertible Bonds and, or the Deed Poll by way of capitalisation of the necessary sum from the amount standing to the credit of the Company's reserve or fund (including contributed surplus) or any sum standing to the credit of the Company's profit and loss account or otherwise available for distribution and that the Bonus Conversion Shares shall, when allotted and issued, rank pari passu in all respects with all other shares in the capital of the Company in issue on the date of such allotment and issue;

(E) the Directors be and are hereby authorised to allot and issue further new shares in the capital of the Company (the "**Further New Shares**") falling to be issued upon conversion of any further new convertible bonds which may be issued by the Company on the same terms and conditions as the Bonus Convertible Bonds in accordance with the Deed Poll, credited as fully paid, by way of capitalization of necessary amount standing to the credit of the Company's reserve or fund (including contributed surplus) or any sum standing to the credit of the Company's profit and loss account or otherwise available for distribution; and

(F) the Directors be and are hereby authorised, for and on behalf of the Company, to take all steps and do all acts and things as they consider to be necessary, appropriate or expedient in connection with and to implement and, or give effect to the transactions contemplated by the Possible Bonus Issue, and the Bonus Convertible Bonds, and without limitation to the generality of the foregoing, to determine the amount to be capitalised out of the Company's reserve or fund (including contributed surplus) or any sum standing to the credit of the Company's profit and loss account or otherwise available for distribution, the number of Bonus Shares to be issued, allotted and distributed in the manner referred to in paragraph (A) of this resolution and the number of Bonus Conversion Shares to be issued and allotted in the manner referred to in paragraph (D) of this resolution and the number of Further New Shares to be issued and allotted in the manner referred to in paragraph (E) of this resolution, executing all such other documents, instruments and agreements and doing all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Possible Bonus Issue and the Bonus Convertible Bonds."

2. To consider and, if thought fit, passing with or without modifications the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

'**THAT** subject to and conditional upon the Offer (as defined in resolution numbered 1(i) set out in the notice of meeting of which this resolution forms part) becoming or being declared unconditional in all respects, the bye-laws of the Company be amended as follows:

(i) the existing bye-law 140(A) of the bye-laws of the Company be deleted in its entirety and substituted therefor with the following:

"140(A)(a) The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the members or any class of members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, or such other proportions as the Board may propose and as shall be approved by a Special Resolution of the Company on each occasion when there is an unequal distribution of dividend, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid up among such members, or partly in one way and partly in the other (in each case, a "**Capitalisation**"); Provided always that the Company shall be entitled to allow any member to elect to receive, in lieu of any or all such shares, debentures or other securities to be paid up and issued upon any such Capitalisation, an instrument entitling such member to be issued with shares, debentures or other securities (of an equivalent number subject to adjustment and otherwise on such terms as the Board considers fit) at a point of time subsequent to such Capitalisation (a "**Convertible Instrument**"), and the election of any such member to receive a Convertible Instrument in lieu of shares, debentures or other securities shall not prejudice or invalidate such Capitalisation; and the Board shall give effect to such resolution provided that, for the purposes of this Bye-law and subject to Section 40(2A) of the Companies Act, a share premium account and any reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such members credited as fully paid. In carrying sums to reserve and in applying the same the Board shall comply with the provisions of the Companies Act.

(b) Without limiting the generality of Bye-law 140(A)(a), any sum standing to the credit of any of the Company's reserve or fund (including contributed surplus) or any sum standing to the credit of the profit and loss account or otherwise available for distribution, may be used and applied by the Company to pay up in full unissued shares, debentures or other securities of the Company to be allotted and issued credited as fully paid to (i) holder(s) of the Convertible Instrument (irrespective of whether such person is a member) on the terms of the Convertible Instrument and/or (ii) any person upon the conversion of (x) any Convertible Instrument issued pursuant to Bye-law 140(A)(a) (irrespective of whether such person being issued with such shares, debentures or other securities upon such conversion is a member), and (y) any further or additional convertible instruments issued to any person by virtue or as a consequence of their rights as a holder of any Convertible Instrument issued pursuant to Bye-law 140(A)(a).";

(ii) the existing bye-law 176 of the bye-laws of the Company be deleted in its entirety and replaced with the words "Intentionally deleted"; and

(iii) the existing bye-law 177 of the bye-laws of the Company be deleted in its entirety and substituted therefor with the following:

"177. If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a Special Resolution and any other sanction required by the Companies Act, divide among the members and holder(s) of the Convertible Instrument (as defined in Bye-law 140(A)(a)) outstanding immediately prior to a winding-up of the Company (who shall for all purposes and intents be entitled to the same amount as if he were a member on an as converted basis with respect to the said outstanding Convertible Instrument in accordance with the terms thereof) in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.”.’

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

Hong Kong, 28 September 2012

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, attorney or other person authorised to sign the same.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 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.