THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in the Prospectus.

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

A copy of each of the Rights Issue Documents, together with the consent letter of the Company's auditors, has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance and a copy of the Prospectus has been or will as soon as reasonably practicable be filed with the Registrar of Companies in Bermuda as required under the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of the Rights Issue Documents.

Dealing in the securities of the Company and the Rights Shares in their nil-paid and fully-paid forms may be settled through CCASS and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

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

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

RIGHTS ISSUE OF NOT LESS THAN 843,769,024 RIGHTS SHARES AND NOT MORE THAN 940,393,799 RIGHTS SHARES AT HK$0.20 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

UNDERWRITER

KINGSTON SECURITIES LIMITED

It should be noted that the Underwriter reserves the right to terminate its obligations under the Underwriting Agreement on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

(a) the success of the Rights Issue would be affected by:

- (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national and international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

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

(c) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

If the Underwriting Agreement is terminated by the Underwriter on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

The Shares have been dealt in on an ex-rights basis since Tuesday, 11th September 2007. Dealings in the Rights Shares in their nil-paid form will take place from Friday, 21st September 2007 to Wednesday, 3rd October 2007 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived at or before 4:00 p.m. on Monday, 15th October 2007 (or such later time and/or date as the Company and the Underwriter may determine), the Underwriting Agreement shall terminate and the Rights Issue will lapse. Any persons contemplating buying or selling Shares up to the date on which all the conditions of the Rights Issue are fulfilled and/or waived, and any dealing in the Rights Shares in their nil-paid form between Friday, 21st September 2007 and Wednesday, 3rd October 2007 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or the Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

The latest time for acceptance and payment for the Right Shares is 4:00 p.m. on Monday, 8th October 2007. The procedures for acceptance and payments or transfer are set out on pages 13 and 14 of the Prospectus.

19th September 2007

CONTENTS

	2007
Last day of dealings in the Shares on a cum-rights basis	Monday, 10th September
Commencement of dealings in the Shares on an ex-rights basis	Tuesday, 11th September
Latest time for lodging transfer of the Shares in order to be qualified for the Rights Issue	4:00 p.m. on Wednesday, 12th September
Register of members closes	Thursday, 13th September to Tuesday, 18th September
Record Date	Tuesday, 18th September
Register of members re-opens	Wednesday, 19th September
Despatch of the Rights Issue Documents	Wednesday, 19th September
First day of dealings in nil-paid Rights Shares	Friday, 21st September
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Tuesday, 25th September
Last day of dealings in nil-paid Rights Shares	Wednesday, 3rd October
Latest Time for Acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on Monday, 8th October
Latest time for termination of the Underwriting Agreement	4:00 p.m. on Monday, 15th October
Announcement of results of the Rights Issue on newspapers	Tuesday, 16th October
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on or before	Wednesday, 17th October
Certificates for the Rights Shares expected to be despatched on or before	Wednesday, 17th October
Dealings in fully-paid Rights Shares commence on	Tuesday, 23rd October

All time references contained in the Prospectus refer to Hong Kong time.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The Latest Time for Acceptance will not take place if there is:

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

- a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or

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

If the Latest Time for Acceptance does not take place on the Latest Acceptance Date, the dates mentioned in the section headed "Expected timetable" in the Prospectus may be affected. An announcement will be made by the Company in such event.

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

"Acquisition"	the acquisition by the Group of a 51% equity interest in Best Mind International Inc.
"Announcement"	the announcement of the Company dated 30th August 2007 and 31st August 2007 in connection with, among other matters, the Rights Issue
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	board of Directors
"Business Day"	any day (other than Saturday), on which banks in Hong Kong are open for business
"CCASS"	Central Cleaning and Settlement System established and operated by HKSCC
"Company"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"connected persons"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	director(s) of the Company
"Dorest"	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany through Porterstone and as to 40% by Mr. Heung Wah Keung
"Excess Application Form(s)" or "EAF(s)"	the form(s) of application for excess Rights Shares
"Excepted Shares"	240,000 existing Shares beneficially owned by Dorest but held in the name of C. A. Pacific Finance Limited, which is in liquidation

"Excluded Shareholders"	Overseas Shareholders where the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Overseas Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Exercisable Share Options"	outstanding Share Options that are exercisable on or before the Record Date in accordance with the terms of the Share Option Scheme, excluding the outstanding Share Options entitled by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany who have undertaken not to exercise such on or before the Record Date
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, third parties who are independent of and not connected with the Company or connected persons of the Company
"Kingston"	Kingston Securities Limited, a licensed corporation to carry on regulated activity 1 for the purpose of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Last Trading Day"	16th August 2007, being the last trading day of the Shares prior to the release of the Announcement
"Latest Acceptance Date"	Monday, 8th October 2007 (or such other date as the Underwriter may agree in writing with the Company as the date for acceptance of the Rights Issue and payment for, the Rights Shares)
"Latest Practicable Date"	Friday, 14th September 2007, being the latest practicable date prior to the printing of the Prospectus for ascertaining certain information in the Prospectus

"Latest Time for Acceptance"	4:00 p.m. on the Latest Acceptance Date or such later time as may be agreed between the Company and Kingston, being the latest time for acceptance of the offer of and payment for the Rights Shares and if there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time (i) before 12:00 noon and no longer in force after 12:00 noon on such day, such latest time for acceptance will be extended to 5:00 on the same Business Day; or (ii) between 12:00 noon and 4:00 p.m., such latest time for acceptance will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong
"Latest Time for Termination"	4:00 p.m. on Monday, 15th October 2007
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appeared on the register of members of the Company on the Record Date and whose registered address(es) on that date was/were outside Hong Kong
"Provisional Allotment Letter(s)" or "PAL(s)"	the provisional allotment letter(s) for the Rights Shares
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen Ming Yin, Tiffany. Accordingly, Mr. Heung Wah Keung, the husband of Ms. Chen Ming Yin, Tiffany, is deemed to be interested in the Shares held by Porterstone
"Posting Date"	Wednesday, 19th September, 2007 or such other date as the Underwriter may agree in writing with the Company for the despatch of the Rights Issue Documents
"Prospectus"	this prospectus issued by the Company in relation to the Rights Issue
"PRC"	The People's Republic of China which for the purpose of the Prospectus excludes Hong Kong, Macau and Taiwan
"Qualifying Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date, other than those Excluded Shareholders

"Record Date"	Tuesday, 18th September, 2007, the record date to determine entitlements to the Rights Issue
"Rights Issue"	the issue of not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares at the Subscription Price on the basis of one Rights Share for every two existing Shares held on the Record Date
"Rights Issue Documents"	the Prospectus, the PALs and the EAFs
"Rights Share(s)"	new Share(s) to be allotted and issued in respect of the Rights Issue
"Settlement Date"	Monday, 15th October, 2007, the date being the fifth business day following Monday, 8th October, 2007 being the latest time for acceptance of, and payment for, Rights Shares (or such other time or date as the Underwriter and the Company may agree in writing)
"Share Options"	options granted by the Company under the Share Option Scheme
"Share Option Scheme"	the new share option scheme adopted by the Company on 27th May, 2002 and the old share option scheme adopted by the Company on 23rd October, 1996 and terminated on 27th May, 2002
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	ordinary share(s) of HK$0.05 each in the issued and unissued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.20 per Rights Share
"Substantial Shareholders"	collectively Dorest, Porterstone, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany

"Underwriter"	Kingston
"Underwriting Agreement"	the underwriting agreement dated 17th August, 2007 entered into between the Company and the Underwriter in relation to the Rights Issue
"Underwritten Shares"	all the Rights Shares (excluding the 159,479,705 Shares agreed to be taken up by the Substantial Shareholders)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

It should be noted that the Underwriter reserves the right to terminate its obligations under the Underwriting Agreement on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

(a) the success of the Rights Issue would be affected by:

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

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

(iii) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

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

(c) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

Executive Directors:
Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*
Ms. Li Yuk Sheung

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

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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

19th September 2007

To the Qualifying Shareholders and,
for information only, the Excluded Shareholders

Dear Sir or Madam,

RIGHTS ISSUE OF NOT LESS THAN 843,769,024 RIGHTS SHARES AND NOT MORE THAN 940,393,799 RIGHTS SHARES AT HK$0.20 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

INTRODUCTION

Reference is made to the Announcement, in which the Company announced, inter alia, the Rights Issue.

The primary purpose of the Prospectus is to provide you with further details regarding the Rights Issue, including information on dealing in, transfer and acceptance of the Rights Shares, and certain financial and other information in respect of the Group.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	One Rights Share for every two existing Shares held on the Record Date
Number of Shares in issue	:	1,687,538,049 Shares as at the Latest Practicable Date
Number of Rights Shares	:	Not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 50% of the Company's existing issued share capital and approximately 33.33% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

Share Option Scheme

As at the Latest Practicable Date, there are outstanding Share Options entitling holders thereof to subscribe for 195,267,625 Shares of which an aggregate 2,018,075 Share Options are held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany under the Share Option Scheme. Save for the above, there are no other derviatives, options warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

Subscription Price

HK$0.20 per Rights Share, payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 11.11% to the closing price of HK$0.225 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 17.36% to the closing price of HK$0.242 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) a discount of approximately 27.54% to the average closing price of HK$0.276 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 37.30% to the average closing price of HK$0.319 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;

(v) a discount of approximately 42.20% to the average closing price of HK$0.346 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;

(vi) a discount of approximately 12.28% to the theoretical ex-right price of HK$0.228 based on the closing price of HK$0.242 per Share as quoted on the Stock Exchange on the Last Trading Date; and

(vii) a discount of approximately 79.72% to the audited consolidated net assets value per Share of approximately HK$0.986 as at 31st December 2006.

The Subscription Price was arrived at after arm's length basis between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. The Directors (including the independent non-executive Directors) consider the terms of the Rights Issue (including the rate of commission) to be fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

Basis of Provisional Allotments

One Rights Share (in nil-paid form) for every two existing Shares held by Qualifying Shareholders as at the close of business on the Record Date.

Status of the Rights Shares

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

Certificates for the Rights Shares

Subject to the fulfillment or the waiver in whole or in part by the Underwriter of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted by Wednesday, 17th October 2007 to those Qualifying Shareholders who have paid for and have accepted the Rights Shares, at their own risk.

Fractions of the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be made available for excess application.

Qualifying Shareholders

The Company will send the Right Issue Documents to the Qualifying Shareholders, including the Prospectus, the PALs and the EAFs. The Company will send the Prospectus only to the Excluded Shareholders for information purposes only.

To qualify for the Rights Issue, the Shareholder must be registered as a member of the Company on the Record Date. However, Overseas Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date to whom the Board, based on legal opinions provided by legal advisers, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place will not be regarded as Qualifying Shareholders.

The Company retains the right, however, in its discretion to vary the requirements set out above to avoid any offer of Rights Shares to Shareholders (without compliance with registration or other legal requirements) outside Hong Kong.

Rights of Excluded Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. The Company will send the Prospectus (without the Provisional Allotment Letters and Excess Application Forms) to the Excluded Shareholders for their information only.

Based on the register of members of the Company as at the Record Date, the Overseas Shareholders are situated in the United Kingdom, Singapore, Spain and Macau. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the offer of the Rights Shares to such Overseas Shareholders.

Based on the legal opinion provided by the relevant legal advisers in the United Kingdom, Singapore, Spain and Macau, the Directors are of the view that the Rights Shares can be offered to the Overseas Shareholders in these jurisdictions as there are no legal restrictions on the offering of the Rights Shares to these Overseas Shareholders which would be onerous for the Company to comply with. As such, there are no Excluded Shareholders.

Taxation

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the acquisition, holding or disposal of, or dealing in the Rights Shares and, as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

Procedures for acceptance and payments or transfer

Qualifying Shareholders will find enclosed with the Prospectus a Provisional Allotment Letter which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. **If you wish to exercise your rights to subscribe for all the Rights Shares specified in the Provisional Allotment Letter, you will need to lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with 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. on Monday, 8th October 2007. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "China Star Entertainment Limited – Rights Issue account" and crossed "Account Payee Only". No receipt will be given for such remittances.**

It should be noted that unless the duly completed Provisional Allotment Letter, together with the appropriate remittance, has been lodged with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:00 p.m. on Monday, 8th October 2007, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights and entitlement thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application on Excess Application Forms by Qualifying Shareholders.

If you wish to accept only part of your provisional allotment and/or to transfer part of your right to subscribe for the Rights Shares provisionally allotted to you or to transfer your rights to more than one person, the entire Provisional Allotment Letter must be surrendered by no later than 4:00 p.m. on Tuesday, 25th September 2007, to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong which will cancel the entire Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required which will be available for collection at the Company's branch share registrar and transfer office in Hong Kong on the second Business Day after your surrender of the original Provisional Allotment Letter.

The Provisional Allotment Letter contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of your provisional allotment.

All cheques and cashier's orders accompanying completed Provisional Allotment Letters will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of a Provisional Allotment Letter with a cheque and/or a cashier's order, whether by you or by any nominated transferee, will constitute a warranty by the applicant that the cheque and/or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any Provisional Allotment Letter in respect of which the accompanying cheque and/or cashier's order is dishonoured on first presentation, and, in such event, the relevant provisional allotment and all rights and entitlement given pursuant to which will be deemed to have been declined and will be cancelled.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of acceptance of Rights Shares will be returned to the Qualifying Shareholders or such other persons in whose favour the nil-paid Rights Shares shall have been validly transferred without interest by means of cheques despatched by ordinary post to the respective addresses on the register of members at their own risk as soon as practicable thereafter.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders, unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted.

Applications may be made by completing the Excess Application Form in accordance with the instructions printed thereon and lodging the same with a separate remittance for the excess Rights Shares applied for with the Company's branch share registrar and transfer office in Hong Kong, 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. on Monday, 8th October 2007. **All remittances accompanying the Excess Application Forms must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "China Star Entertainment Limited – Excess Application account" and crossed "Account Payee Only".** The Company will determine on a fair and equitable basis on the following principles:

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

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

(3) in accordance with any further requirements of the Stock Exchange.

The investors with the Shares held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the investors whose Shares are registered in the name of the nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually.

The Qualifying Shareholder(s) will be notified of any allotment of excess Rights Shares made to him/her/it/them on or about Tuesday, 16th October 2007 by way of a press announcement.

If no excess Rights Shares are allotted to the Qualifying Shareholder(s) who has/have applied for excess Rights Shares, it is expected that a cheque for the amount tendered on application in full without interest will be posted to the Qualifying Shareholder's address on the register of members of the Company by ordinary post at his/her/its/ their own risk on or about Wednesday, 17th October 2007. If the number of excess Rights Shares allotted to the Qualifying Shareholder(s) is less than that applied for, it is expected that a cheque for the amount of the surplus application monies, without interest, will be posted to the Qualifying Shareholder's address on the register of members of the Company without interest at the Qualifying Shareholder's own risk on or about Wednesday, 17th October 2007.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of the Excess Application Form together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or cashier's order will be honoured on first presentation. If any cheque or cashier's order accompanying a completed Excess Application Form is dishonoured on first presentation, without prejudice to the other rights of the Company, such Excess Application Form is liable to be rejected.

An Excess Application Form is for use only by the Qualifying Shareholder(s) to whom it is addressed and is not transferable. All documents, including cheques, will be despatched by ordinary post at the risk of the recipients to their address as appeared on the Company's register or members.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of applications for excess Rights Shares will be returned to the applicants without interest by means of cheques despatched by ordinary post to their addresses on the register of members of the Company at the risk of such applicants as soon as practicable thereafter.

Undertaking

As at the date of the Underwriting Agreement, the Substantial Shareholders are interested in an aggregate 319,199,410 Shares, representing approximately 18.92% of the issued share capital of the Company. Each has severally and irrevocably undertaken to the Company that, subject to the Rights Issue not being terminated, (i) it/he/she will subscribe and lodge acceptance for the Rights Shares which will constitute the provisional allotment of Rights Shares in respect of the Shares held by it/him/her pursuant to the terms of the Rights Issue (excluding the Excepted Shares); and (ii) it/he/she will not dispose of the Shares held by it/him/her from the date of the Underwriting Agreement to the close of business on the Record Date.

Application for listing of the Right Shares on the Stock Exchange

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

Provisional allotments of the Rights Shares made to Qualifying Shareholders will be transferable and there will be trading in the nil-paid entitlements on the Stock Exchange from Friday, 21st September 2007 to Wednesday, 3rd October 2007 (both days inclusive). It is expected that dealings in the Rights Shares (in their fully-paid forms) on the Stock Exchange will commence on Tuesday, 23rd October 2007. However, it should be noted that if the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement, the Rights Issue will not proceed. Dealings in nil-paid and fully-paid Rights Shares (in board lots of 5,000 Rights Shares) will be subject to the payment of stamp duty in Hong Kong.

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

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS and are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following:

(a) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong respectively on or prior to the Posting Date of the Rights Issue Documents in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and the delivery and filing with the Registrar of Companies in Bermuda in accordance with the requirements of the Companies Act 1981 of Bermuda (as amended) and complying with the requirements of the Companies Ordinance, the Companies Act 1981 of Bermuda (as amended) and the Listing Rules;

(b) the posting on the Posting Date of copies of the Rights Issue Documents to the Qualifying Shareholders;

(c) the provisional allotment of the Rights Shares to the Qualifying Shareholders by posting the Rights Issue Documents to such holders no later than the Posting Date as well as the provisional allotment of the Rights Shares, which would be provisionally allotted to the Excluded Shareholders had they been Qualifying Shareholders, to a person nominated by the Company in nil-paid form by no later than the close of business on the Posting Date;

(d) the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date;

(e) the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 5 trading days (other than any suspension pending clearance of the Announcement) and no indication being received before 4:00 p.m. on the Settlement Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason;

(f) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof; and

(g) if required, the consent or permission from the Bermuda Monetary Authority in respect of the issue of the Rights Shares.

In the event that the above conditions (other than condition (d) which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before the Posting Date or in the event that the conditions (d) and (f) have not been satisfied on or before 4.00 p.m. on the Settlement Date (or in each case, such later date as the Underwriter and the Company may agree), all liabilities of the parties to the Underwriting Agreement shall cease and determine and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses (excluding sub-underwriting fees and related expenses) as have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Shares by the Underwriter shall to the extent agreed by the Company be borne by the Company.

REASONS FOR THE RIGHTS ISSUE AND THE USE OF PROCEEDS

The Rights Issue enables the Company to raise funds for the Acquisition. In the event that the Acquisition does not proceed, the proceeds will be used as general working capital and possible investments which have not yet been identified.

The estimated net proceeds of the Rights Issue is approximately HK$162.6 million (after net off estimated expenses of approximately HK$6.2 million), which is intended to be used for the Acquisition. Shareholders are strongly recommended to refer to the Announcement for details of the Acquisition.

The Directors consider that it is in the best interest of the Company and the Shareholders to raise funds for the Acquisition or to use for possible investment which have not been identified, and the Rights Issue will allow all Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company.

FUND RAISING ACTIVITIES IN THE PREVIOUS 12 MONTH PERIOD

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

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
13th February 2007	Issue of zero coupon unsecured convertible bonds due 2012 of an aggregate principal amount of HK$168,500,000	HK$159,000,000	For the acquisition of Kingsway Hotel Limited	For the acquisition of Kingsway Hotel Limited
30th March 2007	Placing of 124,900,000 new Shares	HK$44,800,000	For the general working capital	For the general working capital
30th March 2007	Placing of 81,100,000 new Shares	HK$29,200,000	For the general working capital	For the general working capital
4th June 2007	Placing of 165,905,000 new Shares	HK$64,600,000	For the general working capital	For the general working capital
7th September 2007	Placing of 274,790,000 new Shares*	HK$56,200,000	For partial payment of the Acquisition	For partial payment of the Acquisition
7th September 2007	Placing of up to a maximum of 5,000,000,000 new Shares*	HK$1,023,500,000	For future acquisition of gaming businesses in Macau	For future acquisition of gaming businesses in Macau

* Announced but not yet completed.

There have been no change in the use of proceeds stated above.

UNDERWRITING ARRANGEMENT

Date:	17th August, 2007
Underwriter:	Kingston and its ultimate beneficial owners, which, to the best of the Directors' knowledge and information and having made all reasonable enquiries, are third parties independent of the Group and its connected persons (as defined in the Listing Rules). The Underwriter does not have any relationships with the Substantial Shareholders and are not acting in concert with them
Number of existing Shares in issue:	1,687,538,049 Shares as at the Latest Practicable Date (authorised share capital of 20,000,000,000 Shares)
Number of the Rights Shares:	Not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares The Rights Issue complies with Rule 14A.31(3)(c) of the Listing Rules
Number of Underwritten Shares:	Not less than 684,289,319 Underwritten Shares (assuming no Exercisable Share Options are exercised) and not more than 780,914,094 Underwritten Shares (assuming all Exercisable Share Options are exercised). The maximum and minimum number of Rights Shares to be underwritten by Kingston (taking into account the 159,479,705 Rights Shares agreed to be taken up by the Substantial Shareholders) are 780,914,094 and 684,289,319 respectively representing 27.68% and 27.03% of the enlarged issued share capital of the Company respectively
Commission:	2.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares

Termination of the Underwriting Agreement

If prior to 4:00 p.m. on the Settlement Date, in the reasonable opinion of the Underwriter:

(a) the success of the Rights Issue would be affected by:

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

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

(iii) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

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

(c) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it;

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

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Settlement Date:

(a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(b) any event occurring or matter arising after the Underwriting Agreement but before the Settlement Date which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties in the Underwriting Agreement untrue or incorrect.

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

The Shares have been dealt in on an ex-rights basis from Tuesday, 11th September 2007. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 21st September 2007 to Wednesday, 3rd October 2007 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before 4:00 p.m. on Monday, 15th October 2007 (or such later time and/or date as the Company and the Underwriter may determine), or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed and will lapse.

Any persons contemplating buying or selling Shares up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Friday, 21st September 2007 to Wednesday, 3rd October 2007 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER THE RIGHTS ISSUE

The following table illustrated the changes in shareholding structure as a result of the Rights Issue:

(i) assuming none of the Exercisable Share Options is exercised on or before the Record Date:

	As at the Latest Practicable Date		**Immediately after completion of the Rights Issue on the assumption as set out in Note 1**		**Immediately after completion of the Rights Issue on the assumption as set out in Note 2**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Porterstone	243,150,000	14.41	364,725,000	14.41	364,725,000	14.41
Dorest *(Note 3)*	18,510,000	1.10	27,645,000	1.09	27,645,000	1.09
Mr. Heung Wah Keung	36,395,000	2.16	54,592,500	2.16	54,592,500	2.16
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	31,716,615	1.25	31,716,615	1.25
Sub-total	319,199,410	18.92	478,679,115	18.91	478,679,115	18.91
Ms. Li Yuk Sheung, a Director	16	0.00	24	0.00	16	0.00
Public Shareholders	1,368,338,623	81.08	2,052,507,934	81.09	1,368,338,623	54.06
The Underwriter *(Note 3)*	0	0.00	120,000	0.00	684,289,319	27.03
Total	1,687,538,049	100.00	2,531,307,073	100.00	2,531,307,073	100.00
					(Note 4)	

Notes:

1. Assuming all Shareholders take up their respective provisional allotments of the Rights Shares in full.

2. Assuming (i) none of the Shareholders (save for the Substantial Shareholders takes up the Rights Shares provisionally allotted to it) takes up any provisional allotments of the Rights Shares; and (ii) the provisional allotments of the Rights Shares of all Shareholders (save for the Substantial Shareholders) are taken up by the Underwriter pursuant to the Underwriting Agreement.

3. 240,000 existing Shares beneficially owned by Dorest had been deposited in C. A. Pacific Finance Limited which is in liquidation. The Excepted Shares are held in name of C. A. Pacific Finance Limited in CCASS. Accordingly, the 120,000 Rights Shares which will be provisionally allotted to Dorest in relation to the Excepted Shares cannot be taken up by Dorest and such 120,000 Rights Shares will be underwritten by the Underwriter.

4. The total Shares demonstrate in the above will be subject to change after the completion of the Acquisition. Please refer to the Announcement for further details.

(ii) assuming all the Exercisable Share Options are exercised on or before the Record Date:

	As at the Latest Practicable Date		**Immediately after completion of the Rights Issue on the assumption as set out in Note 1**		**Immediately after completion of the Rights Issue on the assumption as set out in Note 2**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Porterstone	243,150,000	14.41	364,725,000	12.93	364,725,000	12.93
Dorest *(Note 3)*	18,510,000	1.10	27,645,000	0.98	27,645,000	0.98
Mr. Heung Wah Keung	36,395,000	2.16	54,592,500	1.94	54,592,500	1.94
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	31,716,615	1.12	31,716,615	1.12
Sub-total	319,199,410	18.92	478,679,115	16.97	478,679,115	16.97
Ms. Li Yuk Sheung, a Director	16	0.00	24	0.00	16	0.00
Public Shareholders	1,368,338,623	81.08	2,342,382,259	83.03	1,561,588,173	55.35
The Underwriter *(Note 3)*	0	0.00	120,000	0.00	780,914,094	27.68
Total	1,687,538,049	100.00	2,821,181,398	100.00	2,821,181,398	100.00
					(Note 4)	

Notes:

1. Assuming all Shareholders take up their respective provisional allotments of the Rights Shares in full.

2. Assuming (i) none of the Shareholders (save for the Substantial Shareholders takes up the Rights Shares provisionally allotted to it) takes up any provisional allotments of the Rights Shares; and (ii) the provisional allotments of the Rights Shares of all Shareholders (save for the Substantial Shareholders) are taken up by the Underwriter pursuant to the Underwriting Agreement.

3. 240,000 existing Shares beneficially owned by Dorest had been deposited in C. A. Pacific Finance Limited which is in liquidation. The Excepted Shares are held in name of C. A. Pacific Finance Limited in CCASS. Accordingly, the 120,000 Rights Shares which will be provisionally allotted to Dorest in relation to the Excepted Shares cannot be taken up by Dorest and such 120,000 Rights Shares will be underwritten by the Underwriter.

4. The total Shares demonstrate in the above will be subject to change after the completion of the Acquisition. Please refer to the Announcement for further details.

If, at the date of completion of the Rights Issue, less than 25% of the issued share capital of the Company are held by the public or if the Stock Exchange believes that:

– a false market exists or may exist in the trading in the Shares; or

– there are too few Shares in the issued share capital of the Company in public hands to maintain an orderly market,

then the Stock Exchange may consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

Should the Company be aware of possibility that the issued share capital of the Company held by the public will fall below 25%, the Company will make necessary placing arrangements to ensure not less than 25% of the issued share capital of the Company are held by the public at all times in order to comply with the minimum public float requirement under Rule 8.08 of the Listing Rules.

ADJUSTMENT TO THE SHARE OPTIONS

Under the terms of the Share Option Scheme, adjustments to the exercise price or number of the Share Options granted is required upon the completion of the Rights Issue. Such adjustment(s) will be set out in the Company's announcement of results of acceptance of the Rights Issue. The adjustment(s) will be reviewed and confirmed by an independent financial adviser or the auditors of the Company.

ADDITIONAL INFORMATION

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

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

1. SUMMARY OF AUDITED FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for the three years ended 31st December 2004, 2005 and 2006 as extracted from the respective published audited financial statements of the Group:

RESULTS

	For the year ended 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
Turnover	152,777	92,234	165,307
Profit/(loss) before taxation	38,769	(20,889)	(303,152)
Taxation	(1,918)	(124)	(268)
Profit/(loss) for the year	36,851	(21,013)	(303,420)
Attributable to:			
Equity holders of the Company	36,880	(20,961)	(303,219)
Minority Interests	(29)	(52)	(201)
	36,851	(21,013)	(303,420)

ASSETS AND LIABILITIES

	As at 31st December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
Assets and Liabilities			
Total assets	789,037	743,396	667,880
Total liabilities	(92,828)	(144,408)	(153,777)
	696,209	598,988	514,103
Net assets attributable to equity holders of the Company	694,827	597,556	512,639
Minority interests	1,382	1,432	1,464
	696,209	598,988	514,103
Net assets per share attributable to equity holders of the Company (HK$)	0.99	1.15	1.40
Number of Shares issued	704,646,000	520,541,000	365,406,000

2 AUDITED FINANCIAL STATEMENTS

The following is an extract of the financial statements of the Group from the latest annual report of the Company for the year ended 31st December 2006:

Consolidated Income Statement

For the year ended 31st December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	7	152,777	92,234
Cost of sales		(103,365)	(60,825)
Gross profit		49,412	31,409
Other revenue	8	9,068	8,204
Other income	9	3,682	5,919
Administrative expenses	10	(38,309)	(37,012)
Marketing and distribution expenses	10	(9,777)	(22,353)
Share-based payment expenses		(11,340)	(24,057)
Fair value loss on financial assets at fair value through profit or loss		(21,757)	(5,510)
Impairment loss on trade receivables		–	(1,101)
Net gain on disposals of financial assets at fair value through profit or loss		5,501	1,493
Increase in fair value of investment properties	18	2,880	3,540
Loss from operations		(10,640)	(39,468)
Finance costs	11	(2,212)	(1,929)
Share of results of associates		(9,796)	(10,013)
Gain on deemed disposal of interest in an associate	22	62,582	45,021
Gain on disposal of an associate	22	21,400	–
Impairment loss recognised in respect of goodwill arising on acquisition of associates	22	(32,565)	(4,500)
Impairment loss reversed/(recognised) in respect of convertible notes receivables	25	10,000	(10,000)
Profit/(loss) before taxation		38,769	(20,889)
Taxation	12	(1,918)	(124)
Profit/(loss) for the year		36,851	(21,013)

Consolidated Income Statement *(Continued)*
For the year ended 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Attributable to:			
Equity holders of the Company		36,880	(20,961)
Minority interests		(29)	(52)
		36,851	(21,013)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
Basic	13	HK$0.06	HK$(0.04)
Diluted	13	HK$0.06	N/A

All of the Group's operations are classed as continuing.

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

Consolidated Balance Sheet
At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	9,630	19,147
Interests in leasehold land	17	5,807	13,684
Investment properties	18	40,880	42,190
Goodwill	20	59,203	59,203
Available-for-sale financial assets	21	42,700	–
Interests in associates	22	198,113	166,473
		356,333	300,697
Current assets			
Loan receivable	23	–	25,000
Inventories	24	364	362
Convertible notes receivables	25	52,000	42,000
Film rights	26	97,427	135,998
Films in progress	27	29,469	47,461
Trade receivables	28	8,016	14,597
Deposits, prepayments and other receivables	29	45,161	80,547
Deposit for investment	30	40,000	–
Financial assets at fair value through profit or loss	31	64,560	23,345
Amounts due from associates	32	5,905	41,760
Prepaid tax		455	129
Cash and cash equivalents	33	89,347	31,500
		432,704	442,699
Total assets		789,037	743,396
Capital and reserve attributable to Company's equity holders			
Share capital	34	35,232	26,027
Reserves		659,595	571,529
		694,827	597,556
Minority interests		1,382	1,432
		696,209	598,988

Consolidated Balance Sheet *(Continued)*
At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	36	10,948	13,193
Unsecured convertible loan notes	37	–	19,434
Deferred taxation	38	1,888	–
		12,836	32,627
Current liabilities			
Trade payables	39	18,310	18,892
Deposits received, accruals and other payables	40	39,561	80,692
Bank borrowings – due within one year	36	2,254	12,197
Unsecured convertible loan notes	37	19,867	–
		79,992	111,781
Total equity and liabilities		789,037	743,396
Net current assets		352,712	330,918
Total assets less current liabilities		709,045	631,615

Balance Sheet

At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	19	488,744	480,058
Current assets			
Deposits, prepayments and other receivables	29	1,437	20,290
Deposit for investment	30	40,000	–
Amounts due from subsidiaries	19	137,957	145,900
Amounts due from associates	32	602	34,832
Cash and cash equivalents	33	87,837	22,063
		267,833	223,085
Total assets		756,577	703,143
Capital and reserves attributable to Company's equity holders			
Share capital	34	35,232	26,027
Reserves	35	609,683	550,331
		644,915	576,358
Non-current liabilities			
Unsecured convertible loan notes	37	–	19,434
Amounts due to subsidiaries	19	76,875	94,422
		76,875	113,856
Current liabilities			
Unsecured convertible loan notes	37	19,867	–
Deposits received, accruals and other payables	40	12,813	11,105
Amounts due to subsidiaries		2,107	1,824
		34,787	12,929
Total equity and liabilities		756,577	703,143
Net current assets		233,046	210,156
Total assets less current liabilities		721,790	690,214

Consolidated Statement of Changes in Equity

For the year ended 31st December 2006

	Attributable to the equity holders of the Company													
The Group	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note a)*	Exchange reserve *HK$'000*	Special reserve *HK$'000*	Share-based payment reserve *HK$'000* *(note b)*	Convertible loan notes reserve *HK$'000* *(note c)*	Financial assets reserve *HK$'000*	Capital reduction reserve *HK$'000* *(note d)*	Investment revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1st January 2005	18,270	778,975	186,624	680	–	7,841	566	–	316,008	479	(796,804)	512,639	1,464	514,103
Exchange adjustment	–	–	–	(292)	–	–	–	–	–	–	–	(292)	20	(272)
Transferred to interests in associates	–	–	–	–	–	–	–	–	–	(479)	–	(479)	–	(479)
Net income/(expense) directly recognised in equity	–	–	–	(292)	–	–	–	–	–	(479)	–	(771)	20	(751)
Net loss for the year	–	–	–	–	–	–	–	–	–	–	(20,961)	(20,961)	(52)	(21,013)
Total recognised income and expense for the year	–	–	–	(292)	–	–	–	–	–	(479)	(20,961)	(21,732)	(32)	(21,764)
Placement of shares	6,868	67,891	–	–	–	–	–	–	–	–	–	74,759	–	74,759
Share issuing expenses	–	(1,759)	–	–	–	–	–	–	–	–	–	(1,759)	–	(1,759)
Share-based payment expenses	–	–	–	–	–	24,057	–	–	–	–	–	24,057	–	24,057
Exercise of share options	889	8,703	–	–	–	–	–	–	–	–	–	9,592	–	9,592
At 31st December 2005 and 1st January 2006	26,027	853,810	186,624	388	–	31,898	566	–	316,008	–	(817,765)	597,556	1,432	598,988
Exchange adjustment	–	–	–	856	–	–	–	–	–	–	–	856	(21)	835
Share of reserve changes of associates	–	–	–	2,479	(6,867)	–	–	–	–	–	–	(4,388)	–	(4,388)
Fair value adjustment on available-for-sale -financial assets	–	–	–	–	–	–	–	(9,800)	–	–	–	(9,800)	–	(9,800)
Net income/(expense) directly recognised in equity	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	–	(13,332)	(21)	(13,353)
Net profit for the year	–	–	–	–	–	–	–	–	–	–	36,880	36,880	(29)	36,851
Total recognised income and expense for the year	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	36,880	23,548	(50)	23,498
Placement of shares	9,205	54,350	–	–	–	–	–	–	–	–	–	63,555	–	63,555
Share issuing expenses	–	(1,172)	–	–	–	–	–	–	–	–	–	(1,172)	–	(1,172)
Share-based payment expenses	–	–	–	–	–	11,340	–	–	–	–	–	11,340	–	11,340
At 31st December 2006	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	–	(780,885)	694,827	1,382	696,209

Consolidated Statement of Changes in Equity *(Continued)*

For the year ended 31st December 2006

Notes:

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

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

(c) Under HKAS 32, convertible loan notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible loan notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

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

Consolidated Cash Flow Statement

For the year ended 31st December 2006

	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	38,769	(20,889)
Adjustments for:		
Interest expenses	2,212	1,929
Interest income	(3,603)	(3,053)
Dividend income	(290)	–
Impairment loss on trade receivables	–	1,101
Reversal of impairment loss on trade receivables	(5)	(3,811)
Reversal of impairment loss on other receivables	(763)	–
Utilisation of prepayment for advertising services	–	5,345
Depreciation and amortisation of property, plant and equipment	6,580	9,810
Impairment loss recognised in respect of goodwill arising on acquisition of associates	32,565	4,500
Increase in fair value of investment properties	(2,880)	(3,540)
Gain on disposal of property, plant and equipment	(973)	–
Gain on disposal of investment properties	(1,810)	–
Gain on disposal of an associate	(21,400)	–
Gain on deemed disposal of interest in an associate	(62,582)	(45,021)
Net realised gain on disposals of financial assets at fair value through profit or loss	(5,501)	(1,493)
Fair value loss on financial assets at fair value through profit or loss	21,757	5,510
Recognition of unrealised gain eliminated on consolidation in prior year on sales to associates	–	(624)
Impairment loss (reversed)/recognised in respect of convertible note receivables	(10,000)	10,000
Share of results of associates	9,796	10,013
Waive of other payable	–	(1,194)
Share-based payment expenses	11,340	24,057
Operating cash flows before movements in working capital	13,212	(7,360)
(Decrease)/increase in inventories	(2)	629
Decrease in film rights	38,571	17,880
Decrease/(increase) in films in progress	17,992	(15,853)
Decrease/(increase) in trade receivables	6,586	(3,730)
Decrease/(increase) in deposits, prepayments and other receivables	36,149	(36,689)
Increase in deposit for investment	(40,000)	–
Decrease in amounts due from associates	2,055	1,152
Decrease in trade payables	(582)	(6,395)
(Increase)/decrease in deposits received, accruals and other payables	(41,131)	7,836
Cash generated from/(used in) operations	32,850	(42,530)
Tax (paid)/refunded	(356)	174
Net cash generated from/(used in) operating activities	32,494	(42,356)

Consolidated Cash Flow Statement *(Continued)*
For the year ended 31st December 2006

	2006	2005
	HK$'000	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,603	3,053
Dividend income	290	–
Proceeds from disposal of financial assets at fair value through profit or loss	34,727	23,416
Proceeds from disposal of property, plant and equipment	15,188	–
Proceeds from disposal of investment properties	6,000	–
Proceeds from disposal of an associate	25,000	–
Repayment of loan from an investee company	25,000	–
Loan repaid from/(advance to) an associate	33,800	(33,800)
Acquisition of interest in an associate	(19,407)	(60,506)
Refund of deposit for investment	–	12,000
Repayment of convertible notes receivables	–	33,800
Purchases of available-for-sale financial assets	(52,500)	–
Purchases of financial assets at fair value through profit or loss	(92,198)	(16,962)
Purchases of property, plant and equipment	(3,401)	(10,573)
Net cash used in investing activities	(23,898)	(49,572)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	63,555	84,351
Interest paid	(1,779)	(1,929)
Share issuing expenses	(1,172)	(1,759)
Repayment of bank loans	(12,188)	(10,810)
Net cash generated from financing activities	48,416	69,853
Net increase/(decrease) in cash and cash equivalents	57,012	(22,075)
Cash and cash equivalents at the beginning of the year	31,500	54,108
Effect of foreign exchange rate changes	835	(533)
Cash and cash equivalents at the end of the year		
Cash and cash equivalents	89,347	31,500

Notes to the Financial Statements

For the year ended 31st December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The head office and principal place of business of the Company is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

The principal activities of the Group are film production, distribution of motion pictures and television drama series, provision of artists management services and provision of post-production services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1st January 2006. A summary of the new HKFRSs are set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's results and financial position for the current and prior periods.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	(Note a)	Capital Disclosures
HKFRS 7	(Note a)	Financial Instruments: Disclosures
HKFRS 8	(Note b)	Operating Segments
HK(IFRIC) – Int 7	(Note c)	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	(Note d)	Scope of HKFRS 2
HK(IFRIC) – Int 9	(Note e)	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	(Note f)	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	(Note g)	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	(Note h)	Service Concession Arrangements

Notes:

a. Effective for annual periods beginning on or after 1st January 2007
b. Effective for annual periods beginning on or after 1st January 2009
c. Effective for annual periods beginning on or after 1st March 2006
d. Effective for annual periods beginning on or after 1st May 2006
e. Effective for annual periods beginning on or after 1st June 2006
f. Effective for annual periods beginning on or after 1st November 2006
g. Effective for annual periods beginning on or after 1st March 2007
h. Effective for annual periods beginning on or after 1st January 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The financial statements have been prepared under historical cost convention except for certain investment properties and financial assets which are carried at fair values. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

(b) Basis of consolidation

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

(i) Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any impairment losses) identified in acquisition.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) Revenue recognition

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

Sales of film rights are recognised when the films are delivered and the film title has passed perpetually.

Sales of video products are recognised when goods are delivered and title has passed.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	4.5% – 5%
Leasehold improvements	20% – 33%
Furniture and fixtures	10% – 20%
Machinery and equipment	18% – 25%
Motor vehicles	15% – 20%

The gain or loss arising from disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(e) Interests in leasehold land

Interests in leasehold land represents prepaid lease payment for leasehold land. Interests in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of interests in leasehold land are amortised on a straight-line basis over the shorter of the relevant interests in leasehold land or the operation period of the relevant company.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(f) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their fair value at balance sheet date. Any gain or loss arising from a change in the fair value of the investment properties are recognised directly in the income statement. Gain or loss on disposal of investment properties are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged 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.

(g) 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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than 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 arising on investment in subsidiaries 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Investments in subsidiaries

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(j) Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivables during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(k) Inventories

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

(l) Convertible notes receivables

Convertible notes receivables are separately disclosed and regarded as assets unless conversion actually occurs. The interest income recognised in the income statement in respect of the convertible notes receivables is calculated so as to produce a constant periodic rate of income on the remaining balances of the convertible notes receivables for each financial year.

Convertible notes receivables are stated at fair value. Realised and unrealised gains or losses arising from changes in the fair value of convertible notes receivables are recognised in the income statement.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(m) Film rights

Film rights represent films and television drama series produced by the Group or acquired by the Group and are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. The amortisation of film rights will not exceed twenty years. In the case where there is any impairment in value, the unamortised balance is written down to its estimated recoverable amount.

(n) Films in progress

Films in progress represents films and televisions drama series under production and is stated at cost incurred to date, less any identified impairment loss. Cost is transferred to film rights upon completion.

(o) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(p) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

i. Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(p) **Financial instruments** *(Continued)*

i. Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(p) **Financial instruments** *(Continued)*

ii. *Financial liabilities and equity instruments*

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

An equity instrument is any contract that evidences a residual interest in the asset of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arises.

Other financial liabilities

Other financial liabilities including creditors and accruals, securities trading and margin payable, deposits and receipts in advance, bank and other borrowings and amounts due to associates are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible loan notes – equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes – equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes – equity reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(p) **Financial instruments** *(Continued)*

ii. Financial liabilities and equity instruments (Continued)

Convertible loan notes *(continued)*

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible loan notes – equity reserve.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designated as financial assets at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

iii. Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

(q) **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(r) **Provision**

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(s) **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(t) **Translation of foreign currencies**

(i) Functional and presentation currency

Items included in the accounts of Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Hong Kong dollars ("HK$").

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(u) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(v) **Retirement benefits costs**

Payments to the Group's retirement benefits schemes are charged as an expense as they fall due.

(w) **Employee benefits**

(i) Bonuses

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

(ii) Retirement benefit obligations

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Employee benefits *(Continued)*

(iii) Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(x) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in both the People's Republic of China ("the PRC") and Hong Kong and majority of transactions are dominated in United States dollars, Hong Kong dollars and Renminbi. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss and available-for-sale financial assets which are measured at fair value at each balance sheet date. The Group manages the price risk exposure by maintaining a portfolio of investments with different risk profiles.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that films are only licensed or distributed to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

4.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in notes 3(i) and 3(m). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Trade receivables

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

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, 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) Estimate of fair values of investment properties

As described in note 18, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(e) Impairment of films in progress

The management of the Group reviews an aging analysis at each balance sheet date, and identifies the slow-moving films in progress that is no longer suitable for use in production. The management estimates the net realisable value for such films in progress based primarily on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at each balance sheet date and makes allowance for any films in progress that productions no longer proceed.

6. SEGMENT INFORMATION

The directors of the Company report the geographical segments as the Group's primary segment information.

Geographical segments

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

Income statement for the year ended 31st December 2006:

	Hong Kong and Macau	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC")	America and Europe	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	36,960	8,783	1,093	11,532	94,409	152,777
Cost of sales	(23,749)	(3,984)	(697)	(6,921)	(68,014)	(103,365)
Marketing and distribution expenses	(9,018)	(396)	(52)	(191)	(120)	(9,777)
Segment results	4,193	4,403	344	4,420	26,275	39,635
Share-based payment expenses	(11,340)	–	–	–	–	(11,340)
Net gain on disposals of financial assets at fair value through profit or loss	5,501	–	–	–	–	5,501
Other revenue	8,228	–	–	–	840	9,068
Other income	2,783	–	–	–	899	3,682
Increase in fair value of investment properties	2,880	–	–	–	–	2,880
Fair value loss on financial assets at fair value through profit or loss	(21,757)	–	–	–	–	(21,757)
Unallocated corporate expenses						(38,309)
Loss from operations						(10,640)
Finance costs						(2,212)
Share of results of associates						(9,796)
Impairment loss reversed in respect of convertible notes receivables	10,000	–	–	–	–	10,000
Impairment loss recognised in respect of goodwill arising on acquisition of associates						(32,565)
Gain on disposal of an associate						21,400
Gain on deemed disposal of interest in an associate						62,582
Profit before taxation						38,769
Taxation						(1,918)
Profit for the year						36,851

6. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

Income statement for the year ended 31st December 2005:

	Hong Kong and Macau	The PRC	America and Europe	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	49,805	10,217	8,046	22,589	1,577	92,234
Cost of sales	(33,925)	(6,915)	(4,878)	(14,320)	(787)	(60,825)
Marketing and distribution expenses	(10,505)	(9,666)	(529)	(1,552)	(101)	(22,353)
Segment results	5,375	(6,364)	2,639	6,717	689	9,056
Share-based payment expenses	(24,057)	–	–	–	–	(24,057)
Net gain on disposals of financial assets at fair value through profit or loss	1,493	–	–	–	–	1,493
Other revenue	6,943	–	–	–	1,261	8,204
Other income	–	–	–	–	5,919	5,919
Increase in fair value of investment properties	3,540	–	–	–	–	3,540
Fair value loss on financial assets at fair value through profit or loss	(5,510)	–	–	–	–	(5,510)
Unallocated corporate expenses						(38,113)
Loss from operations						(39,468)
Finance costs						(1,929)
Share of results of associates						(10,013)
Impairment loss recognised in respect of convertible notes receivables	(10,000)	–	–	–	–	(10,000)
Impairment loss recognised in respect of goodwill arising on acquisition of associates						(4,500)
Gain on deemed disposal of interest in an associate						45,021
Loss before taxation						(20,889)
Taxation						(124)
Loss for the year						(21,013)

No analysis of assets and liabilities by location of markets is disclosed as, in the opinion of the directors, there is no appropriate basis in allocating the assets and liabilities by location of markets.

6. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

No analysis of the carrying amount of segment assets, additions of property, plant and equipment and the depreciation and segment liabilities analysed by the geographical area are disclosed as more than 90% of the group assets are located in Hong Kong and Macau. The directors of the Company are also of the opinion that the segment for the PRC is of no continuing significant influence. The geographical segment for the year ended 31st December 2005 is presented for information purpose.

Balance sheet as at 31st December 2005

	Hong Kong And Macau	**The PRC**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	743,086	310	743,396
Segment liabilities	142,637	1,771	144,408
Additions of property, plant and equipment	5,606	–	5,606
Additions of interests in leasehold land	4,967	–	4,967
Depreciation and amortisation	9,810	–	9,810

Business segments

No business segments are presented in the financial statements as more than 90% of the Group's turnover, total assets and capital expenditure were derived from film distributions.

7. TURNOVER

	2006	**2005**
	HK$'000	*HK$'000*
Distribution fee income	52,833	85,970
Sales of film rights	92,976	–
Sales of video products	72	661
Service income	1,790	240
Production fee income	5,106	5,363
	152,777	92,234

8. OTHER REVENUE

	2006	**2005**
	HK$'000	*HK$'000*
Bank interest income	2,763	1,792
Loan receivable interest income	218	741
Convertible notes receivables interest income	520	520
Rental income from investment properties	315	291
Management fee income from associates	4,860	4,860
Other interest income	102	–
Dividend income	290	–
	9,068	8,204

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Reversal of impairment loss on trade receivables	5	–
Reversal of impairment loss on other receivables	763	3,811
Gain on disposal of property, plant and equipment	973	–
Gain on disposal of investment properties	1,810	–
Exchange gain	–	820
Waiver of loan	–	1,194
Others	131	94
	3,682	5,919

10. EXPENSES BY NATURE

Expenses included cost of sales, administrative expenses and marketing and distribution expenses are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Amortisation of film rights (included in cost of sales)	100,850	57,646
Auditors' remuneration	606	838
Cost of inventories (included in cost of sales)	33	664
Depreciation of property, plant and equipment	6,294	9,491
Amortisation of interest in leasehold land	286	319
Net foreign exchange losses	1,095	–
Operating lease rental in respect of rented premises	2,286	2,174
Employee benefit expenses *(note 14)*	26,285	39,740

11. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Imputed interest on convertible loan notes wholly repayable within five years	1,233	800
Interest on bank borrowings wholly repayable within five years	873	524
Interest on bank borrowings not wholly repayable within five years	106	605
	2,212	1,929

12. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The taxation charge is as follows:		
Current tax:		
Taxation in other jurisdictions:		
Provision for the year	30	124
Deferred tax *(note 38)*		
Current year	504	–
Underprovision in prior years	1,384	–
	1,888	–
	1,918	124

No provision for Hong Kong Profits Tax has been made for both years either as the Company and its subsidiaries have no assessable profits arising in Hong Kong or as assessable profits were wholly absorbed by estimated tax losses brought forward.

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

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

	2006		2005	
	HK$'000	*%*	*HK$'000*	*%*
Profits/(loss) before taxation	38,769		(20,889)	
Taxation at domestic income tax rate of 17.5%	6,785	17.5	(3,656)	(17.5)
Tax effect of expenses not deductible for tax purpose	3,179	8.2	1,649	7.9
Tax effect of income not taxable for tax purpose	(5,394)	(13.9)	(705)	(3.4)
Tax effect of estimated tax losses not recognised	206	0.5	3,260	15.6
Tax effect of utilisation of estimated tax losses previously not recognised	(4,746)	(12.2)	(424)	(2)
Deferred tax liability	1,888	4.8	–	–
Tax charge for the year	1,918	4.9	124	0.6

13. EARNINGS/(LOSS) PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	36,880	(20,961)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	631,665,019	501,724,214
Effect of dilutive potential ordinary shares:		
Share options	12,203,820	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	643,868,839	501,724,214

The computation of diluted earnings per share for the year ended 31st December 2006 did not assume exercise of the Company's certain outstanding share options and the conversion of the convertible loan notes existing during the year since their conversion would result in an increase in earnings per share.

The computation of diluted loss per share for the year ended 31st December 2005 did not assume the exercise of the Company's outstanding share options and convertible loan notes existed during the year 2005 since their exercise would reduce loss per share.

14. EMPLOYEE BENEFIT EXPENSES

	2006	2005
	HK$'000	*HK$'000*
Directors' remuneration	4,536	4,464
Directors' fee	360	360
Salaries and bonuses	9,585	10,360
Share-based payment expenses	11,340	24,057
Mandatory provident fund	389	428
Staff welfare expenses	75	71
	26,285	39,740

14. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Directors' emoluments

The Company's Board 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$4,932,000 (2005: HK$4,860,000). The remuneration of every director for the year ended 31st December 2006 and 31st December 2005 is as below:

Name of director	Fee 2006	Fee 2005	Salaries and bonuses 2006	Salaries and bonuses 2005	Mandatory provident fund 2006	Mandatory provident fund 2005	Employee share-based payment 2006	Employee share-based payment 2005	Total 2006	Total 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	2,040	2,160	12	12	–	–	2,052	2,172
Ms. Chen Ming Yin, Tiffany	–	–	1,950	1,800	12	12	–	–	1,962	1,812
Ms. Li Yuk Sheung	–	–	546	504	12	12	–	–	558	516
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Fung Ho Sum	120	120	–	–	–	–	–	–	120	120
	360	360	4,536	4,464	36	36	–	–	4,932	4,860

The emoluments of the directors fell within the following bands:

	Number of directors 2006	Number of directors 2005
Nil to HK$1,000,000	4	4
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	1
	6	6

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: two) Directors whose emoluments are reflected in note (a) above and amounted to HK$4,014,000 (2005: HK$3,984,000). The emoluments payable to the remaining individual (2005: three) during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other allowances	988	1,668
Retirement benefits scheme contributions	32	36
Share-based payment expenses	3,755	4,115
	4,775	5,819

14. **EMPLOYEE BENEFIT EXPENSES** *(Continued)*

(b) **Five highest paid individuals** *(Continued)*

The aggregated emoluments of each of these remaining three (2005: three) highest paid individuals fell within the following bands:

Number of individuals

	2006	**2005**
	HK$'000	*HK$'000*
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	–	1
	3	3

15. **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 is held separately from those of the Group in an independently administrative fund.

(b) Employees of subsidiaries in the PRC are members of the Central Pension Scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is the required contribution under the Central Pension Scheme.

During the year, the retirement benefits schemes contributions net of forfeited contributions of HK$22,000 (2005: HK$19,000) amounted to HK$389,000 (2005: HK$428,000).

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1st January 2005	10,450	5,508	15,111	43,681	2,864	77,614
Additions	4,412	–	230	728	236	5,606
Disposals	–	–	–	(861)	(625)	(1,486)
At 31st December 2005 and 1st January 2006	14,862	5,508	15,341	43,548	2,475	81,734
Additions	–	1,246	246	114	1,795	3,401
Disposals	(7,546)	(5,508)	(4,882)	(6,271)	(428)	(24,635)
At 31st December 2006	7,316	1,246	10,705	37,391	3,842	60,500
Accumulated depreciation						
At 1st January 2005	3,778	4,974	10,732	33,160	1,823	54,467
Charge for the year	576	200	2,159	6,166	390	9,491
Eliminated on disposals	–	–	–	(751)	(620)	(1,371)
At 31st December 2005 and 1st January 2006	4,354	5,174	12,891	38,575	1,593	62,587
Charge for the year	520	310	1,474	3,329	661	6,294
Eliminated on disposals	(1,404)	(5,358)	(4,759)	(6,262)	(228)	(18,011)
At 31st December 2006	3,470	126	9,606	35,642	2,026	50,870
Net book value						
At 31st December 2006	3,846	1,120	1,099	1,749	1,816	9,630
At 31st December 2005	10,508	334	2,450	4,973	882	19,147

At 31st December 2006, none of the Group's buildings (2005: HK$2,329,000) were pledged to secure banking facilities granted to the Group.

17. INTERESTS IN LEASEHOLD LAND

	2006	2005
	HK$'000	*HK$'000*
Cost		
At 1st January	15,417	10,450
Additions	–	4,967
Disposals	(8,123)	–
At 31st December	7,294	15,417
Accumulated amortisation		
At 1st January	1,733	1,414
Charge for the year	286	319
Eliminated on disposals	(532)	–
At 31st December	1,487	1,733
Net book value		
At 31st December	5,807	13,684

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

	2006	2005
	HK$'000	*HK$'000*
Land in Hong Kong, held on:		
Long-term leases	2,800	3,295
Medium-term leases	3,007	10,389
	5,807	13,684

At 31st December 2006, none of the Group's interests in leasehold land (2005: HK$2,671,000) were pledged to secure banking facilities granted to the Group.

18. INVESTMENT PROPERTIES

	2006	2005
	HK$'000	*HK$'000*
At 1st January	42,190	38,650
Disposals	(4,190)	–
Increase in fair value	2,880	3,540
At 31st December	40,880	42,190

Investment properties were valued at their open market values at 31st December 2006 by Grant Sherman Appraisal Limited, an independent firm of professional valuers who have recent experience in valuation of similar properties in the relevant locations. These valuations gave rise to a revaluation surplus of HK$2,880,000 (2005: HK$3,540,000), of which the whole amount has been credited to the income statement in accordance with HKAS 40.

All investment properties included building cost held under finance leases with the carrying amount of approximately HK$40,880,000 (2005: HK$42,190,000) have been pledged to secure banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

18. INVESTMENT PROPERTIES *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Investment properties in Hong Kong, held on:		
Medium-term leases	40,880	42,190

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	30,708	30,708
Impairment loss recognised	(30,299)	(30,299)
	409	409
Amounts due from subsidiaries	1,504,319	1,495,633
Provision for amounts due from subsidiaries	(1,015,984)	(1,015,984)
	488,335	479,649
	488,744	480,058

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

The fair value of the amounts due from subsidiaries classified under non-current assets at 31st December 2006 determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to its carrying value.

The amounts due from/to subsidiaries classified under current assets/liabilities are unsecured, interest-free and repayable on demand. In the opinion of the Directors, the carrying amounts of the amounts due from/to subsidiaries as at 31st December 2006 approximate to their fair values.

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

Details of the Company's principal subsidiaries as at 31st December 2006 are set out in note 45.

20. GOODWILL

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

	2006	**2005**
	HK$'000	*HK$'000*
Film production	59,203	59,203

During the year under review, the directors of the Company reassessed the recoverable amount of the CGU of film production with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers and determined that no impairment loss on goodwill associated with the CGU of film production was identified.

The recoverable amount of the CGU of film production was assessed by reference to value-in-use calculation. A discount rate of 18.04% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which the CGU of film production operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included gross margin, growth and discount rate which are determined by the management of the Group based on the past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the CGU Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	**2005**
	HK$'000	*HK$'000*
Equity securities, listed in Hong Kong, at fair values	42,700	–

The fair values of equity securities listed in Hong Kong have been determined by reference to the quoted market bid prices available on the relevant stock market.

Disclosures pursuant to the requirement of section 129(1) and the disclosure requirement of the Listing Rules are as follows:

Name of entity	**Country of incorporation**	**Principal place of operation**	**Class of share held**	**Proportion of nominal value of issued capital held by the Group**	**Proportion of voting power held**	**Principal activities**
Daido Group Limited	Bermuda	Hong Kong	Ordinary	20.11%	20.11%	Cold storage and logistic services manufacturing and trading of ice and property investment

The Group holds 20.11% of the issued share capital of Daido Group Limited and controls 20.11% of the voting power in general meeting. However, the other shareholders significantly control the composition of the board of directors of Daido Group Limited and therefore the directors of the Company consider that the Group does not exercise significant influence on Daido Group Limited.

22. INTERESTS IN ASSOCIATES

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Share of net assets of associates *(Note a)*	143,346	79,704
Goodwill *(Note b)*	54,767	86,769
	198,113	166,473
Market value of listed shares	317,016	463,533

(a) Share of net assets of associates

	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	79,704	38,249
Share of losses of associates	(9,796)	(10,013)
Disposal of an associate *(note c)*	(3,600)	–
Increase in share of net assets on deemed disposal of 8.43% (2005: 3.3%) interest in Riche Multi-Media Holdings Limited ("Riche Multi-Media") *(note d)*	73,708	47,326
Further acquisition of 1.79% (2005: 3.7%) interest in Riche Multi-Media in the year *(note d)*	7,718	3,997
Recognition of unrealised gain eliminated on consolidation	–	624
Share of foreign exchange and special reserve of an associate	(4,388)	–
Elimination of revaluation reserve of Riche Multi-Media	–	(479)
At 31st December	143,346	79,704

(b) Goodwill

	2006	**2005**
	HK$'000	*HK$'000*
At 1st January	86,769	37,065
Decrease in goodwill on deemed disposal of 8.43% (2005: 3.3%) interest in Riche Multi-Media *(note d)*	(11,126)	(2,305)
Impairment loss recognised for the year	(32,565)	(4,500)
Further acquisition of 1.79% (2005: 3.7%) interest in Riche Multi-Media in the year *(note d)*	11,689	56,509
At 31st December	54,767	86,769

Goodwill will not be tested for impairment separately and the entire carrying amount of the interests in associates is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associates with their corresponding carrying amounts. Impairment losses identified is recognised and is first allocated to goodwill.

During the year under review, the directors of the Company reassessed the recoverable amount of goodwill and determined that impairment loss on goodwill associated with the Group's associate, Together Again Limited ("TAL") and its subsidiaries (the "TAL Group") amounted to approximately HK$32,565,000 (2005: HK$4,500,000) was identified. The main factor contributing to the impairment was the failure of certain major artists to contribute to the revenue of the TAL Group. The balance of the goodwill of the Group amounted to approximately HK$54,767,000 at 31st December 2006 was related to Riche Multi-Media.

22. INTERESTS IN ASSOCIATES *(Continued)*

(b) Goodwill *(Continued)*

The recoverable amount of TAL Group was assessed by reference to value-in-use calculation. A discount rate of 15.72% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Approved Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Approved Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Approved Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

During the year under review, the Group assessed the recoverable amount of goodwill of Riche Multi-Media and determined that no impairment loss was identified. The recoverable amount of Riche Multi-Media was assessed by reference to value-in-use calculation of its investment properties which is the major cash generating unit of Riche Multi-Media. A discount rate of 16.14% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Riche Forecast") covering a five-year period. Cash flows beyond the five year period have been extrapolated using a steady 7% growth rate per annum. This growth rate was made by reference to National Bureau of Statistics of China and does not exceed the long term average growth rate for the market in which Riche Multi-Media operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Riche Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on the past experience and its expectation for the market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Riche Forecast. The discount rates used are pre-tax and reflect specific risks relating to the market.

(c) Disposal of an associate:

On 15th March 2004, the shareholder of Golden Capital International Limited ("Golden Capital"), an associate of the Group, granted to the Group an option ("Option") to require Golden Capital's shareholder to purchase from the Group an aggregate of 356 shares of US$1 each in the share capital of Golden Capital which represents the Group's entire shareholding in Golden Capital, at an aggregate consideration of HK$25,000,000 ("Consideration"). The Group may exercise the Option in the event that the net profits after taxation but before extraordinary items as shown in the audited accounts ("Audited Accounts") of Golden Capital for year ended 31st December 2004 is less than HK$14,600,000.

As the net profits after taxation but before extraordinary items as shown in the Audited Accounts was less than HK$14,600,000, the Group exercised the Option in April 2006 and the shareholder of Golden Capital repaid the Consideration to the Group by two installments within the same month.

(d) Interests in Riche Multi-Media:

During the period, Riche Multi-Media issued 1,330,321,745 ordinary shares of HK$0.01 ("Riche Shares") at a price of HK$0.20 each amounted to approximately HK$266,064,000 as consideration in relation to an acquisition of a group of companies which major assets is the 96.7% equity interest in Beijing Jianguo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Group's interest in Riche Multi-Media was diluted by 8.43% from 41.07% to 32.64% immediately upon the issuance of the Riche Shares.

22. INTERESTS IN ASSOCIATES *(Continued)*

(d) Interests in Riche Multi-Media: *(Continued)*

Thereafter, the Group acquired 1.79% equity interest in Riche-Multi Media in the open market with a total consideration of approximately HK$19,407,000. As a result, goodwill of approximately HK$11,689,000 was recorded and the Group's interest in Riche Multi-Media increased to 34.43% as at 31st December 2006.

Details of the principal associates at 31st December 2006 are set out in note 46.

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

	2006	**2005**
	HK$'000	*HK$'000*
Turnover	25,900	61,861
Loss before taxation	(27,125)	(28,298)
Loss after taxation attributable to the Group	(9,796)	(10,613)
Non-current assets	758,222	7,834
Current assets	195,344	262,311
Non-current liabilities	(408,274)	–
Current liabilities	(132,760)	(93,363)
Net assets	412,532	176,782
Net assets attributable to the Group	143,346	79,704

23. LOAN RECEIVABLE

The loan receivable as at 31st December 2006 represented a shareholder's loan made to finance the activity of investee company. The Group entered into letters of intent and deed with a third party during 2002 for the purchase of 49% of equity interest in a company ("Potential Investee Company") which principally engages in video advertising business on coaches in the PRC. The purchases were terminated in 2003 as the Group did not satisfy with the results of the financial and legal due diligence review on the Potential Investee Company. Therefore during the year ended 31 December 2004, the Group's entire interest of the amount was settled by the investee company and sold to the other shareholders of the investee company. The loan receivable bears an interest at 2% per annum, payable semi-annually, and is guaranteed by another third party. The loan receivable was repaid on 28th March 2006.

24. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Finished goods	364	362

Included above are finished goods of HK$188,000 (2005: HK$222,000) which are carried at net realisable value.

25. CONVERTIBLE NOTES RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
At 1st January	42,000	52,000
Impairment loss recognised in respect of convertible notes receivables	–	(10,000)
Impairment loss reversed in respect of convertible notes receivables	10,000	–
At 31st December	52,000	42,000

Notes:

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

On 14th March 2007, the Note Issuers redeemed all of the Convertible Notes and the whole amount of principal of HK$52,000,000 repaid to the Group by the Note Issuers. As a result, HK$10,000,000 was reversed in respect of the impairment loss recognised during the year 2005.

26. FILM RIGHTS

	HK$'000
Cost	
At 1st January 2005	1,071,756
Additions	39,766
At 31st December 2005 and 1st January 2006	1,111,522
Additions	62,279
Disposals	(535,943)
At 31st December 2006	637,858
Amortisation and impairment	
At 1st January 2005	917,878
Amortised for the year	57,646
At 31st December 2005 and 1st January 2006	975,524
Amortised for the year	100,850
Eliminated on disposals	(535,943)
At 31st December 2006	540,431
Carrying amounts	
At 31st December 2006	97,427
At 31st December 2005	135,998

During the year under review, the directors of the company reassessed the recoverable amount of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers and determined that no impairment loss on goodwill associated with the film rights was identified.

26. FILM RIGHTS *(Continued)*

The recoverable amount of film rights was assessed by reference to value-in-use calculation. A discount rate of 20.04% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Film Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Film Forecast. Key assumptions included gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Film Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

27. FILMS IN PROGRESS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Films in progress	29,469	47,461

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

The directors reassessed the recoverable amount of films in progress as at 31st December 2006. Having taken into account of the additional costs to be incurred and estimated revenue to be generated from these films in progress, the directors determined no impairment should be recognised in the income statement for the year (2005: $Nil).

28. TRADE RECEIVABLES

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

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
The Riche Group		
0 to 30 days	–	18
91 to 180 days	–	–
	–	18
Others		
0 to 30 days	683	1,148
31 to 60 days	575	4,471
61 to 90 days	826	300
91 to 180 days	373	393
Over 180 days	8,776	11,489
	11,233	17,801
Less: Impairment loss on trade receivables	(3,217)	(3,222)
	8,016	14,579
	8,016	14,597

The carrying amounts of the Group's trade receivables approximate to their fair values.

29. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	39,573	73,931	1,086	20,025
Prepayments	623	1,871	351	265
Other receivables	4,965	4,745	–	–
	45,161	80,547	1,437	20,290

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

30. DEPOSIT FOR INVESTMENT

On 15th June 2006, the Company entered into three sale and purchase agreements (the "Sale and Purchase Agreement") with three vendors (the "Vendors") in respect of acquisition of certain entities which indirectly held equity interest in Kingsway Hotel Limited ("KHL") for an aggregated consideration of HK$490,000,000 (the "Initial Acquisition"). The Company paid HK$40,000,000 as deposit to the Vendors upon entering into the Sale and Purchase Agreements and subsequent deed of variations. Details of the Initial Acquisition were set out in the Company's circular dated 8th September 2006. Subsequent to the year end date, the Company entered into further transactions to acquire and dispose the equity interest of KHL. Details of these transactions were set out in note 47(a), (b) and (c) to the financial statements.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	**2005**
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong, at fair value	64,560	23,345

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

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

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

33. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1,597	5,568	187	2,273
Time deposits	87,750	25,932	87,650	19,790
Cash and cash equivalents	89,347	31,500	87,837	22,063

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

34. SHARE CAPITAL

	Number of shares 2006	2005	Amount 2006	2005
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.05 each				
Authorised	20,000,000	20,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of year	520,541	365,406	26,027	18,270
Exercise of share options	–	17,770	–	889
Placement of shares *(Note a & b)*	184,105	137,365	9,205	6,868
At end of year	704,646	520,541	35,232	26,027

Notes:

(a) On 17th May 2006, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany (Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate of 104,105,000 existing shares of the Company to independent investors at a price of HK$0.33 per share. Pursuant to the top-up subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for an aggregate of 104,105,000 new shares at a price of HK$0.33 per share. The net proceeds of approximately HK$33,300,000 was intended to be used as to HK$20,000,000 for future investment and as to the balance for general working capital of the Group.

(b) On 6th June 2006, the Company had conditionally agreed to place 80,000,000 new shares to independent investors at a price of HK$0.365 per share, representing a discount of approximately 6.4% to the closing price of HK$0.39 per Company's share on 5th June 2006. The net proceeds of approximately HK$29,000,000 were intended to be used for the proposed acquisition of a hotel in Macau.

35. RESERVES

The Company	Share premium HK$'000 *(Note a)*	Contributed surplus HK$'000 *(Note b)*	Convertible loan notes reserve HK$'000 *(Note c)*	Share-based payment reserve HK$'000 *(Note d)*	Capital reduction reserve HK$'000 *(Note e)*	Accumulated losses HK$'000	Total HK$'000
At 1st January 2005	778,975	207,548	566	7,841	316,008	(834,091)	476,847
Net loss for the year	–	–	–	–	–	(25,408)	(25,408)
Share-based payment expenses	–	–	–	24,057	–	–	24,057
Placement of shares	67,891	–	–	–	–	–	67,891
Share issuing expenses	(1,759)	–	–	–	–	–	(1,759)
Exercise of share options	8,703	–	–	–	–	–	8,703
At 31st December 2005 and at 1st January 2006	853,810	207,548	566	31,898	316,008	(859,499)	550,331
Net loss for the year	–	–	–	–	–	(5,166)	(5,166)
Share-based payment expenses	–	–	–	11,340	–	–	11,340
Placement of shares	54,350	–	–	–	–	–	54,350
Share issuing expenses	(1,172)	–	–	–	–	–	(1,172)
At 31st December 2006	906,988	207,548	566	43,238	316,008	(864,665)	(609,683)

35. RESERVES *(Continued)*

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the company as fully paid bonus shares.

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

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

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

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

(c) Under HKAS 32, convertible loan notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible loan notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

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

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

36. BANK BORROWINGS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	13,202	25,390
The maturity of the above borrowings is as follows:		
Within one year	2,254	12,197
Between one and two years	2,380	2,252
Between two and five years	7,966	7,538
Over five years	602	3,403
	13,202	25,390
Less: Amount due within one year shown under current liabilities	(2,254)	(12,197)
Amount due after one year	10,948	13,193

Secured bank loans comprise a mortgage loan which bears interest at commercial rates. The mortgage loan is secured by the Group's investment properties with carrying value of approximately HK$40,880,000 (2005: HK$42,190,000). The mortgage loan is repayable in installments over a period of ten years.

All interest-bearing borrowings are denominated in Hong Kong dollar. The effective interest rates at the balance sheet date were as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	5.45-5.70%	1.70%-6.50%

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans	13,202	25,390	13,202	25,390

The fair values are based on cash flows discounted using a rate based on the current bank borrowing rate per annum of the Group.

The carrying amounts of short-term borrowings approximate to their fair values.

37. UNSECURED CONVERTIBLE LOAN NOTES

As at 31st December 2006, there was an unsecured convertible loan notes (the "Notes") of principal value HK$20,000,000 bearing interest at 4 per cent per annum and was originally issued on 14th June 2001.

The interest of Notes were repayable semi-annually in arrears. It was originally matured on 30th June 2004. On 14th June 2004, the Company and the noteholder entered into a supplementary deed, pursuant to which the Company and the noteholder agreed to extend the maturity date of the Notes to 30th June 2007. The Notes carry the right to convert the principal amount of the Notes into shares of HK$0.05 each in the share capital of the Company at a conversion price of HK$5.83 per share (after adjustments), subject to adjustment. From 14th June 2004 to the 14 business day immediately preceding 30th June 2007, the noteholder can convert the outstanding principal amount of the Notes into shares of the Company and may request early repayment of the outstanding principal amount of the Notes together with accrued interest.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible loan notes reserves.

	The Group and Company	
	Liability component of the convertible loan notes	**Equity component of the convertible loan notes**
	HK$'000	*HK$'000*
At 1st January 2005	19,434	566
Imputed interest expenses	800	–
Interest paid	(800)	–
At 31st December 2005 and 1st January 2006	19,434	566
Imputed interest expenses	1,233	–
Interest paid	(800)	–
At 31st December 2006	19,867	566

The effective interest rate on the liability component of the note is approximately 5.43%.

The maturity of the unsecured convertible loan notes is as follows:

	The Group and Company	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	19,867	–
Between one and two years	–	19,434
	19,867	19,434

38. DEFERRED TAXATION

The Group

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

	Accelerated tax depreciation	Estimated tax losses	Fair value changes of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005, 31st December 2005 and 1st January 2006	(1,438)	1,438	–	–
Charge to income statement	–	–	1,888	1,888
At 31st December 2006	(1,438)	1,438	1,888	1,888

At 31st December 2006, the Group had unused estimated tax losses of approximately HK$414,330,605 (2005: HK$370,667,110 (agreed)) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Company

No deferred tax assets has been recognised in respect of estimated tax losses of approximately HK$79,315,842 (2005: HK$91,108,273 (agreed)) due to the unpredictability of future profit streams.

39. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
0 to 30 days	1,523	2,680
31 to 60 days	839	836
61 to 90 days	1,923	1,368
91 to 180 days	2,450	3,123
Over 180 days	11,575	10,885
	18,310	18,892

The carrying amounts of the Group's trade payables approximate to their fair values.

40. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	32,949	77,692	10,000	10,000
Accruals	4,009	2,188	2,558	1,027
Other payables	2,603	812	255	78
	39,561	80,692	12,813	11,105

The carrying amounts of the Group's deposits received, accruals and other payables approximate to their fair values.

41. LEASE COMMITMENTS

At 31st December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006 *HK$'000*	2005 *HK$'000*
Within one year	940	1,059
In the second to fifth year inclusive	1,089	–
	2,029	1,059

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.

42. CAPITAL COMMITMENTS

At 31st December 2006, the Group had the following outstanding commitments in respect of acquisitions of an investment at the balance sheet date:

	2006 *HK$'000*	2005 *HK$'000*
Authorised and contracted, but not provided for	450,000	–

43. EQUITY SETTLED SHARE-BASED TRANSACTION

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

The Old Option Scheme

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

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

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

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

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

The Old Option Scheme *(Continued)*

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

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

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

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

The New Option Scheme

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

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

(ii) The participants include:

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

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

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

(ii) (1) (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;

(ii) (1) (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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

The New Option Scheme *(Continued)*

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

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of share options available for issue under the New Option Scheme (after refreshment) as at the date of this annual report was 2,064,660, which represented approximately 0.25% of the issued share capital of the Company at the date of this annual report.

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

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

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

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

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

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

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

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

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

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

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

					Number of share options							
Category of Participants	Name of scheme	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 01.01.2005	Granted during 2005 (Note i)	Exercised during 2005 (Note ii)	Lapsed during 2005	Outstanding as at 31.12.2005 and 01.01.2006	Granted during 2006 (Note iii)	Expired during 2006	Outstanding as at 31.12.2006
Substantial shareholders and directors of the Company*	Old Option Scheme	21.11.1996	21.11.1996 – 20.11.2006	60.510	674,269	–	–	–	674,269	–	(674,269)	–
		28.03.2000	28.03.2000 – 27.03.2010	16.783	922,123	–	–	–	922,123	–	–	922,123
		02.06.2000	02.06.2000 – 01.06 2010	8.134	417,506	–	–	–	417,506	–	–	417,506
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	221,446	–	–	–	221,446	–	–	221,446
		17.07.2003	17.07.2003 – 16.07.2013	0.564	457,000	–	–	–	457,000	–	–	457,000
					2,692,344	–	–	–	2,692,344	–	(674,269)	2,018,075
Director of the Company**	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	1,109,557	–	–	–	1,109,557	–	–	1,109,557
		17.07.2003	17.07.2003 – 16.07.2013	0.564	2,285,000	–	–	–	2,285,000	–	–	2,285,000
					3,394,557	–	–	–	3,394,557	–	–	3,394,557
Employees of the Group	Old Option Scheme	05.01.1999	05.01.1999 – 04.01.2009	5.011	44	–	–	–	44	–	–	44
		28.03.2000	28.03.2000 – 27.03.2010	16.783	250,539	–	–	(10,440)	240,099	–	–	240,099
		02.06.2000	02.06.2000 – 01.06.2010	8.134	417,508	–	–	–	417,508	–	–	417,508
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	3,328,671	–	–	(1,109,557)	2,219,114	–	–	2,219,114
		17.07.2003	17.07.2003 – 16.07.2013	0.564	10,254,939	–	(7,969,939)	–	2,285,000	–	–	2,285,000
		13.12.2004	13.12.2004 – 12.12.2014	0.520	15,800,000	–	(9,800,000)	–	6,000,000	–	–	6,000,000
		04.02.2005	04.02.2005 – 03.02.2015	0.538	–	28,110,000	–	–	28,110,000	–	–	28,110,000
		30.12.2005	30.12.2005 – 29.12.2015	0.242	–	18,005,000	–	–	18,005,000	–	–	18,005,000
		21.11.2006	21.11.2006 – 20.11.2016	0.277	–	–	–	–	–	40,000,000	–	40,000,000
					30,051,701	46,115,000	(17,769,939)	(1,119,997)	57,276,765	40,000,000	–	97,276,765
Other participants	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	1.716	4,438,228	–	–	–	4,438,228	–	–	4,438,228
		17.07.2003	17.07.2003 – 16.07.2013	0.564	7,055,000	–	–	–	7,055,000	–	–	7,055,000
		13.12.2004	13.12.2004 – 12.12.2014	0.520	11,820,000	–	–	–	11,820,000	–	–	11,820,000
		04.02.2005	04.02.2005 – 03.02.2015	0.538	–	10,205,000	–	–	10,205,000	–	–	10,205,000
		30.12.2005	30.12.2005 – 29.12.2015	0.242	–	33,995,000	–	–	33,995,000	–	–	33,995,000
		21.11.2006	21.11.2006 – 20.11.2016	0.277	–	–	–	–	–	20,400,000	–	20,400,000
					23,313,228	44,200,000	–	–	67,513,228	20,400,000	–	87,913,228
					59,451,830	90,315,000	(17,769,939)	(1,119,997)	130,876,894	60,400,000	(674,269)	190,602,625

* 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.

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

Notes:

(i) The closing prices of the Company's shares immediately before the dates of grant of share options in 2005 were HK$0.500 per share and HK$0.248 per share.

(ii) The closing prices of the Company's shares immediately before the dates on which the share options were exercised in 2005 were HK$1.110 per share in respect of 800,000 shares and HK$0.720 per share in respect of 16,969,939 shares.

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

(iv) No share option was exercised, lapsed or cancelled during the year 2006.

The exercise in full of the outstanding 190,602,625 share options as at 31st December, 2006 would, under the present capital structure of the Company, result in the issue of 190,602,625 additional ordinary shares for a total cash consideration, before expenses, of approximately HK$106,015,000.

Total consideration received during the year from the grantees for taking up the share options granted amounted to HK$15 (2005: HK$28).

43. EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

(a) 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.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of Instruments	Exercisable period
Options granted to substantial shareholders and directors		
– on 17th July 2003	457,000	17th July 2003 – 16th July 2013
Options granted to directors		
– on 17th July 2003	2,285,000	17th July 2003 – 16th July 2013
Options granted to employees of the Group		
– on 17th July 2003	11,254,939	17th July 2003 – 16th July 2013
– on 13th December 2004	15,800,000	13th December 2004 – 12 December 2014
– on 4th February 2005	28,110,000	4th February 2005 – 3rd February 2015
– on 30th December 2005	18,005,000	30th December 2005 – 29th December 2015
– on 21st November 2006	40,000,000	21st November 2006 – 20th November 2016
Options granted to other participant		
– on 17th July 2003	8,855,000	17th July 2003 – 16th July 2013
– on 13th December 2004	11,820,000	13th December 2004 – 12th December 2014
– on 4th February 2005	10,205,000	4th February 2005 – 3rd February 2015
– 30th December 2005	33,995,000	on 30th December 2005 – 29th December 2015
– on 21st November 2006	20,400,000	21st November 2006 – 20th November 2016
	201,186,939	

43. **EQUITY SETTLED SHARE-BASED TRANSACTION** *(Continued)*

(a) **Share-based payment expenses** *(Continued)*

(ii) The estimated fair value of the options is measured based on Black-Scholes Model. The variables input into the model are as follows:

	2006	**2005**
Weighted average share price at measurement date (HK$)	0.28	0.35
Weighted average exercise price (HK$)	0.277	0.37
Expected volatility (expressed as weighted average volatility used in the modeling of Black-Scholes Model)	70.51%	65.82%
No. of years for option life (expressed as weighted average life used in the modeling of Black-Scholes Model)	6	10
Expected dividends	–	–
Risk-free interest rate	5.0%	4.0%
Weighted average fair value at measurement date (HK$)	0.19	0.27

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.

44. **MATERIAL RELATED PARTY TRANSACTIONS**

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

Nature of transactions	*Note*	**2006** *HK$'000*	**2005** *HK$'000*
Interest income			
– Loan interest	(i)	100	238
– Interest on convertible notes	(i)	–	100
Term loan granted	(i)	–	33,800
Term loan repayment	(i)	33,800	–
Post-production fee received	(ii)	90	736
Film exhibition income received	(iv)	–	7,947
Royalty paid	(ii)	200	–
Acquisition of leasehold land and buildings	(iii)	–	9,000

44. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

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

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

(iii) During the year 2005, the Group acquired leasehold land and buildings from the Riche Group at a total consideration of HK$9,000,000. The consideration for the acquisition was fully settled in cash on 7th July 2005.

(iv) On 5th February 2002, the Group and the Riche Group entered into a territory supply agreement whereby the Group, during the term of three years from 8th April 2002, granted in favour of the Riche Group a first right of refusal to acquire the exclusive distribution rights of refusal to acquire the exclusive distribution rights excluding the theatrical and internet rights in respect of each film in the PRC and Mongolia and an option to acquire the theatrical rights. This agreement was expired in the year 2005 and no new agreement was entered into between the Group and the Riche Group.

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

Nature of transactions	*Notes*	**2006** *HK$'000*	**2005** *HK$'000*
Management fee income from the TAL Group	(i) & (ii)	4,860	4,860
Services charges paid and payable to the TAL Group	(i) & (ii)	5,752	2,880
Artists promotion charges paid and payable to the TAL Group	(i) & (ii)	4,193	4,382

Notes:

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

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

(c) During the year, the Company issued 104,105,000 ordinary shares to the directors and their associates (2005: 137,365,000). Details of these subscriptions are set out in note 34.

(d) For the years ended 31st December 2006 and 2005, Mr. Heung Wah Keung and Ms Chen Ming Yin, Tiffany provided personal guarantees to a bank to secure banking facilities granted to the Group. No fee was paid to them by the Group.

(e) Details of the amounts due from associates are set out in note 32.

(f) Key management personnel

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in note 14, is as follows:

44. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

	2006 *HK$'000*	2005 *HK$'000*
Salaries and other short-term benefits	5,732	5,568
Pension scheme contributions	60	60
Share-based payment	2,253	3,981
	8,045	9,609

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$	Holding of cable right
China Star Entertainment (BVI) Limited	Incorporated	British Virgin Islands	Ordinary	100	200 shares of US$1 each	Investment holding
China Star Entertainment Holding Company	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each and 1,000,000 deferred non-voting shares of HK$ 1 each *(Note b)*	Investment holding
China Star HK Distribution Limited	Incorporated	Hong Kong	Ordinary	100	100,000 ordinary shares of HK$1 each	Distribution of motion pictures and television drama series
China Star HK Entertainment Company Limited	Incorporated	Hong Kong	Ordinary	100	1,000,000 ordinary shares of HK$1 each	Distribution of video rights and investment holding
China Star International Distribution Limited *(Note a)*	Incorporated	British Virgin Islands	Ordinary	100	8,001 shares of US$1 each	Distribution of motion pictures and television drama series
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of management services and investment holding
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights
China Star Production Services Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Provision of post–production services

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
China Star 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 b)*	Incorporated	Netherlands	Ordinary	100	400 ordinary shares of Dutch Guilders 100 each	Distribution of motion pictures and television drama series
Classical Statue Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Property investment
Newrich (HK) Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Property holding
One Hundred Years of Film Company Limited	Incorporated	Hong Kong	Ordinary	100	3,000,000 ordinary shares of HK$1 each	Film production
S & W Entertainment Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Production of motion pictures and television drama series

Notes:

(a) Operating internationally.

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

China Star Entertainment (BVI) Limited and China Star Worldwide Distribution B.V. are directly held by the Company. All other subsidiaries are indirectly held by the Company.

Except otherwise stated, the principal place of operation of the subsidiaries is Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

46. PARTICULARS OF PRINCIPAL ASSOCIATES

The following table lists the associates of the Group which, in the opinion of the directors, principally affected the results and assets of the Group. To give details of other associates would, in the opinion of directors, result in particulars of excessive length.

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Riche Multi-Media Holdings Limited **	Incorporated	Bermuda	34.43	4,752,000,000 ordinary shares of HK$0.1 each	Investment holding in Hong Kong
Bluelagoon Investment Holding Limited *	Incorporated	British Virgin Islands	34.43	1 share of US$1	Investment holding, sales of financial assets, distribution of films and sub-licensing of film rights in the PRC
Riche Advertising Limited*	Incorporated	British Virgin Islands	34.43	1 ordinary shares of US$1 each	Sales of financial assets
Riche (BVI) Limited*	Incorporated	British Virgin Islands	34.43	1,000 ordinary shares of US$1 each	Investment holding in Hong Kong
Riche Distribution Limited*	Incorporated	Hong Kong	34.43	1,000,000 ordinary shares of HK$1 each	Sub-licensing of film rights in Hong Kong and sales of financial assets
Riche International (Macao Commercial Offshore) Limited*	Incorporated	Macau	34.43	1 share of MOP100,000	Distribution of films and sub-licensing of film rights in the PRC
Riche Video Limited*	Incorporated	Hong Kong	34.43	10 ordinary shares of HK$100 each and 20,000 non-voting deferred shares of HK$100 each$^{\Delta}$	Distribution of video products in Hong Kong
Shinhan-Golden Faith International Development Limited*	Incorporated	British Virgin Islands	34.43	10,000,000 ordinary share of US$1 each	Investment holding in the PRC

46. PARTICULARS OF PRINCIPAL ASSOCIATES *(Continued)*

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
("Beijing Jian Guo Real Estate Development Co. Ltd")	Incorporated	PRC	33.29	Registeral capital of US$15,000,000	Property investment in the PRC
Together Again Limited	Incorporated	British Virgin Islands	49.00	48,080 shares of US$1 each	Investment Holding and provision of artists management services
China Entertainment Group, Inc.***#	Incorporated	United States of America	41.65	128,963,425 of US$0.001 each common stock	Investment Holding
China Star Management Limited***	Incorporated	Hong Kong	41.65	1,000,000 ordinary shares of HK$1 each	Provision of artists management services
Anglo Market International Limited ***	Incorporated	British Virgin Islands	41.65	1 share of US$1 each	Provision of artists management services
Metrolink Global Limited ***	Incorporated	British Virgin Islands	41.65	100 shares of US$1 each	Provision of artists management services

* These companies are subsidiaries of Riche Multi-Media.

** The shares of Riche Multi-Media are listed on the Stock Exchange.

*** These companies are subsidiaries of TAL.

\# China Entertainment Group, Inc. is a U.S. public company traded on the Over-The-Counter Bulletin Board.

Δ The non-voting deferred shares, which are not held by Riche Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

47. SUBSEQUENT EVENTS

(a) On 13th June 2006, the Company had entered into agreements with the relevant vendors, Harvest Metro Corporation, Top Region Assets Limited and Mr. Chan Chak Mo in relation to the acquisition (the "Initial Acquisition") of the entire issued share capital of Triumph Up Investments Limited and Great Chain Limited which indirectly hold in aggregate appropriately 61.5% interest in the issued share capital of Kingsway Hotel Limited ("KHL") for an aggregate consideration of HK$490,000,000. The principal asset of Kingsway Hotel Limited is Kingsway Hotel, a three star hotel with a total 383 guests rooms located in Macau. The Initial Acquisition constitute a very substantial acquisition for the Company under the Listing Rules and approval of the shareholders of the Company was obtained at a special general meeting held on 29th September 2006. Details of the Initial Acquisition were set out in the Company's circular dated 8th September 2006. As at 31st December 2006, the Initial Acquisition has not yet been completed.

47. SUBSEQUENT EVENTS *(Continued)*

(b) On 3rd January 2007, the Company had entered into agreement with the vendor, Great Trust - Gestao E Participacoes Limitada in relation to the acquisition (the "Acquisition") of the entire 19.25% of the equity interest of KHL, 38.5% of the equity interest of Xin Wei which directly holds 50% equity interest in the issued share capital of KHL and the relevant sale loans for an aggregate consideration of HK$240,000,000. Upon completion of the Acquisition, the Company would hold 38.5% equity interest in KHL. The Acquisition also constitute a very substantial acquisition for the Company under the Listing Rules and approval of the shareholders of the Company was obtained at a special general meeting held on 27th March 2007. Details of the Acquisition were set out in the Company's circular dated 10th March 2007.

On 19th January 2007, the Company entered into three unsecured subscription agreements with three subscribers in relation to the subscription of the zero coupon unsecured convertible bonds (the "Firm Bonds") due 2012 in an aggregate principal face value of HK$168,500,000 at an issue price of 95% of the face value amount to be issued by the Company at an initial conversion price of the lower (i) HK$0.32 per conversion share and (ii) the average closing price of the shares for ten trading days prior to 19th May 2007 or date to be agreed by both parties, provided that the initial conversion price shall in no event be less than HK$0.25 per conversion share (subject to adjustment), of which the proceeds would be for financing the Acquisition. The issue of the Firm Bonds was approved by the Company's shareholders in the special general meeting held on 23rd March 2007. Should the Firm Bonds be fully converted at the initial conversion price of HK$0.32 or HK$0.25 per share, the Firm Bonds will be convertible into approximately 526,562,500 or 674,000,000 shares of the Company (subject to adjustment), representing approximately 42.76% or 48.89% of the enlarged share capital of the Company. Details of the Firm Bonds were set out in the Company's circular dated 7th March 2007.

(c) On 19th March 2007, the Company had entered into two sales and purchase agreements with relevant vendors, SJM - Investimentos Limitada ("SJM Agreement") and Most Famous Enterprises Limited ("Most Famous Agreement") respectively. Pursuant to the SJM Agreement and the Most Famous Agreement, the Company agreed to sell 1% of issued quota of KHL and the relevant sale loan and 49% of issued quota of KHL and the relevant sale loan for an aggregate consideration of HK$6,300,000 and HK$308,700,000 respectively (the "Disposals"). It is proposed that upon the SJM Completion, Dr. Stanley Ho will be appointed as the chairman of KHL. The Disposals constitute a very substantial disposal for the Company under the Listing Rules and approval of the shareholders of the Company was required at a special general meeting to be held by the Company. Details of the Disposals were set out in the Company's announcement dated 19th March 2007.

(d) On 19th March 2007, Classical Statue Limited ("Classical Statue"), a subsidiary of the Company entered into a placing agreement and a subscription agreement with a placing agent, Kingston Securities Limited and Riche Multi-Media respectively pursuant to which Classical Statue has (1) agreed to place, through the placing agent on a fully underwritten basis 1,296,860,000 placing shares to independent investors at a price of HK$0.04 per placing share and (2) conditionally agreed to subscribe for 1,296,860,000 subscription shares at the placing price. On 22nd March 2007, the placing agreement was completed, upon completion, Classical Statue's interest in Riche Multi-Media would be reduced from approximately 34.43% to 28.69% of the enlarged issued share capital of Riche Multi-Media.

(e) On 12th March 2007, Classical Statute entered a subscription agreement with Milkyway Image Holdings Limited ("Milkyway"), in relation to the subscription of the zero coupon convertible notes (the "Convertible Notes") in aggregate principle amount of HK$25,000,000 due 2012. The conversion price is initially at HK$0.33 per share of Milkyway(subject to adjustment). Other terms and conditions of the subscription agreements were set out in the Company's announcement dated 14th March 2007. Details of the Convertible Notes were set out in the Company's circular dated 3rd April 2007.

48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26th April 2007.

3. FINANCIAL AND TRADING PROSPECTS

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income.

Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, hotel business. After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry.

The proposed acquisition of Best Mind International Inc. expect to broaden the Group's revenue sources and provide a stable income stream to the Group, given the recent booming economy of Macau and the prospects of Macau's gaming business.

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31st July 2007, being the latest practicable date for the purpose of the indebtedness, the Group had outstanding bank borrowings and overdrafts of approximately HK$411,900,000, which were secured by the leasehold land and building and investment properties of the Group.

Contingent liabilities

As at 31 July 2007, save as the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Group to the extent of HK$325,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 31 July 2007, 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, convertible bonds or other material contingent liabilities.

5. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the estimated net proceeds from the Rights Issue, the available credit facilities as described in more detail in the above section "Statement of indebtedness" and internal resources (for example, cash generated from operating activities) of the Group, the Directors are of opinion that the Group has sufficient working capital for its normal business for the next twelve months from the date of the Prospectus.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Rights Issue as if it had taken place on 31st December 2006.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Rights Issue.

	Audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31st December 2006	Less: Intangible assets	Subsequent issue	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at the Latest Practicable Date	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company after completion of the Rights Issue
			(Note 1)	*(Note 2)*	*(Note 3)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated net tangible assets	694,827	(240,866)	328,474	782,435	162,600	945,035
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at the Latest Practicable Date and prior to the completion of the Rights Issue *(Note 4)*						HK$0.4637
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company as at the Latest Practicable Date and after completion of the Rights Issue *(Note 5)*						HK$0.3733

Notes:

1. The adjustment represents:

   i) HK$138,600,000 increase in capital and reserve of the Company from the placing of 371,905,000 new Shares subsequent to 31st December 2006 and up to the Latest Practicable Date.

   ii) HK$168,500,000 increase in capital and reserve of the Company from the issue of 532,701,441 new Shares to holders of convertible notes of the Company who have exercised their rights of conversion subsequent to 31st December 2006 and up to the Latest Practicable Date.

   iii) net proceeds of approximately HK$21,374,000 from the issue of 78,285,000 new Shares to holders of Share Options of the Company who have exercised their rights to subscribe for Shares subsequent to 31st December 2006 and up to the Latest Practicable Date.

2. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at the Latest Practicable Date is based on the audited consolidated net assets of the Group attributable to the Company's equity holders as at 31st December 2006 of HK$694,827,000 which is extracted from the published annual report of the Company for the year ended 31st December 2006 as set out in Appendix I to the Prospectus, with an adjustment for the intangible assets as at 31st December 2006 of approximately HK$240,866,000 and Shares subsequently issued up to the Latest Practicable Date of approximately HK$328,474,000.

3. The estimated net proceeds from the Rights Issue of approximately HK$162,600,000 are calculated based on 843,769,024 Rights Shares to be issued at the subscription price of HK$0.2 per Rights Share and after deduction of estimated related expenses of approximately HK$6,200,000.

4. The number of Shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company is based on 1,687,538,049 Shares, which comprises of 704,646,608 Shares in issue at 31st December 2006 and 982,891,441 Shares subsequently issued up to the Latest Practicable Date.

5. The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company after completion of the Rights Issue is calculated based on 2,531,307,073 Shares in issue after completion of the Rights Issue, which represents the existing 1,687,538,049 Shares in issue as at the Latest Practicable Date and 843,769,024 Shares to be issued pursuant to the Rights Issue but has not taken into account the effects of any Shares which have been issued upon the exercise of the Company's share options subsequent to the Latest Practicable Date.

6. Other than those mentioned in Note 1 above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31st December 2006.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, for the purpose of incorporation in the Prospectus.

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

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

19th September 2007

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

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets set out on pages 85 to 86 under the heading of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the prospectus dated 19th September 2007 (the "Prospectus") of China Star Entertainment Limited (the "Company"), in connection with the proposed rights issue (the "Rights Issue") of the Company. 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 Rights Issue might have affected the relevant financial information of the Company and its subsidiaries (herein collectively referred to as the "Group") presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in on page 86 of the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 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 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 work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Unaudited Pro Forma Financial Information has been properly complied 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 purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31st December 2006 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information 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 as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

The Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue were and will be as follows:

Authorised:		*HK$*
20,000,000,000	Shares	1,000,000,000
Issued and fully paid or credited as fully paid or to be issued under the Rights Issue:		
1,687,538,049	Shares as at the Latest Practicable Date	84,376,902
843,769,024	Rights Share to be issued pursuant to the Rights Issue	42,188,451
2,531,307,073	Shares *(Note)*	126,565,353

Note: The total Shares demonstrate in the above will be subject to change after the completion of the Acquisition. Please refer to the Announcement for further details.

All the Shares in issue and to be issued (when fully paid) rank and will rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

As at the Latest Practicable Date, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Right Shares, the 5% per annum interest bearing unsecured convertible note in the principal amount of HK$196,000,000 due 2017 at the conversion price of HK$0.30 and 140,000,000 new Shares to be allotted and issued upon completion of the Acquisition, and 274,790,000 new Shares and 5,000,000,000 new Shares conditionally agreed to be placed by the Company as per the Company's announcement dated 7th September 2007.

The Shares are listed on the Stock Exchange. No part of the Share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the Share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	478,679,115 *(Note a)*	2,018,075 *(Note b)*	480,697,190	18.99
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	478,679,115 *(Note a)*	2,018,075 *(Note b)*	480,697,190	18.99
Ms. Li Yuk Sheung	Beneficial owner	16	3,394,557 *(Note c)*	3,394,573	1.49

All interests stated above represent long positions.

(a) These Shares are held as to 54,592,500 Shares by Mr. Heung, as to 31,716,615 Shares by Ms. Chen (the spouse of Mr. Heung), as to 364,725,000 Shares by Porterstone (a company wholly-owned by Ms. Chen) and as to 27,645,000 Shares by Dorest (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung).

(b) These underlying Shares comprised outstanding Share Options held as to 1,009,037 options by Mr. Heung and as to 1,009,038 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the Share Options of each other.

(c) These underlying Shares comprised outstanding Share Options held by Ms. Li Yuk Sheung.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed herein) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were, 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:

(i) Interest in Shares

Name	Capacity	Number of Shares held		Approximate % of interest held
Porterstone Limited	Beneficial owner	364,725,000		
	Interest of controlled corporation	27,645,000	*(Note a)*	
		392,370,000		15.50
Kingston Securities Limited	Beneficial owner	203		
	Other	1,055,704,094	*(Note b)*	
		1,055,704,297		37.42
Chu Yuet Wah	Interest of controlled corporation	1,055,704,297	*(Note c)*	37.42

Name	Capacity	Number of Shares held	Approximate % of interest held
Ma Siu Fong	Interest of controlled corporation	1,055,704,297 *(Note c)*	37.42
Ng Cheuk Fai	Interest of controlled corporation	1,516,333,332	82.97

All interests stated above represent long positions.

Notes:

(a) These Shares are held by Dorest, a wholly owned subsidiary of Glenstone Investments Limited which is in turn beneficially owned as to 60% by Porterstone. Ms. Chen, a Director is also a director of Porterstone. Mr. Heung is a director of Dorest and Glenstone Investments Limited.

(b) These Shares are held by Kingston as the Underwriter and as an underwriter in the placing of 274,790,000 new Shares as announced by the Company on 7th September 2007.

(c) These Shares are held by Kingston.

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.

5. CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Heung Wah Keung *(Chairman)* Ms. Chen Ming Yin, Tiffany *(Vice Chairman)* Ms. Li Yuk Sheung *(Executive Director)* Mr. Hung Cho Sing *(Independent Non-Executive Director)* Mr. Ho Wai Chi, Paul *(Independent Non-Executive Director)* Mr. Leung Hok Man *(Independent Non-Executive Director)*
COMPANY SECRETARY	Ms. Wong Shuk Han, Dorothy
REGISTERED OFFICE	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong
PRINCIPAL REGISTRAR AND TRANSFER OFFICE	Butterfield Fund Services (Bermuda) Limited
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited
PRINCIPAL BANKERS	Bank of China (Hong Kong) Limited Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited Seng Heng Bank Limited
AUDITORS	HLB Hodgson Impey Cheng Chartered Accountants Certified Public Accountants
LEGAL ADVISERS TO THE COMPANY	As to Bermuda Law: Appleby As to Hong Kong Law: Robertsons
STOCK CODE	326
WEBSITE	www.chinastar.com.hk www.irasia.com/listco/hk/chinastar

6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of the Prospectus and which was significant in relation to the business of the Group.

None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31st December 2006, being the date to which the latest published audited accounts of the Group were made up.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service with any member of the Group which was not determinable by any member of the Group within one year without payment of compensation, other than statutory compensation.

10. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise, which is contained in the Prospectus:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants, Certified Public Accountants

HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of the Prospectus with the inclusions of its letter and references to its names in the form and context in which its appear.

11. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, HLB Hodgson Impey Cheng:

(a) was not interested, directly or indirectly, 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 31st December 2006, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

12. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

(i) a non-binding letter of intent dated 15th September 2005 entered into between the Company and Mr. Phua Wei Seng, an Independent Third Party in relation to the acquisition of an equity interest in a company involved in the Macau gaming business in which a refundable deposit of HK$20,000,000 was paid on that date and had been fully returned to the Company on 11th September 2006;

(ii) a top up subscription agreement dated 17th May 2006 entered into between the Substantial Shareholders and the Company, pursuant to which the Substantial Shareholders had agreed to subscribe for an aggregate of 104,105,000 new Shares at a price of HK$0.33 per Share;

(iii) conditional agreements dated 6th June 2006 entered into between PMA Capital Management Limited as agent for and on behalf of PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company and the Company respectively for the placing of an aggregate 80,000,000 Shares at a price of HK$0.365 per Share;

(iv) a sale and purchase agreement dated 3rd August 2006 entered into between Classical Statue Limited ("Classical"), a wholly owned subsidiaries of the Company, Vision Harvest Limited, an Independent Third Party and its guarantor, Mr. To Shu Fai, for the purchase of 700,000,000 shares of HK$0.01 each in the share capital of Daido Group Limited at an aggregate consideration of HK$52,500,000;

(v) a conditional sale and purchase agreement dated 13th June 2006 ("Harvest Metro Agreement") entered into between Harvest Metro Corporation ("Harvest Metro"), the Company and Wing On Travel (Holdings) Limited ("Wing On") relating to the acquisition of approximately 56.91% equity interest in Triumph Up Investments Limited ("Triumph Up") at a consideration of HK$252,789,344.97;

(vi) a conditional sale and purchase agreement dated 13th June 2006 ("CCM Agreement") entered into between Mr. Chan Chak Mo ("Mr. Chan") and the Company relating to the acquisition of approximately 34.96% equity interest in Triumph Up at a consideration of HK$155,284,883.34;

(vii) a conditional sale and purchase agreement dated 13th June 2006 ("Top Region Agreement") entered into between Top Region Assets Limited, the Company and Macau Success Limited relating to the acquisition of approximately 8.13% equity interest in Triumph Up at a consideration of HK$36,112,763.57;

(viii) a conditional sale and purchase agreement dated 13th June 2006 ("Great Chain Agreement") entered into between Mr. Chan and the Company relating to the acquisition of the entire issued share capital of Great Chain Limited at a consideration of HK$45,813,008.13;

(ix) a deed of variation dated 12th July 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 30 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 60 days from the date of the Harvest Metro Agreement;

(x) a second deed of variation dated 11th August 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 60 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 90 days from the date of the Harvest Metro Agreement;

(xi) a third deed of variation dated 12th September 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 90 days from 13th June 2006, being the date of the Harvest Metro Agreement to within 140 days from the date of the Harvest Metro Agreement;

(xii) the sale and purchase agreement dated 13th September 2006 entered into between One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited; the Company and Fortune Star Entertainment (HK) Limited in relation to the sale and purchase of a film library together with rights thereto at a total consideration of US$18,000,000 (approximately HK$140,000,000);

(xiii) a fourth deed of variation dated 31st October 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion on or before 28th February 2007 and to extend the longstop date of the fulfilment of the conditions precedent to 28th February 2007;

(xiv) Deeds of variation dated 31st October 2006 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 28th February 2007;

(xv) the acquisition agreement dated 3rd January 2007 between the Company and Great Trust relating to the sale and purchase of a 19.25% interest in the issued quota in the capital of Kingsway Hotel Limited and a sale loan, and a 38.5% interest in the issued quota in the capital of Xin Wei Property Investment Company Limited and a sale loan;

(xvi) the three subscription agreements dated 19th January 2007 entered into between the Company and Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited respectively in relation to the subscription of zero coupon unsecured convertible bonds due 2012 in the principal face value amount of HK$168,500,000;

(xvii) Deeds of variation dated 28th February 2007 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 31st May 2007;

(xviii) the agreement dated 19th March 2007 entered into between Most Famous Enterprises Limited and the Company relating to the disposal of 49% of the issued quota of Kingsway Hotel Limited and the relevant shareholders' loan;

(xix) the agreement dated 19th March 2007 entered into between SJM-Investimentos Limitada and the Company relating to the disposal of 1% of the issued quota of Kingsway Hotel Limited and the relevant shareholders' loan;

(xx) the placing agreement dated 19th March 2007 entered into between Classical and Kingston relating to the placing of 1,296,860,000 existing shares of Riche Multi-Media Holdings Limited ("Riche") beneficially owned by Classical;

(xxi) the subscription agreement dated 19th March 2007 entered into between Classical and Riche relating to the subscription of 1,296,860,000 new shares of Riche by Classical;

(xxii) conditional placing agreements dated 29th March 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 124,900,000 new Shares and 81,100,000 new Shares respectively on a fully underwritten basis to independent investors at a price of HK$0.37 per Share;

(xxiii) the conditional placing agreements dated 4th June 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 165,905,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.40 per Share;

(xxiv) the top-up placing agreement dated 24th July 2007 entered into between Classical, Kingston and Riche relating to the placing of 173,000,000 existing shares of Riche beneficially owned by Classical;

(xxv) the sale and purchase agreement dated 1st August 2007 entered into between Legend Rich, Riche and the Company in relation to the sale and purchase of a 100% of the issued share capital of Exceptional Gain Profits Limited for an aggregate consideration of HK$447,000,000.

(xxvi) the acquisition agreement dated 16th August 2007 entered into among the Company, Mr. Ng Cheuk Fai and Lucky State Group Limited in respect of the acquisition of the 51 ordinary share of US$1.00 each in the issued share capital of Best Mind International Inc.;

(xxvii) the Underwriting Agreement;

(xxviii) conditional placing agreement dated 5th September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing of 274,790,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.21 per Share; and

(xxix) conditional placing agreement dated 5th September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing of up to a maximum of 5,000,000,000 new Shares on a best effort basis to independent investors at a price of HK$0.21 per Share.

13. MISCELLANEOUS

(a) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(b) The head office and principal place of business of the Company 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.

(c) 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.

(d) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.

(e) The English text of the Prospectus shall prevail over the Chinese text in the case of inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 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, up to and including 4th October 2007:

(a) the Memorandum and Bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(c) the annual reports of the Group for the three financial years ended 31st December 2004, 2005 and 2006;

(d) the letter from HLB Hodgson Impey Cheng regarding the unaudited proforma financial information on the Group as set out in Appendix II to the Prospectus;

(e) all reports, letters and other documents, balance sheets, valuations and statements by any expert of part of which is extracted or referred to in the Prospectus, if any;

(f) the written consents referred to in paragraph 8 of this Appendix;

(g) the interim report of the Company for the six months ended 30th June 2006;

(h) the circular of the Company date 7th March 2007 relating to proposed issue of zero coupon unsecured convertible bonds due 2012 by the Company convertible into ordinary Shares of the Company;

(i) the circular of the Company dated 10th March 2007 relating to a very substantial acquisition of a 38.5% interest in the Kingsway Hotel;

(j) the circular of the Company dated 3rd April 2007 relating to the subscription of zero coupon unsecured convertible bonds in the principal amounts of HK$25,000,000 due 2012 to be issued by Brilliant Arts Multi-Media Holding Limited (formerly known as Milkyway Image Holdings Limited);

(k) the circular of the Company dated 12th April 2007 relating to discloseable transactions for the placing and subscription of 1,296,860,000 shares in Riche;

(l) the circular of the Company dated 3rd May 2007 relating to the proposed placing of 81,100,000 new Shares, refreshment of general mandate to issue securities of the Company and refreshment of scheme mandate limit;

(m) the circular of the Company dated 31st May 2007 relating to very substantial disposals in an aggregate of 50% of the issued quote of Kingsway Hotel Limited and the relevant sale loans;

(n) the circular of the Company dated 7th June 2007 relating to the general mandate to issue and to repurchase securities; re-election of Directors and refreshment of the scheme mandate limit;

(o) the circular of the Company dated 15th August 2007 relating to discloseable transactions for the placing and subscription of 173,000,000 shares in Riche;

(p) the acquisition agreement dated 6th August, 2007 relating to the acquisition of the 51 ordinary share of US$1.00 each in the issued share capital of Best Mind International Inc.; and

(q) the Underwriting Agreement.