



CHINA STAR FILM GROUP LIMITED

中國星電影集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This announcement, for which the directors (the “Directors”) of China Star Film Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

Revenue for the three months ended 31 March 2010 was approximately HK\$2.9 million (2009: HK\$6.5 million), representing a decrease of approximately 55.4% as compared with the same period last year. The revenue for the period under review was solely generated from the operation of artist management.

Profit attributable to owners of the Company for the three months ended 31 March 2010 amounted to approximately HK\$1.2 million (2009: loss attributable to owners of the Company of HK\$11.1 million).

Earnings per share was approximately HK0.45 cent for the three months ended 31 March 2010 (2009: loss per share HK125.6 cents).

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).

UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of China Star Film Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2010, together with the comparative unaudited figures for 2009 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 March	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Continuing operations			
Turnover		2,927	6,512
Cost of sales		<u>(2,131)</u>	<u>(3,799)</u>
Gross profit		796	2,713
Other revenue and income	3	354	62
Selling and distribution costs		—	(310)
Administrative expenses		(4,349)	(10,784)
Other operating expenses	4	—	(1,766)
Finance costs	5	<u>(3,485)</u>	<u>(1,042)</u>
Loss before Tax		(6,684)	(11,127)
Tax	6	<u>—</u>	<u>—</u>
Loss for the period from continuous operations		(6,684)	(11,127)
Discontinued operations			
Profit for the period from discontinued operations	7	<u>7,909</u>	<u>—</u>
Profit/(loss) attributable to owners of the Company		<u>1,225</u>	<u>(11,127)</u>
Earnings/(loss) per share			
	8		
From continuing and discontinued operations			
— Basic and diluted		<u>HK0.45 cents</u>	<u>HK(125.60) cents</u>
From continuing operations			
— Basic and diluted		<u>HK(2.49) cents</u>	<u>HK(125.60) cents</u>
From discontinued operations			
— Basic and diluted		<u>HK2.94 cents</u>	<u>N/A</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	1,225	(11,127)
Other comprehensive expense for the period		
Exchange differences on translation of foreign operations during the period	<u>(2,917)</u>	<u>—</u>
Total comprehensive loss for the period	<u>(1,692)</u>	<u>(11,127)</u>
Total comprehensive loss attributable to owners of the Company	<u>(1,692)</u>	<u>(11,127)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Star Film Group Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The Company’s principal activity has not changed during the period and consisted of investment holding. The principal activity of its subsidiaries is property investment, provision of artists management services, film production and film distribution and investment in jointly controlled entity which is principally engaged in the distribution of high-end apparel and accessories. On 8 February 2010, the Company entered into a conditional sale and purchase agreement pursuant to which the Company has conditionally agreed to sell its entire interests in Mega Shell Services Limited together with the debt owned by Mega Shell Services Limited to the Company to an independent third party. The principal activity of Mega Shell Services Limited and its subsidiaries is property investment. As such, the property investment is classified as discontinued operations for financial statements purpose.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), including the Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the unaudited condensed consolidated financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”). They have been prepared under the historical cost convention, except for certain financial instruments and investment properties which have been measured at fair value.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in annual financial statements for the year ended 31 December 2009.

In the current period, the Group has applied, for the first time, a number of revised HKFRS issued by the HKICPA, which are effective for the financial year beginning on 1 January 2010. The adoption of these new HKFRSs had no material effect on how the results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKAS 24 (Revised)	Related Party Disclosures ³
HKAS 32 (Amendment)	Classification of Rights Issues ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 9	Financial Instruments ⁴
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 February 2010.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

All significant transactions and balances within the Group have been eliminated on consolidation.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

3. OTHER REVENUE AND INCOME

	For the three months ended 31 March	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Bank interest income	11	—
Gain on disposal of property, plant and equipment	7	48
Management services income	324	10
Sundries Income	12	4
	<u>354</u>	<u>62</u>

4. OTHER OPERATING EXPENSES

	For the three months ended 31 March	
	2010	2009
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss on disposal of derivative financial instruments	—	347
Loss on early redemption of convertible bonds	—	1,419
	<u>—</u>	<u>1,766</u>
	<u><u>—</u></u>	<u><u>1,766</u></u>

5. FINANCE COSTS

	For the three months ended 31 March	
	2010	2009
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Effective interest expenses on convertible bonds	1,050	855
Interest on bank loans and overdrafts wholly repayable within five years	1	178
Effective interest expenses on promissory note	2,430	—
Interest on finance leases	4	9
	<u>3,485</u>	<u>1,042</u>
	<u><u>3,485</u></u>	<u><u>1,042</u></u>

6. TAX

No provision for Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses bought forward during the period under review (2009: Nil).

No provision for overseas income tax has been provided as the Company's overseas subsidiaries did not have taxable income during the period under review (2009: Nil).

7. DISCONTINUED OPERATIONS

Analysis of the results of discontinued operations is as follows:

	For the three months ended 31 March	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	—	—
Other income	95	—
Gain arising on change in fair values of investment properties	11,816	—
Administrative expenses	(4,002)	—
	<hr/>	<hr/>
Profit before tax of discontinued operations	7,909	—
Tax	—	—
	<hr/>	<hr/>
Profit for the period from the discontinued operations	<u>7,909</u>	<u>—</u>

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit attributable to owners of the Company for the three months ended 31 March 2010 of approximately HK\$1.2 million (2009: loss attributable to owners of the Company of HK\$11.1 million) and on the weighted average of 268,599,387 shares in issue during the three months ended 31 March 2010 (2009: 8,859,090 shares, as adjusted for share consolidations). The comparative figure of basic loss per share for the three months ended 31 March 2009 had been re-calculated to reflect the share consolidations taken place on 6 April 2009 and 18 January 2010 respectively.

The diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share as the exercise of share options and conversion of all outstanding convertible bonds would have anti-dilutive effects.

9. RESERVES

	Share premium <i>(Unaudited)</i> <i>HK\$'000</i>	Contributed surplus <i>(Unaudited)</i> <i>HK\$'000</i>	Convertible bonds reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Share-based payments reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Exchange reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Accumulated losses <i>(Unaudited)</i> <i>HK\$'000</i>	Total <i>(Unaudited)</i> <i>HK\$'000</i>
At 1 January 2009, as previously reported	135,062	—	12,693	98	—	(206,559)	(58,706)
Effect of change in accounting policies	—	—	—	—	—	(2,390)	(2,390)
At 1 January 2009, as restated	135,062	—	12,693	98	—	(208,949)	(61,096)
Redemption of convertible bonds	—	—	(9,639)	—	—	1,789	(7,850)
Issue of convertible bonds	—	—	42,711	—	—	—	42,711
Loss for the period	—	—	—	—	—	(11,127)	(11,127)
At 31 March 2009	<u>135,062</u>	<u>—</u>	<u>45,765</u>	<u>98</u>	<u>—</u>	<u>(218,287)</u>	<u>(37,362)</u>
At 1 January 2010	195,484	22,564	127,648	1,370	(537)	(177,912)	168,617
Capital reduction	—	5,411	—	—	—	—	5,411
Issue of new shares	57,380	—	—	—	—	—	57,380
Exchange difference arising on translating foreign operations	—	—	—	—	(2,917)	—	(2,917)
Profit for the period	—	—	—	—	—	1,225	1,225
As at 31 March 2010	<u>252,864</u>	<u>27,975</u>	<u>127,648</u>	<u>1,370</u>	<u>(3,454)</u>	<u>(176,687)</u>	<u>229,716</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue of the Group was HK\$2.9 million for the three months ended 31 March 2010 (2009: HK\$6.5 million), representing a decrease of approximately 55.4% as compared with the period ended 31 March 2009. The revenue for the period under review was solely generated from the operation of artist management.

Other revenues and income amounted to approximately HK\$0.4 million, representing an increase of 471% over the same period last year. Such increase was mainly contributed by the management services income of approximately HK\$0.3 million received by a subsidiary relating to the segment of the artist management.

Administrative expenses decreased by 59.7% to approximately HK\$4.4 million from HK\$10.8 million in prior year. Such decrease was mainly contributed by the scale down of the operations in the segment of the distribution of high-end apparel and accessories and the stringent cost control policy adopted by the management.

Finance costs increased by 234.5% to approximately HK\$3.5 million from HK\$1.0 million in prior year. Such increase was mainly attributed to the increase in effective interest expenses on the promissory note and convertible bonds.

Profit attributable to owners of the Company was HK\$1.2 million (2009: loss attributable to owners of the Company of HK\$11.1 million). The turnaround was mainly contributed by an increase in the fair value of approximately HK\$11.8 million of the investment properties located at Beijing, the PRC. Such increase was recorded in the operating results of the serviced apartment operations which was classified as discontinued operations following the enter of the disposal agreement (the “Disposal Agreement”) of the entire issued share capital of Mega Shell Services Limited (“Mega Shell”) (the “Mega Shell Sale Share”) and all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company (the “Mega Shell Sale Loan”) on 8 February 2010 (the “Disposal”). The details of the Disposal were disclosed in the section of “Business Review”.

Business Review

On 7 December 2009, the Company entered into a placing agreement with the placing agent, pursuant to which, the Company has conditionally agreed to place, through the placing agent, 200,000,000 placing shares by tranches provided that the number of placing shares for each tranche is in integral multiples of 50,000,000, on a fully written basis, to not fewer than six places at a price of HK\$0.30 per placing share. A circular containing the details of the placing had been despatched to the shareholders on 23 December 2009. The placing had been approved by the shareholders at the special general meeting held on 15 January 2010. Each of the first and second tranche placing of 100,000,000 placing shares were completed on 25 January 2010 and 5 February 2010 respectively.

On 8 February 2010, the Company entered into the Disposal Agreement with Keen Modern Limited (“Keen Modern”) pursuant to which the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the Mega Shell Sale Share and Mega Shell Sale Loan for the disposal price of approximately RMB119.57 million (or approximately HK\$136.07 million). The major assets of Mega Shell is the investment properties located at Beijing, the PRC. The Disposal constitutes a very substantial disposal on the part of the Company under the Chapter 19 of the GEM Listing Rules and is therefore subject to the shareholders’ approval requirement at the special general meeting. A circular containing the details of the Disposal had been despatched to the shareholders on 5 May 2010 and a special general meeting will be convened on 24 May 2010 for approving the Disposal. As disclosed in the circular, the Board proposed to repay a majority of its redeemable borrowings of approximately HK\$260 million before the completion of the Disposal and HK\$155.54 million upon the completion of the Disposal. The Board considered that the repayment of the redeemable borrowings on or before the completion of the Disposal is fair and reasonable on the grounds that (i) it improve the Company’s financial position and reduces gearing ratio for future business development; (ii) it is rational and reasonable for the repayment of the redeemable borrowings to the lender, who financed the acquisition of the investment properties located at Beijing, the PRC in April 2009, following the realisation of such investment properties by the Group; (iii) the potential massive dilution effect on the shareholding of the Company is eliminated by repaying the outstanding redeemable borrowings; and (iv) it enables the compliance of Rule 19.82 of the GEM Listing Rules by the Company.

Future Plans

The overall economic environment around the world has improved recently, the management remain cautiously in the development of its existing business by keeping track of their performance from time to time. The management will also take a number of measures to control the overall cost to enhance the operation efficiency of the Group. On the other hand, the Group will continue to seek for new investment opportunities in other areas in order to secure a stable source of revenue and diversify the earnings base of the Group.

Share Consolidation and Capital Reorganisation

Pursuant to the resolutions passed on 15 January 2010, capital reorganisation (the “First Capital Reorganisation”) has been effected by way of comprising (i) share consolidation that every five shares of HK\$0.01 each in the issued share capital of the Company be consolidated into one consolidated share of HK\$0.05 each (“Consolidated Shares”) (ii) capital reduction that the par value of all issued Consolidated Shares from HK\$0.05 each to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share; (iii) the transfer of the credit of HK\$5,410,642.16 arising from the capital reduction of all issued Consolidated Shares to the contributed surplus account of the Company for the purpose to offset against the accumulated losses permitted by the laws of Bermuda and the bye-laws. The First Capital Reorganisation has been completed on 18 January 2010.

On 19 April 2010, a circular was despatched to the shareholders of the Company relating to capital reorganisation (the “Second Capital Reorganisation”) that (i) the proposed reduction of the entire amount standing the credit of the share premium account of the Company; (ii) the proposed transfer the entire amount standing to the credit of the share premium account of the Company to the contributed surplus account of the Company; (iii) the proposed application of the amount of HK\$212,283,009.22 from the contributed surplus account of the Company to offset against the accumulated losses of the Company. The Second Capital Reorganisation is conditional upon the shareholders’ approval and compliance with the relevant procedures and requirements under the GEM Listing Rules and Bermuda laws. The completion of the Second Capital Reorganisation will facilitate the payment of dividends as and when the Board considers it appropriate. A special general meeting will be convened on 19 May 2010 for approving the Second Capital Reorganisation.

Special Dividend

As disclosed in the Company’s circular dated 5 May 2010, the Board proposed a special dividend (the “Proposed Special Dividend”) of HK\$40,231,926 to the shareholders of the Company on a pro rata basis. HK\$0.12 per share will be distributed to the shareholders of the Company based on 335,266,054 shares in issue as of the latest practicable date of the circular. The distribution of the Proposed Special Dividend is conditional upon the shareholders’ approval on the Proposed Special Dividend and the Disposal and the transactions contemplated thereunder at the special general meeting to be convened by the Company on 24 May 2010 and the completion of the Second Capital Reorganisation. The Board considered that it is a good opportunity for the Company to award the return of the Company to the shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 March 2010, the interests and short position of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (“SFO”)) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, were as follows:

Long Positions in the ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Mr. Lai Hok Lim	Beneficial owner	1,248,000	—	1,248,000	0.37%

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Scheme”) on 6 March 2002. The principal terms of the Scheme have been set out in the Note 38 to the financial statements in the annual report of the Company for the year ended 31 December 2009.

Details of the Company's share options granted under the Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price (Note 1)	Exercise period	Outstanding at 1/1/2010 (Note 1)	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 31/3/2010
3/9/2009	Employees	HK\$0.455	3/9/2009 to 2/9/2010	1,248,000	—	—	—	—	1,248,000
	Consultants	HK\$0.455	3/9/2009 to 2/9/2010	3,344,000	—	—	—	—	3,344,000
13/11/2009	Employees	HK\$0.500	13/11/2009 to 12/11/2010	1,248,000	—	—	—	—	1,248,000
				<u>5,840,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,840,000</u>

Note:

- (1) The exercise prices and number of share options have been adjusted due to the completion of the share consolidation on 18 January 2010.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at 31 March 2010, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2010, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long position in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
China Star Investment Holdings Limited	Interest of controlled corporation (<i>Note 1</i>)	21,184,549	301,338,391	322,522,940	96.20%
Riche (BVI) Limited	Beneficial owner (<i>Note 1</i>)	21,184,549	301,338,391	322,522,940	96.20%
China Star Entertainment Limited	Beneficial owner (<i>Note 2</i>)	—	70,754,716	70,754,716	21.10%
Ruan Yuan	Beneficial owner	23,000,000	—	23,000,000	6.86%

Notes:

- (1) Riche (BVI) Limited ("Riche") is deemed to be interested in 301,338,391 shares through its interest in the convertible bonds issued and to be issued by the Company in an aggregate amount of HK\$255,534,956. Adding the 21,184,549 shares that Riche is interested in its own capacity, Riche is deemed to be interested in 322,522,940 shares. As Riche is wholly-owned by China Star Investment Holdings Limited ("China Star"), a company listed on the Main Board of the Stock Exchange, China Star is deemed to be interested in such 322,522,940 shares.

- (2) China Star Entertainment Limited (“CSE”), a company listed on the Main Board of the Stock Exchange, is deemed to be interested in 70,754,716 shares through its interest in the convertible bonds in the principal amount of HK\$60,000,000 issued by the Company.

Save as disclosed above, at 31 March 2010, the Company has not been notified by any persons (other than the directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

At 31 March 2010, none of the Directors nor the management shareholders and substantial shareholders, or their respective associates had an interest in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the three months ended 31 March 2010.

CORPORATE GOVERNANCE

Save as disclosed below, the Company complied with provisions set out in Appendix 15 of the Code of Corporate Governance Practices of the GEM Listing Rules for the three months ended 31 March 2010.

a. Chairman and Chief Executive Officer

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Lai Hok Lim, who is also an executive director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

b. Terms of non-executive Directors

Under the code provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2010, the Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all the Directors, all the Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by the Directors adopted by the Company.

AUDIT COMMITTEE

The audit committee has three members comprising three independent non-executive directors, namely Mr. Yip Tai Him (Chairman of the Audit Committee), Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.

The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the draft of this announcement and the Company's condensed consolidated financial statements for the three months ended 31 March 2010 and has provided advice and comments thereon.

By Order of the Board
Lai Hok Lim
Chairman

Hong Kong, 13 May 2010

As at the date hereof, the Board comprises two executive Directors, namely Mr. Lai Hok Lim and Mr. Wong Chi Chiu; and three independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting and on the Company's website at www.golife.com.hk.