THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Star Entertainment Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION (ASIA) LIMITED AND REFORM BASE HOLDINGS LIMITED AND THE SALE LOANS AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders

GRAND CATHAY SECURITIES (HONG KONG) LIMITED

大華證券(香港)有限公司
GRAND CATHAY SECURITIES (HONG KONG) LIMITED

A letter from the board of directors of China Star Entertainment Limited is set out on pages 5 to 24 of this circular.

A notice convening the special general meeting of China Star Entertainment Limited to be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 September, 2009 at 12:15 p.m., or any adjournments thereof, is set out on pages 293 and 294 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7,18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

17 August, 2009

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In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"Acquisition"	the proposed acquisition of the entire issued share capital of the Target Companies and the Sale Loans;
"Announcement"	the announcement dated 5 May 2009 issued by the Company in relation to the Acquisition;
"associate"	has the meaning as ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Business Day"	a day (other than a Saturday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business;
"Capital Reorganisation"	the proposed capital reorganisation of the Company involving the share consolidation, the capital reduction and the share subdivision announced by the Company on 26 February 2009 which was effective on 4 May 2009;
"Code"	Hong Kong Code on Takeovers and Mergers;
"Company"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares are listed on the Main Board of the Stock Exchange;
"Completion"	the completion of the Acquisition;
"Consideration"	the total consideration payable by the Purchaser for the Acquisition pursuant to the S&P Agreement, being HK$900 million (subject to adjustment);
"Consolidated Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective;
"Conversion Share(s)"	the new Consolidated Share(s) to be allotted and issued upon conversion of the Convertible Bond;
"Conversion Period"	the period commencing from the date of issue of Convertible Bond up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date;

"Conversion Price"	the initial conversion price of HK$0.50 per Conversion Share (subject to adjustment) pursuant to the terms of the Convertible Bond;
"Convertible Bond"	a 5-year term convertible bond carrying interest at 6% per annum conferring rights to subscribe for the Conversion Shares at the Conversion Price in the principal amount of HK$350 million to be issued by the Company in favour of the Vendor pursuant to the S&P Agreement;
"Director(s)"	the director(s) of the Company;
"Enlarged Group"	the Group and the Target Companies Group following the Acquisition;
"Existing Share(s)"	the ordinary share(s) of HK$0.05 each in the share capital of the Company as at the date of the S&P Agreement;
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	the independent board committee comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, all of which are independent non-executive Directors to advise the Independent Shareholders on the Acquisition;
"Independent Financial Adviser" or "Grand Cathay"	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation registered under the SFO to carry on types 1, 6 and 9 regulated activities as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the S&P Agreement and the Acquisition;
"Independent Shareholders"	Shareholders other than the Vendor and her associates;
"Independent Third Party"	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules);

"Land Grant"	the land concession contract executed on 14 August 2001 and published in the Macau Official Gazette no. 34 of 22 August 2001 under which Macau Co holds the Property from the Macau Government;
"Land Grant Figures"	the total gross floor area of 86,383 square meters contemplated under the draft contract of the amendment to the Land Grant dated 21 September 2006, comprising (in square meters): (a) Housing 59,160; (b) Commerce 1,700; (c) Private Parking 12,966; (d) Public Parking 9,821; (e) Free area with facility 428; and (f) Free area without facility 2,308;
"Last Trading Day"	28 April 2009, being the last full trading day of the Existing Shares on the Main Board of the Stock Exchange immediately prior to the date of Announcement;
"Latest Practicable Date"	14 August 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Macau"	Macau Special Administrative Region of the People's Republic of China;
"Macau Co"	Legstrong Construction and Investment Company Limited, a company incorporated in Macau with limited liability and an indirect wholly-owned subsidiary of Over Profit;
"Macau Co Sale Loan"	the total obligations, liabilities and debts owing or incurred by Macau Co to the Vendor in the sum of HK$88,368,136 as at the date of the S&P Agreement;
"Modern Vision"	Modern Vision (Asia) Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Vendor;
"Modern Vision Group"	Modern Vision and its subsidiaries;
"Mr. Heung"	Mr. Heung Wah Keung, an executive Director and the husband of the Vendor;
"Over Profit"	Over Profit International Limited, a company incorporated in the British Virgin Islands and which indirectly owns the entire issued quota of Macau Co;
"Over Profit Group"	Overall Profit and its subsidiaries;
"Over Profit Sale Loan"	the total obligations, liabilities and debts owing or incurred by Over Profit to the Vendor in the sum of HK$662,441,871 as at the date of the S&P Agreement;

"Promissory Note"	the 1-year term zero coupon promissory note to be issued by the Company to the Vendor of up to the principal amount of up to HK$350 million pursuant to the terms of the S&P Agreement;
"Property"	a lot of land with the area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070;
"Purchaser"	Bestjump Holdings Limited, a company incorporated in the British Virgin Islands and wholly-owned subsidiary of the Company;
"Reform Base"	Reform Base Holdings Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Vendor;
"S&P Agreement"	a conditional sale and purchase agreement entered into between the Purchaser and the Vendor dated 29 April 2009 and/or a deed of variation entered into between the Purchaser and the Vendor dated 14 August 2009 in respect of the Acquisition, as the case may be;
"Sale Loans"	the Macau Co Sale Loan and the Over Profit Sale Loan;
"Share(s)"	Existing Share(s) and/or Consolidated Share(s), as the case may be;
"Shareholder(s)"	the holder(s) of the Share(s);
"SGM"	the special general meeting of the Company to be convened and held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 September 2009 at 12:15 p.m. to consider and, if thought fit, to approve, among other things, the Acquisition;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Summer Sound"	Summer Sound Investments Limited, a company incorporated in the British Virgin Islands and wholly-owned by Over Profit;
"Target Companies"	collectively, Modern Vision and Reform Base;
"Target Companies Group"	the group headed by the Target Companies including but not limited to Macau Co and Summer Sound;
"Vendor"	Ms. Chen Ming Yin, Tiffany, an executive Director; and
"%"	per cent.

中国星

CHINA STAR ENTERTAINMENT GROUP

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

17 August, 2009

To the Shareholders and for information only, the holders of the convertible notes and options of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF MODERN VISION (ASIA) LIMITED AND REFORM BASE HOLDINGS LIMITED AND THE SALE LOANS AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 5 May 2009, the Board announced that on 29 April 2009 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company entered into the S&P Agreement with the Vendor whereby the Vendor has agreed to sell and the Purchaser has agreed to purchase the entire issued share capital of the Target Companies and the Sale Loans at an aggregate consideration of HK$900 million (subject to adjustment).

On 26 June 2009, the Company announced that the Macau Government had informed the Vendor that the draft contract of amendment to the Land Grant had been rejected due to Mr. Ao Man Lung's involvement in the approval process of the Land Grant Figures. The Vendor has obtained a legal opinion from Macanese lawyers confirming that a new amendment to the Land Grant can be submitted for re-approval. Macau Co will submit a new amendment to the Land Grant which has a gross floor area substantially the same as that in the Land Grant Figures to the Macau Government as soon as practicable.

On 14 August 2009, the Company announced that the Purchaser had entered into a deed of variation with the Vendor pursuant to which the parties had agreed to amend the S&P Agreement by (i) including as a condition precedent to Completion the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the Land Grant to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government, (ii) reducing the Second Deposit to HK$160 million with the balance of HK$190 million to be paid on Completion and (iii) referring the Adjustment (as defined herein) to the gazetted figures rather than the constructed figures.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor is an executive Director, who and her associates hold in aggregate 1,143,722,019 Existing Shares as at the date of the S&P Agreement, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM. The Vendor and her associates shall abstain from voting at the SGM in respect of the resolution to approve the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

The purpose of this circular is (i) to provide further information in respect of the Acquisition, the letter from the Independent Board Committee to the Independent Shareholders and the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the accountants' reports on the Target Companies Group, the independent valuation report of the Property; and (ii) to give you a notice of the SGM at which resolution will be proposed to consider and if thought fits, approve, inter alia, such matters.

THE S&P AGREEMENT

Date: 29 April 2009

Parties: (i) Purchaser: Bestjump Holdings Limited, a wholly-owned subsidiary of the Company;

(ii) Vendor: Ms. Chen Ming Yin, Tiffany

The Vendor is Ms. Chen Ming Yin, Tiffany, an executive Director. As at the date of the S&P Agreement, the Vendor and her associates hold in aggregate 1,143,722,019 Existing Shares, representing approximately 23.87% of the issued share capital of the Company at that date. As such, the Vendor is a connected person (as defined in the Listing Rules) of the Company under Chapter 14A of the Listing Rules.

The Acquisition

Pursuant to the S&P Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to dispose of the entire issued share capital of the Target Companies and the Sale Loans.

The major asset of Modern Vision is its 50% equity interest in Over Profit and the major asset of Reform Base is its 25% equity interest in Over Profit.

Over Profit is an investment holding vehicle which indirectly holds a 100% equity interest in Macau Co. Macau Co is the registered and beneficial owner of the Property. The Property is a lot of land with the area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. So far as the Company is aware, Macau Co intends to develop the site into residential properties and this will be the same intention of the Company. The Company has no capital commitment for the Property. No independent valuation has been conducted on the Property upon the signing of the S&P Agreement at 29 April 2009.

Consideration

The Consideration, being HK$900 million (subject to adjustment), was determined between the Purchaser and the Vendor on a "willing buyer – willing seller" basis having regards to (i) the draft contract of amendment to the Land Grant for the Property issued by Macau Government which contemplates the following as to the construction purposes and gross floor areas: (in square meters): (a) Housing 59,160; (b) Commerce 1,700; (c) Private Parking 12,966; (d) Public Parking 9,821; (e) Free area with facility 428; and (f) Free area without facility 2,308; (ii) the estimated fair value of the Property of approximately HK$1,200 million on the basis that the Property will be developed into residential apartments with figures stated in (i) above and with all relevant licences, permits and approvals obtained and (iii) a direct comparison approach by making reference to comparable sales transactions as available in the relevant market. The Consideration was not referenced to the gross floor area of the Land Grant for the Property because, as at the date of signing of the S&P Agreement, the draft contract of amendment to the Land Grant dated 21 September 2006 was legally valid and the Directors had reasonable grounds to believe that the draft contract of amendment to Land Grant would be approved. For contingency sake, the Directors and the Vendor had reached an agreement to incorporate an adjustment formula into the S&P Agreement to take into consideration the difference in actual Land Grant Figures.

The Vendor had acquired its 75% interest in the Property in July 2007 based on the Land Grant Figures at a consideration of HK$1,026 million.

Pursuant to the S&P Agreement entered into between the Purchaser and the Vendor, the Consideration shall be satisfied by the Purchaser by:

(i) the payment of HK$200 million (the "Initial Deposit") upon the signing of the S&P Agreement to the Vendor;

(ii) the payment of HK$160 million (the "Second Deposit") in cash to the Vendor prior to Completion; and

(iii) procuring the Company to issue the Convertible Bond of HK$350 million and pay the balance of HK$190 million in cash or by the issue of the Promissory Note to the Vendor on Completion.

The Initial Deposit and the Second Deposit (where applicable) shall immediately be returned to the Purchaser without interest in the event of termination or non-completion of the S&P Agreement for whatever reason.

The payment of the Initial Deposit is financed by the HK$200 million advanced by China Star Investment Holdings Limited (stock code: 764) pursuant to the loan agreement dated 11 March 2009 and entered into between the Company and China Star Investment Holdings Limited.

Up to the Latest Practicable Date, HK$100 million was paid as part of the Second Deposit.

The Company had conducted its own due diligence on the Vendor in order to ascertain the risk of the deposits not being returned or its inability to be returned. The Company noted that the Vendor had tried to sell the Property to China Star Investments Holding Limited in 2007 and had accepted in aggregate approximately HK$390 million as deposit. When the transaction did not proceed, the deposit was returned without delay. Furthermore, the Vendor had acquired the Property without third party financing and therefore, the Company believes that the Vendor has sufficient resources and ability to repay the First Deposit and Second Deposit if Completion does not take place.

In the event that the Property is gazetted with gross floor areas which are less than the Land Grant Figures ("Actual Figures"), then the Consideration shall be reduced by an adjustment (the "Adjustment"). The Adjustment is calculated as follows:

$$\text{Adjustment} = \frac{\text{HK\$900 million}}{\text{Land Grant Figures of 86,383 square meters}} \times (\text{Land Grant Figures of 86,383 square meters - Actual Figures})$$

The Adjustment shall be initially offset against the Convertible Bond on a dollar for dollar basis. In the event that the Convertible Bond is insufficient to settle the Adjustment, the Vendor will settle the remaining balance of the Adjustment in cash. No interest will be charged on the Adjustment as this form part of the Consideration regardless of the Land Grant Figures. No guarantee or security is provided by the Vendor to the Company for the settlement of the Adjustment.

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the S&P Agreement (including the interest rates and overdue rate and the payment schedule) are fair and reasonable as the Company can acquire the Property without the full payment of the Consideration in cash and the fact that the Vendor has agreed to accept the most part of the Consideration in non-cash form because of the deposits made. Furthermore, the Directors are of the view that the adjustment formula is fair and reasonable because the Consideration was also referenced to the Land Grant Figures which is the only formula that takes into consideration the close relationship between the Consideration and Land Grant Figures.

As at 31 May 2009, the 75% of the market value of the Property valued by DTZ Debenham Tie Leung Limited, an independent professional valuer, with the gross floor area of the Land Grant presently in force is HK$360 million.

Based on the gross floor area of the Land Grant presently in force, the Adjustment to the Consideration is HK$587.68 million and the adjusted Consideration is HK$312.32 million.

Independent Shareholders should note that the Consideration was arrived at on the basis of the Land Grant Figures which have to date not been approved by the Macau Government but instead been rejected. However, a new amendment to the Land Grant will be submitted to the Macau Government for approval following the publication of a master zoning guideline for the "C" area of Nam Van Lakes Zone in Macau. The Directors do not know when the new zoning guidelines will be published but is expected to be published in the next couple of months. The Directors also do not know when such gazetting and approval of the new amendment to the Land Grant will take place.

Conditions

Completion is conditional upon, the following conditions being fulfilled and/or waived by the Purchaser as at the date of Completion:

(a) the Purchaser obtaining to its satisfaction a legal opinion from Macanese lawyers on, inter alia,

  (i) confirming Modern Vision and Reform Base indirectly have good title to the Property; and

  (ii) the unrestricted right of the Property for residential and/or commercial use;

(b) all consents of the Independent Shareholders and the Stock Exchange in connection with the transactions contemplated by the S&P Agreement including, inter alia, the issue of the Convertible Bond, the issue of Promissory Note (where applicable), the allotment and issue of the Conversion Shares upon conversion of the Convertible Bond having been obtained;

(c) the Vendor's warranties in the S&P Agreement remaining true and accurate in all material respects;

(d) the Purchaser undertaking and completing a due diligence investigation in respect of the Property and Macau Co and being satisfied with the results of such due diligence investigation;

(e) the Purchaser having received a property valuation from an independent property valuer (DTZ Debenham Tie Leung Limited) valuing the Property on Completion at not less than HK$1,200 million;

(f) the Stock Exchange not treating (a) the transactions contemplated under the S&P Agreement as a "reverse takeover" under Rule 14.06(6) of the Listing Rules and/or (b) the Company as a new listing applicant under Rule 14.54 of the Listing Rules;

(g) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon conversion of the Convertible Bond;

(h) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of Conversion Shares upon conversion of the Convertible Bond;

(i) the Capital Reorganisation becoming effective; and

(j) the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the Land Grant to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government.

Save for (b), (g), (h) and (j), all of the above conditions is waivable under the S&P Agreement.

If the conditions of the S&P Agreement are not fulfilled or waived in whole or in part by the Purchaser in writing, in its absolute discretion by no later than 5:00 p.m. on 31 December 2009, then the S&P Agreement shall cease and be determined and all liabilities of the parties thereto will cease and no party will have any claim against the others (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the S&P Agreement).

Completion shall take place on the third Business Day after the fulfillment and/or waiver of the last of the conditions precedent in the S&P Agreement or such later date as the Vendor and the Purchaser may agree.

As at the Latest Practicable Date, other than (i), none of the above conditions have been fulfilled.

Terms of Promissory Note

The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Parties:	The Company as issuer and the Vendor as payee
Principal Amount:	up to HK$350 million
Maturity:	A fixed term of twelve months from the date of issue of the Promissory Note. If the Company defaults in repayment on the maturity date of any part of the principal sum, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum.
Interest:	The Promissory Note will not carry any interest.
Early repayment:	Provided that the Company has given to payee not less than ten Business Day's prior notice in writing of its intention to repay any part of the outstanding principal amount of the Promissory Note, the Company may at any time from the date of the issue of the Promissory Note up to the date immediately prior to the maturity date, repay the entire Promissory Note up or part of it (in amounts of not less than HK$1 million) by payment to payee of the outstanding principal amount of the Promissory Note save that if at that time, the outstanding principal amount of the

	Promissory Note is less than HK$1 million, the whole (but not part only) of the Promissory Note may be repaid.
Assignment:	The Promissory Note may, subject to the ten Business Days' prior written notice to the Company and subject to the written consent of the Company, be transferred or assigned by the Vendor to any person. The Company will issue an announcement and inform the Stock Exchange if the Promissory Note is transferred or assigned to the connected persons of the Company.
Extension:	The Company has the right to extend the maturity date of the Promissory Note by giving not less than 30 days prior written notice to the payee.

Terms of the Convertible Bond

The terms of the Convertible Bond have been negotiated in an arm's length basis and the principal terms of which are summarised below:

Issuer:	The Company
Principal amount:	HK$350 million
Maturity:	A fixed term of five years from the date of issue the Convertible Bond. Unless previously redeemed, converted or cancelled, the Company shall redeem the outstanding principal amount of the Convertible Bond on the maturity date.
Interest:	6% per annum and payable on semi-annually in arrears
Redemption:	The Company may at any time upon the date of issue and before the maturity date of the Convertible Bond, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the Convertible Bond, redeem the Convertible Bond at par. Any amount of the Convertible Bond which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.
Conversion Price:	The Conversion Price is HK$0.50 per Conversion Share (subject to adjustment) on the basis that the Capital Reorganisation has been completed. The adjustments are subject to review by the Company's auditors or independent financial advisers. The adjustments for the Conversion Price include the followings: (i) no alternation of the nominal amount of each Share by reason of any consolidation or subdivision;

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

(iii) a capital distribution being made by the Company, whether on a reduction or otherwise, to Shareholders (in their capacity as such);

(iv) an offer of new Shares for subscription by way of rights, or grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 90% of the market price on the date of the Announcement of the terms of the issue of such securities;

(vi) an issue of Shares wholly for cash at a price per Share which is less than 90% of the market price on the date of Announcement of the terms of such issue; and

(vii) an issue of Shares for acquisition of assets at a total effective consideration per Share which is less than 90% of the market price of the date of the Announcement of the terms of such issue.

The Conversion Price represents (i) a discount of approximately 13.79% to the adjusted closing price of HK$0.58 per Consolidated Share (as adjusted for the Capital Reorganisation based on the closing price of HK$0.029 per Existing Share) as quoted on the Stock Exchange immediately before the suspension of trading of the Shares (i.e. 29 April 2009); (ii) the adjusted closing price of HK$0.50 per Consolidated Share (as adjusted for the Capital Reorganisation based on the closing price of HK$0.025 per Existing Share) as quoted on the Stock Exchange in the Last Trading Day; (iii) a premium of approximately 48.81% over the average of the adjusted closing prices of HK$0.336 per Consolidated Share (as adjusted for the Capital Reorganisation) based on the average closing price of HK$0.0168 per Existing Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iv) a premium of approximately 61.29% over the average of the adjusted closing prices of HK$0.31 per Consolidated Share (as adjusted for the Capital Reorganisation) based on the average closing price of HK$0.0155 per Existing Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and (v) a premium of approximately 101.61% over closing price of HK$0.248 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Conversion Shares:	Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bond at the Conversion Price by the bondholder(s) as at the date of the S&P Agreement, the Company will allot and issue an aggregate of 700,000,000 new Consolidated Shares, which is the maximum number of Shares to be issued, representing approximately (i) 292.26% of the issued share capital of the Company (adjusted for the Capital Reorganisation) as at the date of the Announcement, (ii) 53.99% of the issued Share capital of the Company as at the Latest Practicable Date and (iii) 35.06% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.
Conversion:	The bondholder(s) may at any time during the Conversion Period convert the whole or part (in multiples of HK$1 million), save that if at any time the aggregate outstanding principal amount of the Convertible Bond is less than HK$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bond may be converted, of the principal amount of the Convertible Bond into the Conversion Shares at the Conversion Price. Provided that any conversion of the Convertible Bond (i) does not result in the bondholder(s) and parties acting in concert with it shall be interested (whether directly or indirectly in 29.90% or more of the then issued share capital of the Company; (ii) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (iii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules, the bondholder(s) shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bond into the Conversion Shares.
Transferability:	The bondholder(s) may only assign or transfer the Convertible Bond to the transferee subject to the consent of the Company. The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bond by any connected person of the Company.
Ranking:	The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue in the date of the allotment and issue of the Conversion Shares.

Status of Convertible Bond:	The Convertible Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.
Voting rights:	The Convertible Bond does not confer any voting rights at any meetings of the Company.
Application for listing:	No application will be made by the Company for listing of the Convertible Bond. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

INFORMATION ON MODERN VISION, REFORM BASE, OVER PROFIT AND MACAU CO

Information on Modern Vision

Modern Vision was incorporated in the British Virgin Islands with limited liability on 25 May 2007. Modern Vision is an investment holding company. The major asset of Modern Vision is its 50% equity interest in Over Profit. Other than holding the 50% equity interest in Over Profit, Modern Vision has not carried out any business since its date of incorporation.

According to the accountants' report on the Modern Vision Group as shown in Appendix II to this circular, the consolidated net liabilities value of the Modern Vision Group as at 31 December 2007, 31 December 2008 and 31 March 2009 were HK$435.04 million, HK$521.23 million and HK$521.27 million respectively. The loss attributable to equity holders of Modern Vision both before and after taxation for the period from 25 May 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 were HK$435.04 million, HK$86.20 million and HK$34,000 respectively.

Information on Reform Base

Reform Base was incorporated in the British Virgin Islands with limited liability on 5 June 2007. Reform Base is an investment holding company. The major asset of Reform Base is its 25% equity interest in Over Profit. Other than holding the 25% equity interest in Over Profit, Reform Base has not carried out any business since its date of incorporation.

According to the accountants' report on Reform Base as shown in Appendix III to this circular, the net assets value of Reform Base as at 31 December 2007, 31 December 2008 and 31 March 2009 were HK$nil, HK$nil and HK$nil respectively. The loss attributable to equity holders of Reform Base both before and after taxation for the period from 5 June 2007 (date of incorporation) to 31 December 2007 was HK$1,000. No profit or loss was recorded by Reform Base for the year ended 31 December 2008 and the three months ended 31 March 2009.

Information on Over Profit

Over Profit was incorporated in the British Virgin Islands with limited liability on 20 April 2007. The principal activity of Over Profit is investment holding. On 19 July 2007, Over Profit acquired a 100% equity interest in Summer Sound. Other than holding the 100% equity interest in Summer Sound, Over Profit has not carried out any business since its date of incorporation.

According to the accountants' report on the Over Profit Group as shown in Appendix IV to this circular, the consolidated net liabilities value of the Over Profit Group as at 31 December 2007, 31 December 2008 and 31 March 2009 were HK$435.04 million, HK$521.23 million and HK$521.27 million respectively. The loss attributable to equity holders of Over Profit both before and after taxation for the period from 20 April 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 were HK$435.04 million, HK$86.20 million and HK$34,000 respectively.

Information on Macau Co

Macau Co was incorporated in Macau with limited liability on 20 June 1989. Macau Co is principally engaged in property investment and development in Macau, with its principal asset being the Property. The Property is a lot of land with an area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. The Property was leased to Macau Co for a term of 25 years commencing on 22 August 2001, and pursuant to the completion of the development, shall be automatically renewable for a period of 10 years until 19 December 2049, in accordance with the legislation in force in Macau. Under the Land Grant presently in force, the Property shall be developed with the construction of a building under strata title, for (i) housing 25,832 square meters; (ii) commerce 215 square meters; and (iii) private parking 3,930 square meters. Macau Co has submitted to the Macau Government an application to have the Land Grant amended. On 7 October 2006, the Macau Government sent to Macau Co a draft contract of amendment to the Land Grant which contemplates the following as to construction purposes and gross floor areas (i) housing 59,160 square meters; (ii) commerce 1,700 square meters; (iii) private parking 12,966 square meters; (iv) public parking 9,821 square meters; (v) free area with equipment 428 square meters; (vi) free area without equipment 2,308 square meters. On 10 January 2007, Macau Co has sent a reply to the Macau Government accepting the draft contract of amendment to the Land Grant. On 22 June 2009, Macau Co received a letter from the Macau Government informing the draft contract of amendment to the Land Grant dated 21 September 2006 has been rejected due to Mr. Ao Man Lung's involvement in approving the draft contract of amendment to the Land Grant. The Company made an announcement regarding this fact on 26 June 2009. The Vendor has obtained a legal opinion from Macanese lawyers confirming that a new amendment to the Land Grant can be submitted for re-approval. Macau Co will submit a new amendment to the Land Grant which has a gross floor area substantially the same as that in the Land Grant Figures to the Macau Government as soon as practicable. As advised by the Vendor, the Macau Government will publish a master zoning guideline for the "C" area of Nam Van Lakes Zone in the next couple of months following which Macau Co will submit a new amendment to the Land Grant to the Macau Government for approval. However, the Directors do not know when such gazetting of the amended Land Grant will take place. It is expected that the completion of development of the Property will be within 36 months from the date of re-approval of the new amendment to the Land Grant by the Macau Government.

The Directors are of the view that the new amendment to Land Grant is in the interest of the Company and Shareholders because it enables the space built for housing to be doubled from that contemplated in the Land Grant presently in force and sales of such would enable the Company to generate increased income therefrom. Accordingly, the new amendment to Land Grant is expected to have a positive impact on the Company.

It is intended that luxury residential apartments be developed on the Property for sale. As Macau Co is preparing the new amendment to the Land Grant for re-approval by the Macau Government, the Property is vacant and pending for development. Upon the re-approval of the new amendment to the Land Grant, the gross floor area of the Property will almost be doubled from the Land Grant currently approved. The Directors consider that it is in the interests of the Company and the Shareholders to let the Property remain vacant while awaiting the outcome of the re-approval by the Macau Government otherwise substantial redevelopment and construction would need to be done if the new land grant figures are approved.

A property valuation on the Property had been conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer, on an open market basis, based on the Land Grant Figures, valuing the Property at approximately HK$1,200 million as at 31 May 2009. There is a difference between the Land Grant Figures of 86,383 square meters and the gross floor area of the Property of 83,767.80 square meters as stated in the property valuation report as set out in Appendix IX to this circular. It is because the gross floor area of the Property of 83,767.80 square meters as shown on the property valuation report is based on the building plan prepared by Macau Co.

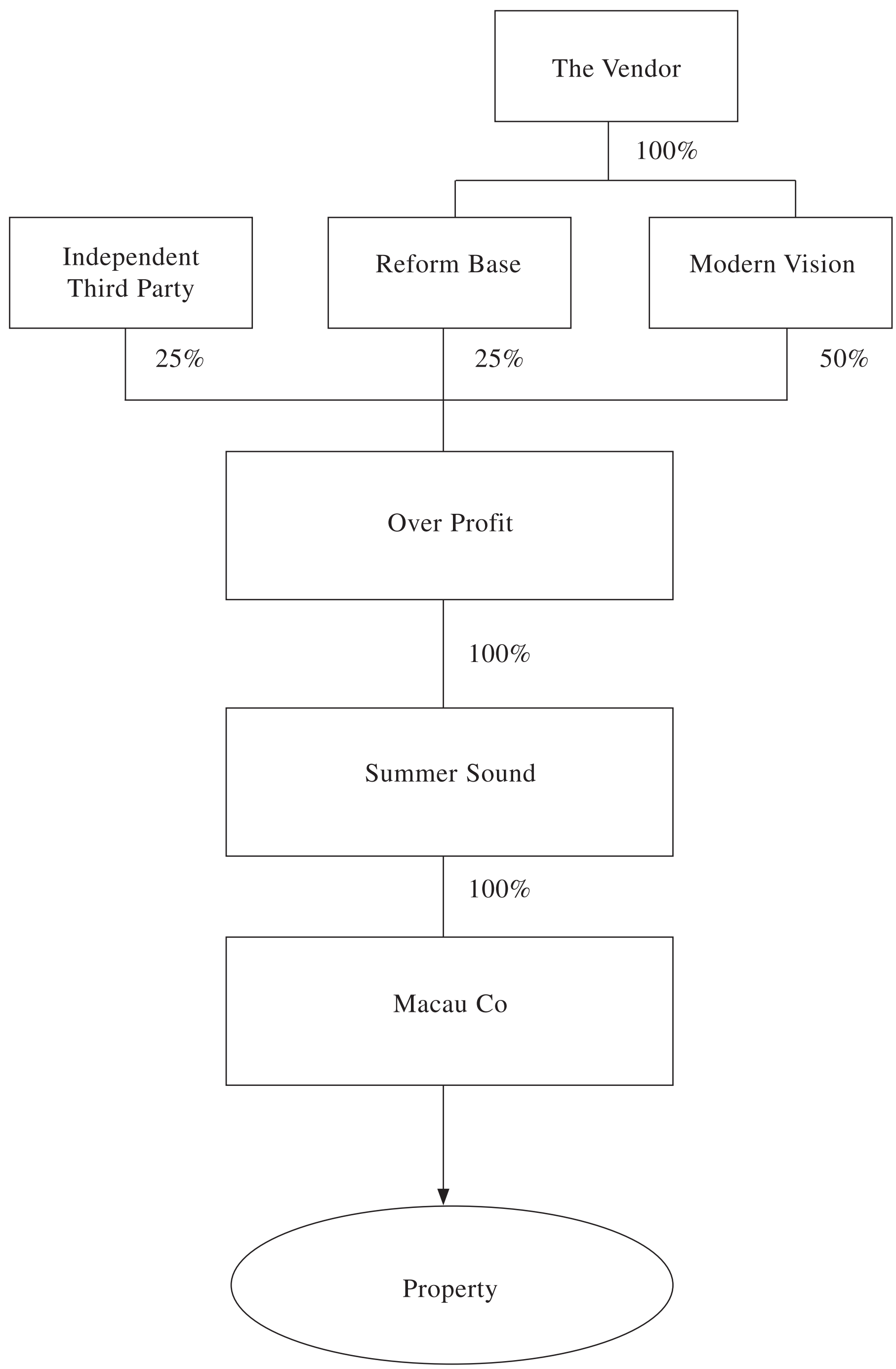
According to the accountants' report on Macau Co as shown in Appendix V to this circular, the net assets value of Macau Co as at 31 December 2006, 2007 and 2008 and 31 March 2009 were HK$0.80 million, HK$1.54 million, HK$1.42 million and HK$1.42 million respectively. The profits attributable to the equity holders of Macau Co both before and after taxation for the year ended 31 December 2006 and 2007 were HK$0.89 million and HK$0.74 million respectively. The loss attributable to the equity holders of Macau Co both before and after taxation for the year ended 31 December 2008 was HK$0.12 million. There was no profit or loss for the three months ended 31 March 2009.

As Macau Co is in net current liabilities position, Macau Co plans to satisfy its short-term liquidity needs by cash advance from its directors. The Vendor and Ms. Wong Hoi Ping, both of them are the directors and ultimate beneficial owners of Macau Co, have confirmed to provide continuing financial support to Macau Co to enable Macau Co to settle its liabilities as and when they fall due for the foreseeable future.

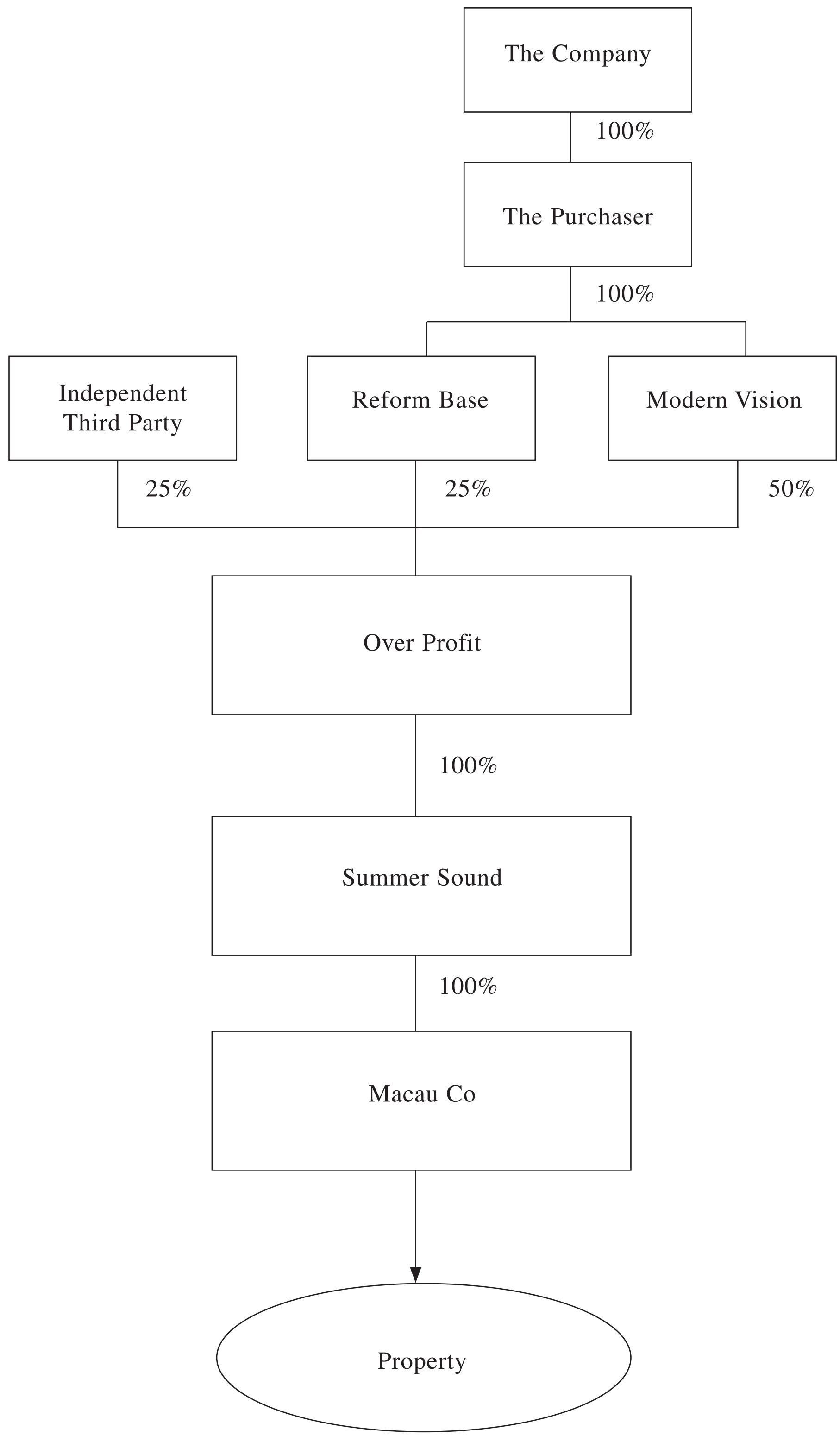
SHAREHOLDING STRUCTURE OF THE TARGET COMPANIES GROUP

Set out below is the summarised shareholding structure of the Target Companies Group before and after completion of the Acquisition:

Before



After


The Company
100%
The Purchaser
100%
Independent Third Party
Reform Base
Modern Vision
25%
25%
50%
Over Profit
100%
Summer Sound
100%
Macau Co
Property

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

	Prior to the Capital Reorganisation became effective		As at the date of the Announcement		As at the Latest Practicable Date		Upon Completion and assuming the conversion rights attached to the Convertible Bond is exercised in full (Note 3)		Upon Completion and assuming the conversion rights attached to the Convertible Bond is exercised to the extend that the Vendor and her parties acting in concert, in aggregate, holds not more than 29.90% of the issued share capital as enlarged by the Conversion Shares (Note 3)	
	No. of Existing Shares	Approx.	No. of Consolidated Shares	Approx.	No. of Consolidated Shares	Approx.	No. of Consolidated Shares	Approx.	No. of Consolidated Shares	Approx.
Porterstone Limited *(Note 1)*	913,243,500	19.06%	45,662,174	19.06%	45,662,174	3.52%	45,662,174	2.29%	45,662,174	2.61%
Dorest Company Limited *(Note 2)*	2,740,500	0.05%	137,025	0.05%	137,025	0.01%	137,025	0.01%	137,025	0.01%
Mr. Heung	199,193,070	4.16%	9,959,653	4.16%	23,176,653	1.79%	23,176,653	1.16%	23,176,653	1.32%
The Vendor	28,544,949	0.60%	1,427,247	0.60%	1,427,247	0.11%	701,427,247	35.13%	453,994,030	25.96%
Sub-total	1,143,722,019	23.87%	57,186,099	23.87%	70,403,099	5.43%	770,403,099	38.59%	522,969,882	29.90%
Public Shareholders										
Lucky State Group Limited *(Note 4)*	465,419,997	9.72%	23,271,000	9.72%	23,271,000	1.79%	23,271,000	1.17%	23,271,000	1.33%
Other public Shareholders	3,181,045,344	66.41%	159,052,269	66.41%	1,202,822,269	92.78%	1,202,822,269	60.24%	1,202,822,269	68.77%
	4,790,187,360	100.00%	239,509,368	100.00%	1,296,496,368	100.00%	1,996,496,368	100.00%	1,749,063,151	100.00%

Notes:

1. Porterstone Limited is wholly-owned by the Vendor and Dorest Company Limited is owned as to 60% by Porterstone Limited and as to 40% by Mr. Heung.

2. Shares held by Dorest Company Limited are under a charging order.

3. For illustration purpose only. Pursuant to the terms of the Convertible Bond, provided the conversion of the Convertible Bond (i) does not result in the bondholder(s) and parties acting in concert with it shall be interested (whether directly or indirectly) in 29.90% or more of the then issued share capital of the Company; (ii) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (iii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules, the bondholder(s) shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bond into the Conversion Shares.

4. Lucky State Group Limited is wholly-owned by Mr. Ng Cheuk Fai. Lucky State Group Limited is the holder of HK$24 million outstanding convertible notes of the Company as at the Latest Practicable Date and Mr. Ng Cheuk Fai is the general manager of the Company. Save for being a Shareholder and the general manager of the Company, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Lucky State Group Limited and Mr. Ng Cheuk Fai are Independent Third Parties.

REASONS FOR AND FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Reasons for and benefits of the Acquisition

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

In view of the Group's return to profitability by investing in Macau, the Directors (including the independent non-executive Directors) believe that the Acquisition will diversify the Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on the Group's long-term profitability.

Despite the fact that the draft contract of amendment to the Land Grant has been rejected by the Macau Government, the Directors are of the view that the Acquisition is fair and reasonable and on normal commercial terms based on the following:

(a) as advised by the Vendor, Macau Co will submit a new amendment to the Land Grant which has a gross floor area substantially the same as that in the Land Grant Figures to the Macau Government as soon as practicable;

(b) any land premium arising from the new amendment to Land Grant will be borne as to 75% by the Vendor and as to 25% by the other shareholder of Over Profit; and

(c) pursuant to the S&P Agreement, an adjustment to the Consideration of HK$900 million will be made if the Property is gazetted with gross floor areas which are less than the Land Grant Figures.

Assuming the Actual Figures are equal to the gross floor area of the Land Grant presently in force, the Adjustment to the Consideration would be HK$587.68 million and the adjusted Consideration would be HK$312.32 million. According to the valuation performed by DTZ Debenham Tie Leung Limited, an independent professional valuer appointed by the Company, the 100% of the market value of the Property based on the Land Grant presently in force is HK$480 million as at 31 May 2009. 75% of the market value of the Property amounts to HK$360 million as at 31 May 2009. As the adjusted Consideration represents a discount of approximately 13% to the 75% of the market value of the Property based on the Land Grant presently in force, the Directors considered that the Acquisition is in the interest of the Company and the Shareholders as a whole. If the new amendment to the Land Grant is not re-approved by the Macau Government, the business plan for developing luxury residential apartments on the Property for sale remains unchanged.

Given it is uncertain whether the Macau Government will grant approval to the new amendment to the Land Grant, the Directors consider that it is in the interests of the Company and the Shareholders for the Company to continue with the Acquisition as the adjusted Consideration represents an approximately 13% discount to the market value of the Property based on the Land Grant presently in force.

Although the reporting accountants have expressed a modified opinion on the accountants' report on Macau Co, the Directors are of the view that the Acquisition is in the interest of the Company and the Shareholders as a whole on the following grounds:

(a) The profitability of Macau Co has not been reflected in its financial statements. Since the date of its incorporation, Macau Co merely holds the Property and has not commenced its property development business.

(b) The total assets value of Macau Co is below its fair value. Macau Co records the Property at cost of HK$119.34 million in its financial statements, whereas the market value of Property based on the Land Grant presently in force amounted to HK$480 million.

(c) There is no severe impact on the Group's liquidity position upon Completion. As at 31 March 2009, Macau Co recorded total liabilities of HK$118.01 million, representing the amount due to the Vendor of HK$88.37 million, the amount due to the other director of HK$29.44 million and the accruals and other payables of HK$199,000. Pursuant to the terms of the S&P Agreement, the amount due to the Vendor of HK$88.37 million is the Macau Co Sale Loan and shall be assigned to the Purchaser upon Completion.

(d) Any land premium arising from the new amendment to the Land Grant will be borne as to 75% by the Vendor and as to 25% by the other shareholder of Over Profit.

Following Completion, the Target Companies Group will be treated as subsidiaries of the Company and their financial results will be consolidated into the Group.

It is intended that luxury residential apartments be developed on the Property for sale. Based on the gross floor area of the Land Grant Figures, the estimated development costs will be HK$896 million, which will be financed by proceeds from pre-sale of the units at the Property and bank borrowings.

Financial effects of the Acquisition

Assets

As at 31 December 2008, the audited consolidated total assets of the Group amounted to HK$2,605.17 million.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix VIII to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group would be HK$3,395.59 million.

Liabilities

As at 31 December 2008, the audited consolidated total liabilities of the Group amounted to HK$902.19 million.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix VIII to this circular, the unaudited pro forma consolidated total liabilities of the Enlarged Group would be HK$1,613.42 million.

Earnings

It is intended that luxury residential apartments to be developed on the Property for sale. Following the commencement of quantitative easing and aggressive fiscal stimulus by the Federal Reserve in an attempt to reflate the economy, there is an upsurge in inflation expectations. Investors are pouring their money into property market. As such, the Directors consider that the Acquisition will contribute positively to the Enlarged Group but the quantification of such impact will depend on future performance of Macau Co.

Gearing ratio

As at 31 December 2008, the total borrowings of the Group was HK$696.68 million and the Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 49%.

As set out in Appendix VIII to this circular, the total borrowings of the Enlarged Group would be increased to HK$1,141.84 million and the Enlarged Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 76%. The increase in gearing ratio from 49% to 76% is mainly attributable to the issue of the Convertible Bond of HK$350 million and the Promissory Note of HK$190 million in settling the Consideration.

PROSPECTS OF THE ENLARGED GROUP

After the acquisition of Best Mind International Inc., which engaged in investing in operations which receive the profit streams from the gaming promotion business in Macau, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group's revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging and strengthen the Group's confidence in the prospect and development in Macau. Despite the tightening of travel restrictions for Mainland Chinese travelers to visit Macau in late 2008 may have impact on Macau's gaming revenue growth over the last few months, the performance of the gaming and entertainment business remains strong and the Group is optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau economy would have strong growth when its infrastructural development becomes more matured.

Following Completion, the Target Companies Group will be become subsidiaries of the Group. Upon Completion, whilst the Enlarged Group will continue to carry out its existing business, the Enlarged Group will carry out property investment and development business in Macau via Macau Co. As it is intended that luxury apartments be developed on the Property for sale, the Directors believe that the Acquisition will enable the Enlarged Group to diversify its business and broaden its revenue base which would have a positive impact on the Enlarged Group's profitability.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor and her associates who holds 1,143,722,019 Existing Shares, representing 23.87% of the issued share capital of the Company as at the date of the S&P Agreement and the Vendor is an executive Director, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM. The Vendor and her associates shall abstain from voting at the SGM in respect of the resolutions to approve the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the Acquisition. There have been no previous transactions entered into between the Company and the Vendor that requires aggregation pursuant to Rule 14A.25 of the Listing Rules. There will not be a change in control of the Company as a result of completion of the Acquisition.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all three of the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the S&P Agreement and the Acquisition. Grand Cathay Securities (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

THE SGM

A notice convening the SGM to be held on Thursday, 3 September, 2009 at 12:15 p.m. at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong is set out on pages 293 and 294 of this circular for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolutions in respect of the Acquisition. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole and that the terms of the S&P Agreement are fair and reasonable so far as Shareholders are concerned. Accordingly, the Directors recommend that all Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Acquisition. The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers the Acquisition is in the interests of the Company and its Shareholders as a whole and that the terms of the S&P Agreement and the Acquisition are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the ordinary resolution proposed at the SGM.

ADDITIONAL INFORMATION

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

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

中国星

CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

17 August 2009

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION (ASIA) LIMITED AND REFORM BASE HOLDINGS LIMITED AND THE SALE LOANS

We refer to the circular dated 17 August 2009 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used therein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the letter from the Board in the Circular. Grand Cathay Securities (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 27 to 42 of the Circular.

Having considered the terms of the S&P Agreement and the Acquisition, the interest of the Independent Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the Acquisition is in the interests of the Company and its Shareholders as a whole and that the terms of the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the S&P Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Hung Cho Sing **Mr. Ho Wai Chi, Pau** **Mr. Leung Hok Man**
Independent non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee from Grand Cathay, independent financial adviser to the Independent Board Committee dated 17 August 2009 prepared for incorporation in this circular.

大華證券(香港)

GRAND CATHAY SECURITIES (HONG KONG) LIMITED
香港中環花園道3號中國工商銀行大廈7樓705至706室
Room 705-706, 7/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
Tel: 852-2521-2982 Fax: 852-2521-0085 www.gcsc.com.tw

17 August 2009

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

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MODERN VISION AND REFORM BASE AND THE SALE LOANS

INTRODUCTION

We refer to the circular dated 17 August 2009 (the "Circular") issued by the Company to the Shareholders of which this letter forms part and to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" (the "Letter") contained in the Circular and in which this letter is reproduced. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

On 26 June 2009, the Company announced that the Macau Government had informed the Vendor that the draft contract of amendment to the Land Grant had been rejected due to Mr. Ao Man Lung's involvement in the approval process of the Land Grant Figures. The Vendor has obtained a legal opinion from Macanese lawyers confirming that a new amendment to the Land Grant can be submitted for re-approval. Macau Co will submit a new amendment to the Land Grant which has a gross floor areas substantially the same as that in the Land Grant Figures to the Macau Government as soon as practicable.

On 14 August 2009, the Company announced that it had entered into a deed of variation with the Vendor pursuant to which the parties had agreed to amend the S&P Agreement by (i) including as a condition precedent to Completion the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the Land Grant to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government; (ii) reducing the Second Deposit to HK$160 million with the balance of HK$190 million to be paid on Completion; and (iii) by referring the adjustment to the gazetted figures rather than the constructed figures.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor is an executive Director, who and her associates hold in aggregate 1,143,722,019 Existing Shares as at the date of the S&P Agreement, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM in respect of the resolutions to approve the Acquisition. The Vendor and her associates shall abstain from voting at the SGM in respect of the resolutions to approve the Acquisition.

Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul, and Mr. Leung Hok Man, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the S&P Agreement are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. We advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion and representations contained or referred to in the Circular and all information, opinion and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information, opinion and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors provided to us. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Acquisition, we have considered the following factors and reasons:

1. Reasons and benefits of the Acquisition

(i) Business of the Group

The Group is principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment. According to the Company's annual report for the financial year 2008 (the "Annual Report"), the turnover of the Group increased from approximately HK$78.4 million for the year 2007, to approximately HK$227.7 million for the year 2008 which represented an increase of over 190%. The profit of the Group for the year 2008 was approximately HK$65.6 million where a loss of approximately HK$103.8 million was recorded for the year 2007. According to the Directors, the improvement of the Group's performance is mainly attributed to the diversification of the Group's business into the gaming and entertainment business. The amount of revenue from the profit streams from the gaming promotion business was approximately HK$203.3 million which represented almost 90% of the total revenue of the Group for the year 2008. According to the Directors, the Acquisition will diversify the Group's investment portfolio in Macau and broaden its revenue base which has a positive impact on the Group's long-term profitability.

According to the Directors, following the Completion, the Target Companies Group will become subsidiaries of the Group. Upon Completion, whilst the Enlarged Group will continue to carry out its existing business, the Enlarged Group will also carry out property investment and development business in Macau via Macau Co. As it is intended that luxury apartments will be developed on the Property for sale, the Directors believe that the Acquisition will enable the Enlarged Group to diversify its business and broaden its revenue base which would have a positive impact on the Enlarged Group's profitability.

The following table demonstrates the number of resident unit transacted and the transaction amount for the period from January 2008 to June 2009.

Year	2008												2009					
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6
Number of resident unit transacted (unit)	2,059	1,333	1,587	2,044	1,481	1,142	1,290	918	546	550	420	316	172	235	394	580	775	922
Dollar value of the transaction (MOP million)	5,006	2,973	3,432	4,818	3,287	1,784	3,358	1,993	981	1,042	611	493	299	372	594	980	1,156	1,627

Source: Monthly Bulletin of Statistic, Macao

With reference to the above table, we understand that both the number of resident unit transacted and the dollar value of transaction dropped substantially for a period from January 2008 to January 2009. However, since February 2009 both the number of resident unit transacted and the dollar value of transaction experienced an increasing trend. The number of resident unit transacted increased from 172 units in January 2009 to 922 units in June 2009 (which represent an increase of approximately 4.4 times), while the dollar value of the transaction also increased from approximately MOP299 million in January 2009 to approximately MOP1,627 million in June 2009 (which represent an increase of approximately 4.4 times). We are of the view that the Acquisition would provide an opportunity for the Group to enter the property market in Macau which is, based on the aforesaid analysis, in an increasing trend. Based on that, the entering of the Acquisition is justifiable. We consider that since the development of the Property is a long-term project, which according to the Company, is scheduled for completion within 36 months from the date of re-approval of the new amendment to the Land Grant by the Macau Government, the Independent Shareholders shall assess the Acquisition with reference to future economic outlook of Macau. According to a report published by an international real estate service provider in December 2008, some developers have stopped or slowed their development projects in Macau, but capital-rich developers are taking the opportunity to expand in the current market condition, for example, Shun Tak Holdings Limited has signed a management agreement with a Dubai-based luxury hotel management company on 2 December 2008, to develop a five-star deluxe hotel (will comprise a five-star hotel, serviced apartments or hotel apartments and amenities and is scheduled for completion in year 2013) in the Cotai. Since, the development project of Shun Tak Holdings Limited include a luxury serviced apartment, it is one of the additional information for the Independent Shareholders to understand the condition of the property development in Macau. Also, a number of incentive policies have been put in place to boost the property market by Macau government, which include (i) a stamp duty cut from 3 percentage to 1 percentage on property transactions; (ii) the first MOP3,500 of property tax will be waived; and (iii) for first-time home buyers (local permanent residents only), the stamp duty for the first MOP3 million of the property transaction will be waived.

(ii) Information on Modern Vision, Reform Base and Macau Co

(a) Information on Modern Vision

Modern Vision was incorporated in the British Virgin Islands with limited liability on 25 May 2007. Modern Vision is an investment holding company. The major asset of Modern Vision is its 50% equity interest in Over Profit. Other than holding the 50% equity interest in Over Profit, Modern Vision has not carried out any business since its date of incorporation.

According to the accountants' report on Modern Vision Group as shown in Appendix II to the Circular, the consolidated net liabilities value attributable to equity holders of Modern Vision Group as at 31 December 2007, 31 December 2008 and 31 March 2009 were HK$435.04 million, HK$521.23 million and HK$521.27 million respectively. The loss attributable to equity holders of Modern Vision Group both before and after taxation for the period from 25 May 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 were HK$435.04 million, HK$86.20 million and HK$34,000 respectively.

(b) Information on Reform Base

Reform Base was incorporated in the British Virgin Islands with limited liability on 5 June 2007. Reform Base is an investment holding company. The major asset of Reform Base is its 25% equity interest in Over Profit. Other than holding the 25% equity interest in Over Profit, Reform Base has not carried out any business since its date of incorporation.

According to the accountants' report on Reform Base as shown in Appendix III to the Circular, the net assets value of Reform Base as at 31 December 2007, 31 December2008, and 31 March 2009 were HK$nil, HK$nil and HK$nil respectively. The loss attributable to equity holders of Reform Base both before ad after taxation for the period from 5 June 2007 (date of incorporation) to 31 December 2007 was HK$1,000. No profit or loss was recorded by Reform Base for the year ended 31 December 2008 and the three moths ended 31 March 2009.

(c) Information on Over Profit

Over Profit was incorporated in the British Virgin Islands with limited liability on 20 April 2007. The principal activity of Over Profit is investment holding. On 19 July 2007, Over Profit acquired a 100% equity interest in Summer Sound. Other than holding the 100% equity interest in Summer Sound, Over Profit has not carried out any business since its date of incorporation.

According to the accountants' report on the Over Profit Group as shown in Appendix IV to the Circular, the consolidated net liabilities value of Over Profit as at 31 December 2007, 31 December 2008 and 31 March 2009 were HK$435.04 million, HK$521.23 million and HK$521.27 million respectively. The loss attributable to equity holders of Over Profit both before and after taxation for the period from 20 April 2007 to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 were HK$435.04 million, HK$86.20 million and HK$34,000 respectively.

(d) Information on Macau Co

Macau Co was incorporated in Macau with limited liability on 20 June 1989. Macau Co is principally engaged in property investment and development in Macau, with its principal asset being the Property. The Property is a lot of land with an area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. The Property was leased to Macau Co for a term of 25 years commencing on 22 August 2001, and pursuant to the completion of the development, shall be automatically renewable for a period of 10 years until 19 December 2049, in accordance with the legislation in force in Macau. Under the Land Grant presently in force, the Property shall be developed with the construction of a building under strata title, for (i) housing 25,832 square meters; (ii) commerce 215 square meters; and (iii) private parking 3,930 square meters. Macau Co has submitted to the Macau Government an application to have the Land Grant amended. On 7 October 2006, the Macau Government sent to Macau

Co a draft contract of amendment to the Land Grant which contemplates the following as to construction purposes and gross floor areas (i) housing 59,160 square meters; (ii) commerce 1,700 square meters; (iii) private parking 12,966 square meters; (iv) public parking 9,821 square meters; (v) free area with equipment 428 square meters; and (vi) free area without equipment 2,308 square meters. On 10 January 2007, Macau Co has sent a reply to the Macau Government accepting the draft contract of amendment to the Land Grant. On 22 June 2009, Macau Co received a letter from the Macau Government informing the draft contract of amendment to the Land Grant dated 21 September 2006 has been rejected due to Mr. Ao Man Lung's involvement in approving of the draft contract of amendment to the Land Grant. The Company made an announcement regarding the above on 26 June 2009. The Vendor has obtained a legal opinion from Macanese lawyers confirming that a new amendment to the Land Grant can be submitted for re-approval. Macau Co will submit a new amendment to the Land Grant which has a gross floor area substantially the same as that in the Land Grand Figures to the Macau Government as soon as practicable. According to the Company, the Vendor has advised that the Macau Government will publish a master zoning guideline for the "C" area of Nam Van Lakes Zone in the next couple of months following which Macau Co will submit a new amendment to the Land Grant to the Macau Government for approval. However, the Directors do not know when such gazetting of the amended Land Grant will take place.

It is intended that luxury residential apartments be developed on the Property for sale. As the amendment to the Land Grant is underway, the Property is vacant and pending for development.

Based on the information provided by the Company, we understand that (i) the gross floor area of the Property will almost be doubled from the Land Grant presently in force upon the re-approval of the new amendment of the Land Grant; (ii) the revenue generated from the resident units of the Land Grant Figure would be about 2 times of that of the Land Grant presently in force (presume the price per square feet is the same); and (iii) it is impracticable to conduct the foundation work first as the outcome of the new amendment to the Land Grant is uncertain. Based on the above, we are of the view and concur with the view of the Directors that it is justifiable to leave the Property vacant pending for development.

According to the Letter, the market value of the Property as at 31 May 2009 is approximately HK$1,200 million, based on the Land Grant Figure and the open market basis and the market value of the Property as at 31 May 2009 is approximately HK$480 million, based on the Land Grant presently in force and the open market basis.

According to the accountants' report on Macau Co as shown in Appendix IV to the Circular, the net asset value of Macau Co as at 31 December 2006, 2007 and 2008 and 31 March 2009 were HK$0.80 million, HK$1.54 million, HK$1.42 million and HK$1.42 million respectively. The profits attributable to the equity holders of Macau Co both before and after taxation for the year ended 31 December 2006 and 2007 were HK$0.89 million and HK$0.74 million respectively. The loss attributable to the equity holders of Macau Co both before and after taxation for the year ended 31 December 2008 was HK$0.12 million. There was no profit or loss for the three months ended 31 March 2009.

(iii) Benefits of the Acquisition

As stated in the paragraph headed "Business of the Group" above, the turnover and profit of the Group showed a remarkable increase for the year 2008 which is mainly attributed to the diversification of the Group's business into the gaming and entertainment business in Macau. The Directors believe that the Acquisition will enable the Group to diversify its business and investment portfolio in Macau and broaden its revenue base which would have a positive impact on the Group's long-term profitability.

The Acquisition is in line with the medium term to long term development objective of the Company which is to diversify its businesses. According to the Directors, it is intended that luxury residential apartments to be developed on the Property for sale. Given the recent property market in Macau and the recent incentive policies imposed by the Macau Government as stated in the sub-section headed "Business of the Group" above, the property market in Macau has been recovering.

Since we are not the expert in the area of property market in Macau, we can not expect whether or not the property market in Macau would continue to recover in the future, which in turn would affect the Group's income attributed from the development of the Property, the Independent Shareholders should aware the aforesaid situation. Moreover, the Property is still under development and the construction work has not yet commenced and the pre-sale of the development has not yet started, it is impossible to assess with certainty the response of the market towards the Property and thus the potential financial benefits to the Group. As such, the Independent Shareholders should note the risks in relation to the Property (please refer to the paragraph headed "Risks associated with the Property").

There is also the possibility of the Group conducting the Acquisition only after the completion of the development of the Property so as to mitigate the uncertainties and risks involved. However, in the view of the management of the Company, in such an event, the valuation of the Property would likely be different and would likely be higher (the valuation of the Property would equal to the market value of the building developed on the Property) and it is not market practice to acquire the whole resident building from other developer as the other developer can sell it to the market and the acquisition price is nearly equal to the market price. Based on the aforesaid, we are of the view that it is not market practice for the Group to conduct the acquisition after the completion of the development of the Property.

Based on the information as stated in the Letter, we understand that the Land Grant Figures has been rejected by the Macau Government and Macau Co will submit a new amendment to the Land Grant ("New Land Grant") which has a gross floor area substantially the same as that in the Land Grant Figures to the Macau Government as soon as practicable.

According to the management of the Company that since one of the conditions of the Completion is that the Purchaser having received a property valuation from an independent property valuer, i.e. DTZ Debendham Tie Leung Limited, valuing the Property on Completion at not less than HK$1,200 million, therefore, (i) if the value of the Property is equal to or more than HK$1,200 million (i.e. HK$900 million for 75%) on Completion, it is favourable to Company as the Consideration is capped at HK$900 million; and (ii) if the value of the Property on Completion is less than HK$1,200 million, then the S&P Agreement shall cease and be determined; or if the Board, including Ms. Li Yuk Sheung, the executive Director and Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul (who is a certified public accountant) and Mr. Leung Hok Man (who is a solicitor), all are independent non-executive Director and exclude Mr. Heung and the Vendor, consider that the derivation of the value of the Property is in-material to HK$1,200 million and is in the interest of the Company and the Shareholders as a whole, then the aforesaid Board can decide to waive the aforesaid condition and to continue the Acquisition.

In addition, the Company would undertake and complete a due diligence investigation in respect of the Property and Macau Co. According to the Board and the S&P Agreement, if the result of such due diligence investigation is not satisfied, by the Company's absolute discretion, the S&P Agreement shall cease and be determined.

Based on the above, we are of the view that although the Land Grant Figures has been rejected by the Macau Government and the outcome of the New Land Grant is uncertain, the interest of the Company and the Shareholders are safeguarded by the aforesaid arrangements.

As stated in the previous sub-section, the revenue generated from the resident units of the Land Grant Figures would be about 2 times of that of the Land Grant presently in force (presume the price per square feet is the same).

Overall, based on (i) the Group's policy to diversify and broaden its revenue; (ii) the Acquisition is in line with the Group's business strategy; and (iii) the arrangements of the decision making, we are of the view and concur with the view of the Directors that the Acquisition is beneficial to the Group and the Shareholders as a whole.

2. Consideration and funding for the Acquisition

(i) Basis of the Consideration

As stated in the Letter, the aggregate consideration for the Acquisition is HK$900 million which is paid in the following manner: (i) the payment of HK$200 million (the "Initial Deposit") upon the signing of the S&P Agreement to the Vendor; (ii) the payment of HK$160 million (the "Second Deposit") in cash to the Vendor prior to Completion; and (iii) procuring the Company to issue the Convertible Bond of HK$350 million and pay the balance of HK$190 million in cash or by the issue of the Promissory Note to the Vendor on Completion. The Initial Deposit and the Second Deposit (where applicable) shall immediately be returned to the Purchaser without interest in the event of termination or non-completion of the S&P Agreement for whatever reason. As at the Latest Practicable Date, (i) the Initial Deposit has been paid to the Vendor and (ii) HK$100 million has been paid as part of the Second Deposit.

As stated in the Letter, the Directors consider that the payment schedule as stated above is fair and reasonable as the Company can acquire the Property without the full payment of the Consideration in cash and the fact that the Vendor has agreed to accept the most part of the Consideration in non-cash form because of the deposits made. We are of the view and concur with the view of the Directors, although the amount of the deposit prior to Completion is HK$360 million which is approximately 40% of the Consideration and there is no security provided by the Vendor for the aforesaid deposit, as (i) the Company do not need to pay the whole Consideration in cash form and can use other payment methods, i.e. the issue of the Promissory Note and the Convertible Bond which is reasonable (as stated below); (ii) the Vendor had 75% equity interest in the Property, which is worth approximately HK$360 million according to the valuation performed by DTZ Debenham Tie Leung Limited, which demonstrate the repayment ability of the Vendor; and (iii) the benefit for the Acquisition as stated above, the payment arrangement of the Consideration is justifiable.

Consideration has been determined after arm's length negotiation between the Company and the Vendor on a "willing buyer-willing seller" basis having regards to (i) the Land Grant Figures; (ii) the estimated fair value of the Property of approximately HK$1,200 million on the basis that the Property will be developed into resident apartments as stated in the Land Grant Figures and with all relevant licences, permits and approvals obtained; and (iii) a direct comparison approached by making reference to comparable sales transactions as available in the relevant market.

Although the determination of the Consideration is based on the "willing buyer-willing seller" basis between the Vendor and the Purchaser, we consider that it is more appropriate to assess the fairness of the Consideration based on the valuation report of the Property (the "Valuation Report") conducted by DTZ Debenham Tie Leung Limited (the "Valuer"), an Independent Third Party as stated in Appendix IX to the Circular.

We have reviewed and discussed with the Valuer, the methodology and bases and assumption regarding the Valuation Report and are of the view that they are reasonably prepared. Further details can be found in the section headed "Valuation of the Property" below. Compared to the value of 75% equity interest of the Property which is of approximately HK$900 million accordingly to the Valuation Report, the Consideration is equal to the value of the Property. We are of the view that the consideration for the Acquisition is fair to the Group as it is equal to the value of the Property as stated in the Valuation Report.

In the event that the gross floor areas of the Property according to the New Land Grant (the "Actual Figures") which are less than the Land Grant Figures, then the Consideration shall be reduced according to the following calculation:

$$\text{Adjustment} = \frac{\text{HK\$900 million}}{\text{Land Grant Figures of 86,383 square meters}} \times (\text{Land Grant Figures of 86,383 square meters} - \text{Actual Figures})$$

The Adjustment shall be initially offset against the Convertible Bond on a dollar for dollar basis. In the event that the Convertible Bond is insufficient to settle the Adjustment, the Vendor will settle the remaining balance of the Adjustment in cash.

Given the Actual Figure is subject to the approval by Macau Government where the composition of the Actual Figure may be different to that of the Land Grant Figures, therefore, the aforesaid formula is meaningful only if the composition of the Actual Figure and the Land Grant Figures is substantially the same.

However, as stated before, one of the conditions of the Completion is the Purchaser having received a property valuation from an independent property valuer, i.e. DTZ Debendham Tie Leung Limited, valuing the Property on Completion at not less than HK$1,200 million, therefore, (i) if the value of the Property is equal to or more than HK$1,200 million (i.e. HK$900 million for 75%) on Completion, it is favourable to the Company as the Consideration is capped at HK$900 million; and (ii) if the value of the Property on Completion is less than HK$1,200 million according to the New Land Grant, then the S&P Agreement shall cease and be determined.

Therefore, the Consideration is capped at HK$900 million whatever the value of the Property in Completion is larger than HK$1,200 million (or HK$900 million for 75%) based on the New Land Grant. In case, the value of the Property in Completion is smaller than HK$1,200 million (or HK$900 million for 75%) based on the New Land Grant, and the Consideration (after Adjustment) is larger than the aforesaid value, the Board can decide not to complete the Acquisition.

Therefore, we are of the view that, although the formula for Adjustment is meaningful only if the composition of the Actual Figure and the Land Grant Figures is substantially the same, the Consideration should not be higher than the valuation of the Property in Completion based on the above arrangement.

Further, we are of the view that in the absence of the aforesaid formula of adjustment, whatever the outcome of the New Land Grant, the Consideration is to be remained at HK$900 million. In the presence of the aforesaid formula of adjustment, if there is any Adjustment occur, the Company will be benefited (the Consideration after Adjustment shall less than the value of the Property in Completion, otherwise the Board would decide not to complete the Acquisition).

Therefore, based on the above, we are of the view and concur with the view of the Directors that the aforesaid adjustment is to protect the Company if the Actual Figures is less than the Land Grant Figures, it is fair and reasonable.

(ii) Funding for the Acquisition

According to the Directors, as at the Latest Practicable Date, HK$300 million of the Consideration has been paid to the Vendor as Initial Deposit and part of Second Deposit and the balance of HK$600 million will be paid according to the manner as stated under the sub-section headed “Basis of the Consideration” above.

In order to assess the cost of the funding for the Acquisition, we would assess (i) the terms of the advance (the “Advance”) from China Star Investment Holdings Limited; (ii) the terms of the Promissory Note; and (iii) the terms of the Convertible Bond.

Advance from China Star Investment Holdings Limited

According to the Directors, the interest rate of the advance from China Star Investment Holdings Limited is equal to prime rate of The Hongkong and Shanghai Banking Corporation Limited.

In order to assess the fairness of the interest rate of the Advance, we requested the Company to obtain loan quotations with same loan amount from banks which are independent from the Company and compare the cost of the aforesaid with that of the Advance. According to the Directors, the Company faces difficulty in getting unsecured bank loan with similar terms of the Advance. Due to the aforesaid, we compare the interest rate of the Advance to the prime rate of Hong Kong and Shanghai Bank (the "Prime Rate") which is 5% as at the date of the loan agreement of the Advance. Based on the above, we consider that the interest rate of the Advance is justifiable.

Promissory Note

Please refer to the sections headed "Terms of Promissory Note" in the Letter for the detailed information of the terms of Promissory Note.

The issue of the Promissory Note by the Company is used for the satisfaction of part of the Consideration and the reasons for the entering into the S&P Agreement are described in the section headed "Reason and benefit of the Acquisition" above.

Based on the above, we are of the view that while the Company has apparent reasons for the issue of the Promissory Note and since the Acquisition is in line with the objective of the Company, the issue of the Promissory Note is in the interests of the Company and the Shareholders as a whole.

As stated in the Letter, the Promissory Note will not carry any interest. Therefore, we are of the view and concur with the view of the Directors that the issue of the Promissory Note is in the interests of the Group and the Shareholders as a whole.

Convertible Bond

Please refer to the sections headed "Terms of the Convertible Bond" in the Letter for the detailed information of the terms of the Convertible Bond.

The issue of the Convertible Bond by the Company is used for the satisfaction of part of the Consideration and the reasons for the entering into the S&P Agreement are described in the section headed "Reasons and benefit of the Acquisition" above.

Based on the above, we are of the view that while the Company has apparent reasons for the issue of the Convertible Bond and since the Acquisition is in line with the objective of the Company, the issue of the Convertible Bond is in the interests of the Company and the Shareholders as a whole.

We consider that since the interest rate of the Convertible Bond is similar to the Prime Rate (please refer to section headed "Alternatives to the issue of the Promissory Note and Convertible Bond" below for detail), we consider that the interest rate of the Convertible Bond is justifiable.

The Conversion Price represents (i) a discount of approximately 13.79% to the adjusted closing price of HK$0.58 per Consolidated Share (as adjusted for the Capital Reorganisation based on the closing price of HK$0.029 per Existing Share) as quoted on the Stock Exchange immediately before the suspension of trading of the Shares (i.e. 29 April 2009); (ii) the adjusted closing price of HK$0.50 per Consolidated Share (as adjusted for the Capital Reorganisation based on the closing price of HK$0.025 per Existing Share) as quoted on the Stock Exchange in the Last Trading Day; (iii) a premium of approximately 48.81% over the average of the adjusted closing prices of HK$0.336 per Consolidated Share (as adjusted for the Capital Reorganisation) based on the average closing price of HK$0.0168 per Existing Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day ("Last Five Trading Days Price"); (iv) a premium of approximately 61.29% over the average of the adjusted closing prices of HK$0.31 per Consolidated Share (as adjusted for the Capital Reorganisation) based on the average closing price of HK$0.0155 per Existing Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day ("Last Ten Trading Days Price"). The Conversion Price, although presents a discount of approximately 13.79% to the adjusted closing price of HK$0.58 per Consolidated Share as quoted on the Stock Exchange immediately before the suspension of trading of the Shares, it (i) equals to the closing price of the Last Trading Day; and (ii) represents a premium of over 48.81% over the Last Five Trading Days Price and a premium of over 61.29% over the Last Ten Trading Days Price. Based on the above, we are of the view and concur with the view of the Directors that the Conversion Price is justifiable.

Notwithstanding the above, the Acquisition represents a significant commitment in the near future for the Group as the Property has been identified by the Group as one of its key investment in its business development. Given the funding requirements for the development of the Property as stated below, the Group's ability to venture into other businesses in the near term may be limited. The Group has therefore committed fully to the investment as it is convinced with the potential of the Property. Independent Shareholders should take into consideration that if the Acquisition is approved, the development of the Property will become one of the Group's main business development areas in addition to the Group's current businesses.

(iii) Funding for the future development and sales of the Property

The estimated development costs for the Property is approximately HK$896 million, which is based on construction cost data/index available from a publication "Macau Construction Review – July 2009" issued by quantity surveyors, Davis Langdon & Seah and the Land Grant Figures.

With regard to the development of the Property, we are of the view that since the development of the Property has not yet commenced and the payment method for the development costs is yet to be determined, it is impossible to assess with certainty the costs of such development and the market reaction towards the Property and therefore it is impossible to work out the repayment ability and the potential financial benefits to the Group. Independent Shareholders should note that the benefits of the Acquisition are based on the existing property markets in Macau, in light of the current economic condition in Macau.

3. Alternatives to the issue of the Promissory Note and the Convertible Bond

The issue of the Promissory Note and the Convertible Bond is chosen as the method for funding of part of the Acquisition. Comparing with other fund raising methods, such as issue of Share, open offer and rights issue or borrowing from commercial banks, the Directors believe that the issue of the Promissory Note and the Convertible Bond is the best alternatives for the following reasons:

(i) the average daily trading volume of the Shares for a period from 25 February 2009 (being the dispatch day of the Company's share regarding the open offer as announced by Company's announcement dated 8 December 2008) to the date of the Announcement is approximately 114.2 million Shares with the exclusion of suspended days, representing approximately 2.4% of the entire issued Share capital of the Company as at the date of the Announcement. As the trading volume of the Shares is thin and the dollar value of the Convertible Bond and Promissory Note is large, i.e. up to HK$540 million, the Directors believe that, although the Company conducted two fund raising activities in the past twelve months before the date of the Announcement (four fund raising activities in the past twelve months before the Latest Practicable Date), there is uncertainty that the Company would be able to engage suitable securities firms as underwriters to fully underwrite an open offer, a rights issue or issue of new Shares with dollar amount equal to that of the Promissory Note and Convertible Bond; and

(ii) according to the management of the Company, the Company face difficulty to borrow loan from commercial banks in Hong Kong during the time for the negotiation of the Acquisition.

Having considered the thin trading volume of the Shares, the difficulty of the Company to borrow loan from bank in Hong Kong and the interest rate of the Convertible Note is justifiable as stated in the sub-section headed "Funding for the Acquisition" as stated above, we are of the view and concur with the view of the Directors that the issue of the Promissory Note and the Convertible Bond is the best fund-raising alternatives available to the Company.

4. Valuation of the Property

As set out in the Letter, the Consideration is determined based on the "willing buyer-willing seller" basis between the Purchaser and the Vendor, and with reference to the Land Grant Figures and the price of adjacent plots of land to which the Property is situated.

Although the determination of the Consideration is based on the "willing buyer-willing seller" basis between the Vendor and the Purchaser, we consider that it is more appropriate to assess the fairness of the Consideration based on the Valuation Report that prepared by the Valuer.

In assessing the fairness and reasonableness of the valuation, we have also reviewed the methodology, bases and assumption underlying the Valuation Report.

(a) Methodology

It is stated in the Valuation Report that the Valuer used the "Direct Comparison Approach" to value the Properties. The Valuer adopted the Direct Comparison Approach by making reference to comparable sales transactions as available in the relevant market.

(b) Bases and assumption

We have discussed with the Valuer regarding the basis of the valuation and the underlying assumptions of the valuation as stated in the Valuation Report.

According to discussion with the Valuer, we understand that although the Land Grant Figures has been rejected from Macau Government, it is based on the figure of the application that will be submitted to Macau Government which is substantially the same as of the Land Grant Figures, therefore, the Valuation Report is reasonably prepared. Based on the above, we are of the view that the Valuation Report is reasonably prepared.

According to the legal opinion prepared by the Macau legal adviser of the Company, Leong Hon Man Advogado, they do not foresee any issue would affect the rights of Macau Co. to hold the Property and to proceed with its development.

Having considered the above, we are of the view that the valuation performed by the Valuer is fair.

5. Risks associated with the Property

We consider that there are some uncertainties associated with the Acquisition and these uncertainties and risks included:

(i) the commercial marketability of the constructed Property as the constructed Property may or may not sale well in the market and the time as to when the Company can and will launch the constructed Property as the time for development may or may not on time as scheduled; and

(ii) whether or not the property market in Macau would continue to recover in the future which would affect the marketability of the constructed Property if the property market in Macau turn down when the Company plan to launch the constructed Property as scheduled.

Since we cannot predict whether the aforesaid risks would occur or not, we are not able to opine it. Accordingly, we would like to point out the potential risks associated with the Acquisition to the Independent Shareholders. The construction of the Property may or may not perform as scheduled, which may significantly affect the Group's financial performance. However, we are of the view that as (i) the Consideration should not be higher than the valuation of the Property in Completion; and (ii) the reasons for entering into the Acquisition as stated in the sub-section headed "Benefits of the Acquisition", the Acquisition is justifiable.

6. Financial effects of the Acquisition on the Group

This section set out various analyses on the potential financial effects of the Acquisition on the Group, which were prepared based on the audited financial information of the Group and accountant's report of Target Company for the financial year ended 31 December 2008. It should be noted that the figures and financial impact shown in this section are for illustrative purpose only.

(a) Total asset

As at 31 December 2008, the consolidated total assets of the Group was approximately HK$2,605 million. Based on the unaudited pro forma financial information of the Enlarged Group as contained in Appendix VIII to the Circular ("Pro Forma Financial Information"), assuming the Acquisition was completed on 31 December 2008, the pro forma total assets of the Enlarged Group as at 31 December 2008 would increase by approximately 30.36% to approximately HK$3,395.6 million. The increase is mainly attributed by the item of (i) property under development of approximately HK$480 million; (ii) the goodwill of approximately HK$670.9 million; and (iii) the decrease of cash of approximately HK$360.5 million (the aggregate of First Deposit and the Second Deposit and the transaction costs for the Acquisition).

(b) Total liabilities

As at 31 December 2008, the consolidated total liabilities of the Group were approximately HK$902.2 million. Based on Pro Forma Financial Information, assuming the Acquisition was completed on 31 December 2008, the pro forma total liabilities of the Enlarged Group as at 31 December 2008 would increase by approximately 78.8% to approximately HK$1,613.4 million. The increase is mainly due to the issue of the Convertible Bond and the Promissory Note.

(c) Cash

According to the Pro Forma Financial Information, the pro forma cash and bank balance of the Group as at 31 December 2008 would decrease to negative figure. The change is mainly due to the aggregate amount of the payment of the First Deposit and the Second Deposit of approximately HK$360 million and the transaction cost directly attributable to the Acquisition.

(d) Net Loss

For the year ended 31 December 2008, the profit of the Group was approximately HK$65.6 million. Based on the Pro Forma Financial Information, the pro forma profit of the Group would change to pro forma loss of Group of approximately HK$44.5 million. The change is mainly due to (i) the impairment loss on property under development; and (ii) the finance cost of the inputed interest expenses of the Convertible Bond to be recognized in the consolidated income statement of the Enlarged Group for the year ended 31 December 2008.

(e) Gearing

As at 31 December 2008, the Group's gearing ratio (defined as total interest-bearing borrowings to total assets) was approximately 26.7%. Based on the Pro Forma Financial Information, the Group's pro forma gearing ratio would slightly increase to approximately 28.03%.

(f) Dilution on the shareholding rights of the Independent Shareholders

As at the Latest Practicable Date, the Company has a total of 1,277,118,368 Shares in issue. If the Vendor exercise all conversion rights under the Convertible Bond, approximately 700,000,000 Share will fall to be issued and as a result of which, the shareholding of public Shareholders will be diluted from approximately 66.41% as at the date of the Announcement to approximately 59.85%. Based on the reason as stated in sub-section headed "Benefits of the Acquisition" above, we consider that such dilution effect is acceptable.

RECOMMENDATION ON THE ACQUISITION

Having considered the above principal factors, in particular, (i) Reasons and benefits of the Acquisition; (ii) Consideration and funding for the Acquisition; (iii) Alternatives to the Promissory Note and the Convertible Bond; (iv) Valuation of the Property; (v) Risks associated with the Property; and (vi) Financial effects of the Acquisition on the Group, we are of the opinion that the terms of the Acquisition are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable and in the interests of the Company and Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Acquisition and the transaction contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Grand Cathay Securities (Hong Kong) Limited

Kim Chan	**Kevin Chan**
Director	*Director*

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis (modified as appropriate) extracted from the annual reports of the Company for each of the three financial years ended 31 December, 2006, 2007 and 2008:

(i) For the year ended 31 December 2008

Financial Review

Following the termination of the Proposed Disposal (defined below), all corresponding results in the income statement for the year ended 31st December 2007 were represented to conform with the current year's presentation. Details are disclosed in the section "Termination of the Proposed Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited".

For the year ended 31st December 2008, the Group's turnover increased by 191% to approximately HK$227,747,000 (2007: HK$78,351,000).

Profit from operations and profit for the year amounted to approximately HK$121,695,000 and HK$65,590,000 respectively as compared to loss from operations and loss for the year of HK$65,910,000 and HK$103,807,000 respectively for last year. The turnaround of the current year's result was mainly attributable to contribution from the sharing of profit streams from investments in gaming and entertainment business in Macau after the acquisition of the entire equity interest in Best Mind International Inc. ("Best Mind").

The profit attributable to equity holders of the Company for the year ended 31st December 2008 was HK$90,604,000, representing a 198% improvement over loss of HK$92,547,000 in the last year.

Dividend

The directors recommend a final dividend of HK$0.001 per share (2007: nil) for the year ended 31st December 2008. Assuming the capital reorganisation as announced by the Company on 26th February 2009 will become effective on 4th May 2009, the final dividend will be adjusted from HK$0.001 per share (before capital reorganisation) to HK$0.02 per share (after capital reorganisation).

Business Review

Of the total turnover amount, HK$203,327,000 or 89% was generated from gaming and entertainment business, HK$19,141,000 or 8% was generated from film distribution business, HK$5,279,000 or 3% was generated from production services and other service income.

This year, the Group has successfully completed the acquisition of 100% equity interest in Best Mind, the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. The sound performance of Best Mind has exceeded our expectation as the Group had shared revenue of approximately HK$203,327,000 from the gaming and entertainment business, a 34% higher than the guarantee profit of approximately HK$151,385,000 for the same period as provided by Mr. Ng Cheuk Fai, the guarantor in this acquisition transaction and the beneficial owner in Ocho.

For the film distribution business, the Group had released only 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. In year 2008, turnover for film distribution division amounted to HK$19,141,000 (2007: HK$58,970,000) and its segment results amounted to loss of HK$455,000 (2007: profit of HK$8,336,000) respectively. The decrease in turnover was mainly attributable to partial income from sale of film rights of 100 titles in our film library was recorded in the last year. The segment loss was attributable to sales of certain old titles at lower prices during the year. The marketing and distribution expenses for the year ended 31st December 2008 was HK$671,000, representing a 88% decrease from HK$5,791,000 for the last corresponding year. In response to the weak film market, the Group had reassessed the recoverable amount of the cash generating unit allocated to film distribution business and the carrying value of film rights at 31st December 2008 and recognised impairment of HK$13,646,000 and HK$9,760,000 respectively.

For the geographical segments, turnover for Hong Kong segment amounted to HK$17,330,000 or 8% of the total turnover as compared to HK$62,366,000 or 80% of total turnover in the last year. Segment results amounted to HK$5,040,000 as compared to HK$14,029,000 in the last year. The decrease in turnover and segment profit by the Hong Kong segment was mainly attributable to partial income from sale of film rights of 100 titles in our film library was recorded in the last year.

Turnover for Macau segment amounted to HK$203,327,000 or 89% of the total turnover as compared to HK$14,046,000 or 18% of total turnover in the last year. Segment results amounted to HK$203,327,000 as compared to HK$9,474,000 in the last year. This year's revenue mainly represented revenue derived from sharing of profit streams from investments in gaming and entertainment business in Macau. Turnover for Macau segment for the year 2007 mainly represented provision of hotel services by Kingsway Hotel Limited ("KHL") which ceased business in June 2007 and is now under renovation. Therefore, KHL does not contribute any revenue during the year.

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

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

Liquidity and Financial Resources

As at 31st December 2008, the Group had total assets of approximately HK$2,605,167,000 and a net current assets of HK$132,755,000, representing a current ratio of 1.3 (2007: 1.6). The Group had cash and bank balances of approximately HK$138,145,000 (2007: HK$203,837,000, of which HK$181,102,000 classified as assets held for sale). As at 31st December 2008, the Group had total borrowings of HK$696,683,000 comprising a bank overdraft of HK$174,826,000, a bank mortgage loan of HK$8,467,000, a secured bank term loan of HK$375,000,000 and an outstanding convertible notes with liabilities component of HK$138,390,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of HK$40,880,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 61 monthly instalments and will expected to mature on January 2013. The bank overdraft facility and the term loan were secured by the Group's leasehold land, building and construction in progress with carrying value of approximately HK$991,034,000 (2007: HK$794,813,000, classified as assets held for sale). The term loan was repayable by 18 equal consecutive quarterly installments of HK$25,000,000 each commencing from the 9th month after the date of the first loan drawdown, i.e. matured on July 2011. The overdraft facility was repayable on demand and reviewed annually by the bank and the next review will be on July 2009. The outstanding convertible notes were unsecured, interest bearing at coupon rate of 5% per annum and will matured on 17th May 2012. The convertible notes carry the right to convert into shares of the Company at an adjusted conversion price of HK$3.0 per share as of 31st December 2008. As at 31st December 2008, KHL, a subsidiary of the Company had banking facilities amounting to HK$575,000,000 which were utilised to the extent of HK$549,826,000. The Group's gearing remained reasonable during the year with total debts of HK$696,683,000 against shareholders' funds of HK$1,418,711,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 49%. Other than disclosed herein, no assets of the Group has been pledged.

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

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new shares to independent investors at a price of HK$0.12 per share. 1,400,000,000 new shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK$163,500,000 was used for the acquisition of Best Mind.

On 18th March 2008, the Company had issued 236,333,333 new shares at a price of HK$0.3 per share as part of the consideration upon completion for the acquisition of Best Mind.

On 9th May 2008, the Company completed a capital reorganisation comprising (i) share consolidation that every 10 issued and unissued shares be consolidated into 1 consolidated share of the Company; (ii) capital reduction that the nominal value of all issued and unissued consolidated shares be reduced from HK$0.50 each to HK$0.05 each; and (iii) share premium cancellation that the entire amount of HK$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

On 1st December 2008, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 88,000,000 new shares to independent investors at a price of HK$0.102 per share. 88,000,000 new shares was issued on 23rd December 2008 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 28th June 2008. The net proceeds of approximately HK$8,800,000 was intended to be used for the Subscription (defined below).

On 4th December 2008, the Company announced that China Star Production Services Limited, a wholly owned subsidiary of the Company entered into a Memorandum of Agreement with Hong Kong Movie City Company Limited to dispose a number of system/unit used for post production process to the final cut of films for a total consideration of HK$11,200,000. This disposal constituted a discloseable transaction for the Company under the Listing Rules. This disposal has not yet completed as at 31st December 2008 and the assets to be disposed was classified as assets held for sale accordingly.

On 8th December 2008, the Company announced that it proposed to subscribe the zero coupon convertible notes in principal amount of HK$60 million to be issued by Golife Concepts Holdings Limited ("Golife") in five tranches of HK$12 million each due on the tenth anniversary of the date of issue for such tranche ("Subscription") and to be convertible into shares of Golife at an initial conversion price of HK$0.05 per share of Golife. The Subscription was approved by the shareholders at a special general meeting of the Company on 23rd January 2009. On 29th January 2009, Golife demanded subscription of HK$60 million convertible notes and the Company subscripted the HK$60 million convertible notes at the same date.

At the same date, the Company also announced that 1,064,486,080 offer shares at a subscription price of HK$0.05 each on the basis of two offer shares for every shares held on 23rd January 2009 with bonus issue on the basis of three bonus shares for every one offer share taken up under the open offer of the Company. The estimated net proceeds of not less than approximately HK$42,000,000 was intended to be used for the Subscription. The offer shares and the bonus shares were issued on 26th February 2009.

Subsequent to the balance sheet date, the authorised share capital of the Company increased from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 shares of HK$0.05 each on 29th January 2009.

On 26th February 2009, the board of directors of the Company announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation of the Company comprising (i) share consolidation that every 20 issued and unissued shares of HK$0.05 each be consolidated into 1 consolidated share of HK$1.00 each of the Company ("Consolidated Share(s)"); (ii) capital reduction that the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.99 on each of the issued Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK$1.00 to HK$0.01 and the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and (iii) share subdivision that the each of the authorised but unissued Consolidated Shares of HK$1.00 each be subdivided into 100 new shares of HK$0.01 each.

On 11th March 2009, the Company entered into a loan agreement with China Star Investment, a company which the directors of the Company have beneficial interest and its shares are listed on the main board of the Stock Exchange. China Star Investment agreed to grant an unsecured loan facility of up to HK$200,000,000 (the "Loan Facility") to the Company. Details of the Loan Facility were set out in the circular of China Star Investment dated 30th March 2009.

Material Acquisition

Best Mind International Inc.

On 18th March 2008, the Company had completed the acquisition of 100% issued share capital of Best Mind at an aggregate consideration of HK$1,054,900,000 satisfied as to HK$600,000,000 in cash, HK$384,000,000 by the issue of 5% convertible notes at an initial conversion price of HK$0.30 per share and the balance of HK$70,900,000 by the allotment and issue of 236,333,333 shares credited as fully paid. Best Mind becomes a subsidiary of the Group and starts to contribute cash profit to the Group.

Best Mind had entered into profit agreement with Ocho, a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner in Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK$264,000,000 and HK$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. During the period from 18th March 2008 to 31st December 2008, the Group had recorded revenue of HK$203,327,000 from the gaming and entertainment related business.

Material Disposals

Classical Statue Limited ("CSL"), China Star Investment Holdings Limited and Brilliant Arts Multi-Media Holding Limited

On 13th May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of CSL for a cash consideration of HK$330,567,000. CSL's major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement; 109,090,908 shares in Brilliant Arts, representing approximately 8.68% of the issued share capital of Brilliant Arts at date of agreement; and a convertible bond receivable from Brilliant Arts with principal face value of HK$1,000,000. The disposal had completed on 18th August 2008.

The Group recognised a loss on disposal of approximately HK$14,897,000 upon completion of the disposal.

Termination of the Proposed Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of China Star Investment, an associate of the Group, and China Star Investment relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK$447,000,000 ("Proposed Disposal"). Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. The principal asset of KHL is Kingsway Hotel (renamed as Hotel Lan Kwai Fong, Macau), a three star hotel with a total 383 guests rooms locate in Macau. Kingsway Hotel ceased its operation from end of June 2007 and is currently under renovation to becoming a luxury boutique hotel. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Company.

The Proposed Disposal was approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and was expected to complete before end of year 2008. Accordingly, all the results of the group headed by Exceptional Gain which comprised the hotel operations were classified as discontinued operations for the year ended 31st December 2007 and all its assets and liabilities as at 31st December 2007 were classified as assets and liabilities held for sale.

The Proposed Disposal was subsequently terminated on 23rd December 2008. The completion of the Proposed Disposal had hinged on the release of the security given by the Company relating to KHL to be replaced security given by China Star Investment. It did not appear that the relevant security would be released anytime soon by the relevant bank and as such the parties had determined not to keep their shareholders and investors lingering on the status of the Proposed Disposal.

Following the termination of the Proposed Disposal, all corresponding results for the year ended 31st December 2007 were re-presented to conform with the current year's presentation.

Employees

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

Prospect

During the year under review, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group's revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging. Despite the tightening of travel restrictions for Mainland Chinese travelers to visit Macau in late 2008 may have impact on Macau's gaming revenue growth over the last few months, the performance of the gaming and entertainment business remains strong and the Group is optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. The income stream of the Group will become more solid and stable following the grand opening of Hotel Lan Kwai Fong, Macau (formerly known as Kingsway Hotel) in around Mid 2009.

Besides, the Group will continue its strength in the production of high quality films with stringent control and cautious measure on capital investment and efficient management.

Looking ahead, the Group will streamline its business operations which can enables the Group to operate in a much cost effective manner, such as the disposal of CSL and concentrate its resources on investments opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

(ii) For the year ended 31 December 2007

Financial Review

For the year ended 31st December 2007, the Group's turnover decreased by 58% to approximately HK$64,305,000 (2006: HK$152,777,000). Of the total turnover amount, HK$58,970,000 or 92% was generated from film distribution and sale of film rights, HK$5,335,000 or 8% was generated from post-production services and other service income.

Loss from operations and loss for the year from continuing operations amounted to approximately HK$44,354,000 and HK$41,252,000 respectively as compared to profit from operations and profit for the year of HK$10,640,000 and HK$36,851,000 respectively for last year. The increase in current year's loss position was mainly attributable to the impairment losses recognised in respect of film rights and goodwill.

Loss for the year from discontinued operations amounted to approximately HK$62,555,000. Kingsway Hotel Limited ("KHL") become a subsidiary of the Group and the results being consolidated into the results of the Group with effect from 30th March 2007. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. Kingsway Hotel ceased its operation from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel. On 1st August 2007, the Company entered into an agreement ("Proposed Disposal") to dispose all its interest in Exceptional Gain Profits Limited ("Exception Gain") to Riche Multi-Media Holdings Limited ("Riche"). The principal assets in Exception Gain is its interest in KHL. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in May 2008. Accordingly, the results, assets and liabilities of Exceptional Gain which comprised the hotel operations had been classified as discontinued operations. The Group had shared an aggregate loss of approximately HK$62,555,000 from the hotel operations which consisted of share of loss of approximately HK$32,583,000 during the year and loss on disposal of interest in KHL of HK$45,471,000 and a gain recognised from discount on acquisition of subsidiaries of HK$15,498,000. In the opinion of the directors, the loss from discontinued operations is expected to recover from the forthcoming year upon completion of the Proposed Disposal. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK$71,992,000 if assuming the Proposed Disposal would completed on 30th June 2007. This gain will differ upon actual completion of the Proposed Disposal.

Dividend

The directors do not recommend the payment of a dividend for the year ended 31st December 2007 (2006: nil).

Business Review

This year, the Group had released 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Venders"), all wholly owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). Part of the income had recorded in the income statement for the year ended 31st December 2006 and the balance recorded in the income statement during the year.

In year 2007, turnover and profit segment for continuing operations from Hong Kong and Macau amounted to HK$62,366,000 (2006: HK$129,936,000) and HK$14,029,000 (2006: HK$29,895,000) respectively. The turnover mainly comprised film distribution, post production fees income of films and sales of film rights to Fortune Star. The marketing and distribution expenses for the year ended 31st December 2007 was HK$5,791,000, representing a 41% decrease from HK$9,777,000 for the last corresponding year.

Turnover and profit segment for the discontinued operation from Hong Kong and Macau amounted to HK$14,046,000 and HK$9,474,000 respectively, mainly comprised the hotel operations in Macau.

To stay competitive in the market, the Group has regularly review its costs structure in these years by exercised prudence measures on cost policies. As a result, administrative expenses keep at a reasonable basis. For the year ended 31st December 2007, administrative expenses increased to HK$39,343,000, a slight 3% increase from HK$38,309,000 of the last corresponding year.

Liquidity and Financial Resources

As at 31st December 2007, the Group had total assets of approximately HK$2,307,603,000 and net current assets of HK$678,571,000, representing a current ratio of 1.6 (2006: 5.4). The Group had total cash and cash equivalents of approximately HK$22,735,000 (2006: HK$89,347,000). As at 31st December 2007, the Group had total borrowings of HK$10,941,000 comprising a bank mortgage loan which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 73 monthly instalments and will expected to mature on January 2013. As at 31st December 2007, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK$650,000,000 which were utilised to the extent of HK$596,516,000, comprising a bank loan of HK$450,000,000 and a bank overdraft of HK$146,516,000. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet. The Group's gearing remained low during the year with total debts of HK$10,941,000 against shareholders' funds of HK$1,174,133,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 1%. Other than disclosed herein, no assets of the Group has been pledged.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2007, the Group had no contingent liability.

On 19th January 2007, the Company entered into three subscription agreements with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK$168,500,000 to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is HK$0.32 per conversion Share (subject to adjustments). The net proceeds of approximately HK$159,000,000 had been used for the acquisition of KHL. The Firm Bonds were issued on 18th May 2007. During the year ended 31st December 2007, HK$64,000,000 Firm Bonds were converted into 200,000,000 Shares at the conversion price of HK$0.32, HK$10,000,000 Firm Bonds were converted into 31,746,031 Shares at the conversion price of HK$0.315 (after adjustment) and the balance of HK$94,500,000 Firm Bonds were converted into 300,955,410 Shares at the conversion price of HK$0.314 (after adjustment) respectively.

On 12th March 2007, Classical Statue Limited ("Classical"), a wholly owned subsidiary of the Company entered into a subscription agreement with Brilliant Arts Multi-Media Holding Limited (formerly known as "Milkyway Image Holdings Limited") ("Brilliant Arts"), a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical had conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK$25,000,000 due 2012 ("Convertible Bonds") to be issued by Brilliant Arts at an issue price of HK$22,500,000. The conversion price of the Convertible Bonds is initially HK$0.33 per shares of Brilliant Arts (subject to adjustments). The Convertible Bonds has been issued on 25th May 2007. On 15th June 2007, 72,727,272 shares of Brilliant Arts, representing approximately 29.17% of the issued share capital of Brilliant Arts are allotted and issued as a result of the conversion of HK$24,000,000 Convertible Bonds. Brilliant Arts becomes an associate of the Company with effect from 15th June 2007.

On 28th March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK$55,000,000 ("Loan") for the period from 28th March 2007 to 18th April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Corporation Limited to finance the completion of the acquisition of KHL. The Loan was repaid on 18th April 2007.

On 29th March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK$0.37 per Share. 124,900,000 new Shares was issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23rd June 2006. The net proceeds of approximately HK$44,800,000 was intended to be used for general working capital of the Group.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share. The issue of 81,100,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 18th May 2007. The net proceeds of approximately HK$29,200,000 was intended to be used for general working capital of the Group.

On 4th June 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 165,905,000 new Shares to independent investors at a price of HK$0.40 per Share. 165,905,000 new Shares was issued on 25th June 2007 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 18th May 2007. The net proceeds of approximately HK$64,600,000 was intended to be used for general working capital of the Group.

On 20th July 2007, a licensed bank in Macau had agreed to grant a term loan of HK$450,000,000 and an overdraft facility of HK$200,000,000 to KHL, a subsidiary of the Company. The term loan and overdraft facility were secured by a first legal charge on the properties held by Kingsway Hotel, interest bearing at 2% per annum and 1% per annum below the bank's best lending rate respectively. The term loan has to be repaid by 18 equal consecutive quarterly installments of HK$25,000,000 each and the first principal repayment will commence on the 9th month after the date of first loan drawdown. The overdraft facility is repayable on demand. HK$400,000,000 term loan had been drawdown at the end of July 2007 of which HK$200,000,000 had been used by the Group to finance the acquisition of Best Mind International Inc.

On 30th August 2007, the Company announced that not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at a subscription price of HK$0.20 each had been issued by the Company on the basis of one right Shares for every two Shares held on 18th September 2007. The estimated net proceeds of approximately HK$162,600,000 was intended to be used for the acquisition of Best Mind International Inc.

On 5th September 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 274,790,000 new Shares to independent investors at a price of HK$0.21 per Share. 274,790,000 new Shares was 22 issued on 28th September 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2007. The net proceeds of approximately HK$56,200,000 was intended to be used for partial payment of the acquisition of Best Mind International Inc.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a best effort basis up to a maximum of 5,000,000,000 new Shares to independent investors at a price of HK$0.21 per Share ("Tranche II Placing"). The Tranche II Placing was approved by the shareholders of the Company at the special general meeting held on 22nd October 2007. On 11th December 2007, the parties to the Tranche II Placing entered into a deed of variation to extent the long stop date to three months from the date of the special general meeting to approve the deed of variation (i.e. 24th April 2008) and to change the placing price of the Tranche II Placing from HK$0.21 per Share to HK$0.12 per Share. The net proceeds of approximately HK$1,023,500,000 will be used by the Group to fund the consideration for future acquisition of gaming businesses in Macau. The Tranche II Placing has been terminated on the long stop date (i.e. 24th April 2008).

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new Shares to independent investors at a price of HK$0.12 per Share. 1,400,000,000 new Shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK$163,500,000 was intended to be used for the acquisition of Best Mind International Inc.

During the year ended 31st December 2007, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 Shares at exercise price of HK$0.242 per Share, an aggregate 26,800,000 Shares at an exercise price of HK$0.277 per Share, an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per Share and an aggregate12,600,000 Shares at the exercise price of HK$0.277 respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

Subsequent to the balance sheet date, the board of directors of the Company announced on 26th March 2008 that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation of the Company comprising (i) share consolidation that every 10 issued and unissued Shares be consolidated into 1 consolidated share of the Company ("Consolidated Shares"); (ii) capital reduction that the nominal value of all issued and unissued Consolidated Shares be reduced from HK$0.50 each to HK$0.05 each; and (iii) share premium cancellation that the entire amount of HK$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

Associates

Riche Multi-Media Holdings Limited

As at 31st December 2007, the Group had approximately 29.90% equity interest in Riche and its subsidiaries (the "Riche Group"). Riche Group is principally engaged in film distribution, sub-licensing of film rights, investments in securities and property investment. As at 31st December 2007, Riche Group had net assets of approximately HK$1,046,080,000. Turnover and net profit of Riche Group for the year ended 31st December 2007 were approximately HK$38,739,000 and HK$25,694,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$14,543,000 for the year ended 31st December 2007. The Group had recorded an aggregate result of profit of approximately HK$4,899,000 from Riche Group after taking into account the loss on deemed disposal of interest in associates of HK$49,744,000 and discount on acquisition of interest in associates of HK$40,100,000.

Brilliant Arts Multi-Media Holding Limited

As at 31st December 2007, the Group had approximately 25.74% equity interest in Brilliant Arts. Brilliant Arts and its subsidiaries ("Brilliant Arts Group") are principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. As at 31st December 2007, Brilliant Arts Group had net assets of approximately HK$65,658,000. Turnover and net profit of Brilliant Arts Group for the year ended 31st December 2007 were approximately HK$22,813,000 and HK$7,121,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$6,415,000 for the year ended 31st December 2007.

Together Again Limited

As at 31st December 2007, the Group held 49% equity interest in the group headed by Together Again Limited ("TAL Group"), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 31st December 2007, TAL Group had net liabilities of HK$7,945,000. Turnover and loss of TAL Group for the year ended 31st December 2007 were HK$17,403,000 and HK$16,954,000, respectively. Accordingly, the Group shared a loss of HK$4,410,000 for the year ended 31st December 2007.

Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of Riche, an associate of the Group, and Riche relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK$447,000,000. Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Group. The directors of the Company believe that the Proposed Disposal will provide an opportunity to the Group and Riche to allocate their resources effectively and to avoid duplication of resources as Riche already possessed appropriate expertise and resources in hotel and property management and the value of Kingsway Hotel will be better realized and reflected in Riche as the Proposed Disposal will enable Riche to build up its own branding in hotel and hospitality industry and in turn will have a positive impact on the Group's return on investment in Riche. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK$71,992,000 if assuming the Proposed Disposal would completed on 30th June 2007.

Acquisition of Best Mind International Inc.

On 16th August 2007, the Company had entered into an acquisition agreement in relation to the acquisition of 51% issued Share capital of Best Mind International Inc. ("Best Mind") at a total consideration of HK$538,000,000 ("Initial Acquisition") satisfied as to HK$300,000,000 in cash, HK$196,000,000 by the issue of 5% unsecured convertible note of the Company at an initial conversion price of HK$0.30 per Share and the balance of HK$42,000,000 by the allotment and issue of 140,000,000 Shares credited as fully paid. On 5th October 2007, the Company had entered into a sale and purchase agreement in relation to the acquisition of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 (together with the Initial Acquisition, "Acquisitions") satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of 5% unsecured convertible note of the Company at an initial conversion price of HK$0.30 per Share and the balance of HK$28,900,000 by the allotment and issue of 96,333,333 Shares credited as fully paid.

Best Mind had entered into profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner in Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK$264,000,000 and HK$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. In view of the recent booming economy of Macau and the prospects of Macau's gaming business, the directors of the Company believe that this acquisition will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's announcement dated 30th August 2007 and dated 10th October 2007 respectively for details of the Acquisitions.

The Acquisitions have been completed on 18th March 2008. Best Mind becomes a subsidiary of the Group and starts to contribute cash profit in April 2008.

Employees

As at 31st December 2007, the Group employed 48 staffs (2006: 51 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

Prospect

Looking ahead, the Group will continue its strength in the production of high quality films with stringent control on capital investment and efficient management. Besides, the Group has strong confident on Macau's economy. The Acquisitions of Best Mind was completed in March 2008 and the Group will receive not less than HK$364,000,000 guarantee profit for the first two years according to the terms of Acquisitions. This new operation will broaden the Group's revenue sources and provide a stable cash income to the Group. The cash profit received by the Group in April 2008 has solid our confident on the contribution of Best Mind. During the year, the Group has increased its long term investments in Riche and Brilliant Art and these long term investments are expected to provide positive contribution to the Group in the near future.

(iii) For the year ended 31 December 2006

Financial Review

For the year ended 31 December 2006, the Group's turnover increased by 66% to approximately HK$152.8 million (2005: HK$92.2 million). Loss from operations amounted to approximately HK$10.6 million (2005: HK$39.5 million) and a profit attributable to equity holders of the Company amounted to approximately HK$36.9 million (2005: loss of HK$21.0 million) was recorded. The directors did not recommend the payment of a dividend for the year.

During the year, the Group had recognised a gain on deemed disposal of interest in an associate of HK$62.6 million from Riche Multi-Media Holdings Limited ("Riche Multi-Media") and a gain on disposal of an associate of HK$21.4 million from Golden Capital International Limited. The improvement in current year's result was mainly attributable to these gain and better performance in film distribution segment. However, the Group had recognised an impairment loss in respect of goodwill arising on acquisition of associates of approximately HK$32.6 million.

Business Review

During the year, the Group had released 8 new films in the market including popular films like "The Shopaholic" and "Election II" which were the same as last corresponding year. In response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films, the Group has adopted cautious measures to secure the revenue and control budget for each new film. These measures were proved effective and better gross profit was achieved. On 13 September 2006, One Hundred Years of Film Company Limited, China Star

Pictures Limited and S&W Entertainment Limited (the "Vendors"), all wholly owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Vendors the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). The transaction was approved by the Company's shareholders at a special general meeting held on 31 October 2006. During the year ended 31 December 2006, 65 out of these 100 motion pictures have been delivered and recorded in the income statement of the Group. Thus, the turnover and gross profit was further improved.

For the year ended 31 December 2006, total turnover was HK$152.8 million, of which HK$145.8 million or 95% was generated from film distribution and sales of film rights, the remaining 5% was generated from video distribution and other production services.

In year 2006, turnover and segment profit from Hong Kong and Macau amounted to HK$37.0 million (2005: HK$49.8 million) and HK$4.2 million (2005: HK$5.4 million) respectively. The performance in the market maintained at similar level as last year. The marketing and distribution expenses for the year ended 31 December 2006 was HK$9.8 million, representing a 56% decrease from HK$22.4 million for the last corresponding year.

Turnover and segment profit from the PRC amounted to HK$8.8 million (2005: HK$10.2 million) and HK$4.4 million (2005: loss of HK$6.4 million) respectively.

The Group has sublicensed China theatrical rights to other distributor for a fixed amount of distribution fees, thus securing the margin received by the Group.

Turnover and segment profit from America & Europe amounted to HK$1.1 million (2005: HK$8.0 million) and HK$0.3 million (2005: HK$2.6 million) respectively.

Turnover and segment profit from South-east Asia amounted to HK$11.5 million (2005: HK$22.6 million) and HK$4.4 million (2005: HK$6.7 million) respectively.

Turnover and segment profit from elsewhere amounted to HK$94.4 million (2005: HK$1.6 million) and HK$26.3 million (2005: HK$0.7 million) respectively. It mainly represent the sales of film rights to Fortune Star during the year.

To stay competitive in the market, the Group has regularly reviewed its costs structure in these years by taking prudent measures on cost policies and reducing its headcount. As a result, administrative expenses kept at a reasonable basis. For the year ended 31 December 2006, administrative expenses was HK$38.3 million (excluding share-based payment expenses of HK$11.3 million, a slight 4% increase from HK$37.0 million (excluding share-based payment expenses of HK$24.1 million) of the last corresponding year.

Liquidity And Financial Resources

As at 31 December 2006, the Group had total assets of approximately HK$789.0 million and a net current assets of HK$352.7 million, representing a current ratio of 5.4 (2005: 4.0). The Group had a total cash and bank balances of approximately HK$89.3 million (2005: HK$31.5

million). As at 31 December 2006, the Group had total borrowings of HK$33.1 million comprising a bank mortgage loan of HK$13.2 million which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 85 monthly instalments and will expected to mature on January 2013; and unsecured convertible loan notes ("Notes") of HK$19.9 million (represent the liability component of principal amount of HK$20 million) which is bearing interest at 4% per annum and was mature on 30 June 2007. The Notes carry the right to convert into shares ("Shares" and each a "Share") of HK$0.05 each in the share capital of the Company at the conversion price of HK$5.83 per Share as of 31 December 2006. The Group's gearing remained low during the year with total debts of HK$33.1 million against shareholders' funds of HK$694.8 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 5%. Other than disclosed herein, no assets of the Group has been pledged.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedging activity were considered necessary. As at 31 December 2006, the Group had no contingent liability.

On 17 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 104,105,000 existing Shares 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. 104,105,000 new Shares issued for the subscription on 30 May 2006. The net proceeds of approximately HK$33.30 million 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.

On 6 June 2006, the Company had conditionally agreed to place in aggregate 80,000,000 new Shares to PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company at a price of HK$0.365 per Share. The issue of 80,000,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 5 July 2006. The placing was completed on 7 July 2006. The net proceeds of approximately HK$29 million was intended to be used by the Group for the proposed acquisition of a hotel in Macau.

Subsequent to the balance sheet date, the Company entered into three subscription agreements all dated 19 January 2007 with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK$168.5 million to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is the lower of (i) HK$0.32 per conversion Share and (ii) the average closing price of the Shares for the last ten trading days prior to the closing date provided that the conversion price of the Firm Bonds shall in no event be less than HK$0.25 per conversion Share (subject to adjustments).

The net proceeds of approximately HK$159 million will be used for the Second Acquisition (as defined herein). As at the date of this report, the Firm Bonds has not yet been issued.

On 12 March 2007, Classical Statue Limited ("Classical"), a wholly owned subsidiary of the Company entered into a subscription agreement with Milkyway Image Holdings Limited ("Milkyway"), a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical has conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK$25 million due 2012 ("Convertible Bonds") to be issued by Milkyway at an issue price of HK$22.5 million. The conversion price of the Convertible Bonds is initially HK$0.33 per shares of Milkyway (subject to adjustments). As at the date of this report, the Convertible Bonds has not yet been issued.

On 28 March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK$55 million (the "Loan") for the period from 28 March 2007 to 18 April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Banking Corporation Limited to finance the completion of the Second Acquisition (as defined herein). The Loan was repaid on 18 April 2007.

On 29 March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche I Placing"). 124,900,000 new Shares was issued for the Tranche I Placing on 17 April 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23 June 2006. The net proceeds of approximately HK$44.8 million will be used for general working capital of the Group. On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche II Placing"). The Tranche II Placing is subject to the approval of the shareholders of the Company at a special general meeting to be convened by the Company. The net proceeds of approximately HK$29.2 million will be used for general working capital of the Group.

Employees

As at 31 December 2006, the Group employed 47 staff (2005: 51 staff). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staff according to the assessment of individual performance.

Prospect

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. The acquisition of Kingsway Hotel is expected to create a stable inflow of income to the Group and the Directors of the view that it is good opportunity for the Group to participate in the growing hospitality and entertainment business in Macau.

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 travellers 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. Kingsway Hotel is a three star hotel that located at the centre of Macau. The room rates and the location of it can fit for a wide range of tourists from China. With the experience of the Group in the entertainment industry, we can help to promote the image of Kingsway Hotel and benefit from individual travelers.

Following the completion of the acquisition of 61.5% and 38.5% interests in Kingsway Hotel Limited as announced by the Company on 15 June 2006 and 4 January 2007 respectively and the subsequent disposal of 50% interest in Kingsway Hotel Limited as announced by the Company on 21 March 2007, Kingsway Hotel Limited becomes an indirect subsidiary of the Group. The Group can directly share the contribution from the hotel operation and the rental and marketing and promotion fee from the casino operation managed by SJM, a wholly owned subsidiary of Sociedade De Jogos De Macau, S.A. which is a reputable and experienced Macau conglomerate, particularly in the operation of casino business.

MANAGEMENT DISCUSSION AND ANALYSIS ON MACAU CO

Overview

Macau Co is principally engaged in property investment and development in Macau, with its principal asset of the Property. The Property is a lot of land with the area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. The Property was leased to Macau Co for a term of 25 years commencing on 22 August 2001, and pursuant to the completion of the development, shall be automatically renewable for a period of 10 years until 19th December, 2049, in accordance with the legislation in force in Macau. Under the Land Grant presently in force, the Property shall be developed with the construction of a building under strata title, for (i) housing 25,832 square meters; (ii) commerce 215 square meters; and (iii) private parking 3,930 square meters. Macau Co has submitted to the Macau Government an application to have the Land Grant amended. On 7 October 2006, the Macau Government has sent to Macau Co a draft of contract of amendment to the Land Grant which contemplates the following as to construction purposes and gross floor areas (i) housing 59,160 square meters; (ii) commerce 1,700 square meters; (iii) private parking 12,966 square meters; (iv) public parking 9,821 square meters; (v) free area with equipment 428 square meters; (vi) free area without equipment 2,308 square meters. On 10 January 2007, Macau Co has sent a reply to the Macau Government accepting the draft contract of amendment to the Land Grant.

On 22 June 2009, Macau Co received a letter from the Macau Government informing the draft contract of amendment to the Land Grant dated 21 September 2006 has been rejected due to Mr. Ao Man Lung's involvement in approval of the draft contract of amendment to the Land Grant. The Vendor has obtained a legal opinion from Macauese lawyers confirming that a new amendment to the Land Grant can be submitted for re-approval. Macau Co will submit a new amendment to the Land Grant which has a gross floor area substantially the same as that in the Land Grand Figures to the Macau Government as soon as practicable.

It is intended that luxury residential apartments be developed on the Property for sale. As Macau Co is preparing the new amendment to the Land Grant for re-approval by the Macau Government, the Property is vacant and pending for development.

As Macau Co has not carried out any business or trading, no sale or turnover was recorded for each of the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 and 2009.

Analysis on the results of operation of Macau Co during the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 and 2009

Other revenue

Other revenue comprised bank interest income.

Other revenue decreased from HK$0.92 million in the year ended 31 December 2006 to HK$0.75 million in the year ended 31 December 2007. The decrease was attributable to the decrease in cash and bank balances resulted from the repayment of a general banking facility granted by a bank in Macau.

No other revenue was recorded in the year ended 31 December 2008 and the three months ended 31 March 2008 and 2009 as Macau Co did not have any cash and bank balances.

Administrative expenses

As Macau Co has not carried out any business and trading activities, administrative expenses for the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 and 2009 were minimal. They mainly represented legal and professional fees and sundry expenses.

Taxation

No provision for profits tax was made for each of three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 and 2009 as Macau Co did not have any assessable profit.

Profit/(loss) for the year/period

Profit decreased from HK$0.89 million in the year ended 31 December 2006 to HK$0.74 million in the year ended 31 December 2007. The decrease was attributable to the decrease in other revenue of HK$0.17 million in the year ended 31 December 2007.

Macau Co recorded a profit of HK$0.74 million in the year ended 31 December 2007, whereas a loss of HK$0.12 million was recorded in the year ended 31 December 2008. This was due to no other revenue in the year ended 31 December 2008.

No profit or loss was recorded by Macau Co in the three months ended 31 March 2008 and 2009.

Analysis on the financial position of Macau Co during the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009

Liquidity and financial resources

During the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 and 2009, Macau Co funded its operations mainly from cash advances from directors and shareholders, and bank borrowings.

As at 31 December 2006, the cash and bank balances of Macau Co amounted to HK$34.38 million and the total borrowings of Macau Co amounted to HK$126.47 million, comprising two general banking facilities granted by a bank in Macau of HK$75 million, which were secured, interest bearing at HIBOR plus 2% per annum and maturing on 28 February 2008, and the amounts due to directors of HK$51.47 million which were unsecured, interest-free and repayable on demand. As at 31 December 2006, the gearing ratio calculated as a percentage of total borrowings over total equity was 15,908.30%.

As at 31 December 2007, Macau Co had no cash and bank balances. The total borrowings of Macau Co amounted to HK$46.52 million, comprising a general banking facility granted by a bank in Macau of HK$45.70 million, which was secured, interest bearing at HIBOR plus 2% per annum and maturing on 28 February 2008, and the amounts due to directors of HK$0.82 million, which were unsecured, interest-free and repayable on demand. As at 31 December 2007, the gearing ratio calculated as a percentage of total borrowings over total equity was 3,022.74%.

As at 31 December 2008, Macau Co had no cash and bank balances. The total borrowings of Macau Co amounted to HK$117.81 million representing the amounts due to directors, which were unsecured, interest-free and repayable on demand. As at 31 December 2008, the gearing ratio calculated as a percentage of total borrowings over total equity was 8,285.02%.

As at 31 March 2009, Macau Co had no cash and bank balances. The total borrowings of Macau Co amounted to HK$117.81 million representing the amounts due to directors, which were unsecured, interest-free and repayable on demand. As at 31 March 2009, the gearing ratio calculated as a percentage of total borrowings over total equity was 8,285.02%.

Future plans for material investments

It is intended that luxury residential apartments be developed on the Property for sale. It is expected that the development costs will be financed by proceeds from pre-sale and bank borrowings.

Charges on assets

As at 31 December 2006 and 2007, the Property was pledged to a bank to secure the general banking facilities granted to Macau Co.

As at 31 December 2008 and 31 March 2009, Macau Co did not have any mortgage or charge.

Net current liabilities

The net current liabilities of Macau Co as at 31 December 2006, 2007 and 2008 and 31 March 2009 amounted to HK$250.11 million, HK$115.87 million, HK$117.88 million and HK$117.92 million respectively.

The current ratios of Macau Co as at 31 December 2006, 2007 and 2008 and 31 March 2009 were 0.12, 0.00, 0.00 and 0.00 respectively.

Material acquisitions and disposals of subsidiaries and associated companies

During the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009, there were no material acquisitions and disposals carried out by Macau Co.

Contingent liabilities

As at 31 December 2006, 2007 and 2008 and 31 March 2009, Macau Co did not have any material contingent liabilities.

Capital structure

During the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009, there was no change in the equity capital structure of Macau Co.

Exchange risk and hedging

As the majority of the Macau Co's transactions, assets and liabilities are denominated in Macau Pataca and Hong Kong dollars, the exchange rate risk of Macau Co is considered to be minimal. Accordingly, no financial instruments for hedging purposes were used by Macau Co for the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009.

Staff and remuneration policies

As at 31 December 2006, 2007 and 2008 and 31 March 2009, Macau Co had no employee.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

17 August 2009

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Modern Vision (Asia) Limited ("Modern Vision") and its subsidiaries (hereinafter collectively referred to as the "Modern Vision Group") set out in Section I, II and III below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 17 August 2009 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Modern Vision by Bestjump Holdings Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the consolidated balance sheets of the Modern Vision Group and the balance sheets of Modern Vision as at 31 December 2007 and 2008 and 31 March 2009 and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the period from 25 May 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

Modern Vision was incorporated in the British Virgin Islands on 25 May 2007 as a limited company and its principal activity is investment holding. Particulars of its subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Modern Vision		Principal activities
			Directly	Indirectly	
Over Profit International Limited ("Over Profit")	the British Virgin Islands 20 April 2007	US$100	50%	–	Investment holding

Name of subsidiary	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Modern Vision Directly	Attributable equity interests held by Modern Vision Indirectly	Principal activities
Summer Sound Investments Limited ("Summer Sound")	the British Virgin Islands 30 January 2006	US$100	–	50%	Investment holding
Crown Gem Investments Limited ("Crown Gem")	the British Virgin Islands 3 January 2006	HK$1	–	50%	Investment holding
Stronghold Holding Company Limited ("Stronghold")	Macau 10 March 2006	MOP25,000	–	50%	Investment holding
Hercules Holding Company Limited ("Hercules")	Macau 10 March 2006	MOP25,000	–	50%	Investment holding
Legstrong Construction and Investment Company Limited ("Legstrong")	Macau 20 June 1989	MOP100,000	–	50%	Property investment and development

The Modern Vision Group has adopted 31 December as its financial year end date. No audited financial statements of Modern Vision, Over Profit, Summer Sound, Crown Gem, Stronghold, Hercules and Legstrong have been prepared since their respective dates of incorporation up to the date of this report because there is no statutory requirement to do so.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Modern Vision based on the unaudited consolidated management accounts of the Modern Vision Group. No audited consolidated financial statements have previously been prepared for the Modern Vision Group for the Relevant Periods. The unaudited consolidated management accounts of the Modern Vision Group have been adjusted as are appropriate to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of Modern Vision is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Modern Vision and the Modern Vision Group as at 31 December 2007 and 2008 and 31 March 2009 and of the consolidated results and cash flows of the Modern Vision Group for the Relevant Periods.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 2 to the Financial Information which indicates that the Modern Vision Group recorded net liabilities of approximately HK$435,036,000, HK$521,232,000 and HK$521,266,000 as at 31 December 2007 and 2008 and 31 March 2009 respectively. These conditions, along with other matters as set forth in note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about the Modern Vision Group's ability to continue as a going concern.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of director and reporting accountants

The director of Modern Vision is responsible for the preparation of the unaudited financial information of the Modern Vision Group including the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2008, together with the notes thereto (the "Unaudited Comparative Financial Information").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information, for which the director of Modern Vision is responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of the Modern Vision Group's management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	Period from 25 May 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	Three months ended 31 March 2009
		HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Other revenue	9	120	–	–	–
Administrative expenses		–	(117)	–	–
Impairment loss on property under development	15	–	(86,079)	–	(34)
Impairment loss recognised in respect of goodwill	16	(435,157)	–	–	–
Loss before taxation	10	(435,037)	(86,196)	–	(34)
Taxation	12	–	–	–	–
Loss for the periods/year		(435,037)	(86,196)	–	(34)
Attributable to:					
Equity holders of Modern Vision		(435,037)	(86,196)	–	(34)
Minority interests		–	–	–	–
		(435,037)	(86,196)	–	(34)

Consolidated Balance Sheets

		At 31 December		At 31 March
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property under development	*15*	564,187	480,000	480,000
Goodwill	*16*	–	–	–
		564,187	480,000	480,000
Current asset				
Other receivables	*18*	2	2	2
Total assets		564,189	480,002	480,002
CAPITAL AND RESERVES				
Share capital	*19*	1	1	1
Reserves		(435,037)	(521,233)	(521,267)
Equity attributable to equity holders of Modern Vision		(435,036)	(521,232)	(521,266)
Minority interests		–	–	–
Total equity		(435,036)	(521,232)	(521,266)
LIABILITIES				
Current liabilities				
Accruals and other payables	*20*	525,205	250,424	250,458
Amount due to a director	*21*	428,320	750,810	750,810
Bank borrowings – due within one year	*22*	45,700	–	–
Total liabilities		999,225	1,001,234	1,001,268
Total equity and liabilities		564,189	480,002	480,002
Net current liabilities		(999,223)	(1,001,232)	(1,001,266)
Total assets less current liabilities		(435,036)	(521,232)	(521,266)

Balance Sheets

		At 31 December		At 31 March
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current asset				
Investment in a subsidiary	*17*	1	1	1
Current asset				
Other receivables	*18*	1	1	1
Total assets		2	2	2
CAPITAL AND RESERVES				
Share capital	*19*	1	1	1
Total equity		1	1	1
LIABILITIES				
Current liability				
Amount due to a subsidiary	*17*	1	1	1
Total liabilities		1	1	1
Total equity and liabilities		2	2	2
Net current assets		–	–	–
Total assets less current liabilities		1	1	1

Consolidated Statements of Changes in Equity

	Share capital	Accumulated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 25 May 2007 (date of incorporation)	–	–	–	–	–
Issue of share upon incorporation	1	–	1	–	1
Loss for the period	–	(435,037)	(435,037)	–	(435,037)
At 31 December 2007 and 1 January 2008	1	(435,037)	(435,036)	–	(435,036)
Loss for the year	–	(86,196)	(86,196)	–	(86,196)
At 31 December 2008 and 1 January 2009	1	(521,233)	(521,232)	–	(521,232)
Loss for the period	–	(34)	(34)	–	(34)
At 31 March 2009	1	(521,267)	(521,266)	–	(521,266)

For the three months ended 31 March 2008 (unaudited)

	Share capital	Accumulated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	1	(435,037)	(435,036)	–	(435,036)
Loss for the period	–	–	–	–	–
At 31 March 2008	1	(435,037)	(435,036)	–	(435,036)

Consolidated Cash Flow Statements

	Period from 25 May 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	Three months ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000* (*Unaudited*)	*HK$'000*
OPERATING ACTIVITIES				
Loss before taxation	(435,037)	(86,196)	–	(34)
Adjustments for:				
Impairment loss on property under development	–	86,079	–	34
Impairment loss recognised in respect of goodwill	435,157	–	–	–
Interest income	(120)	–	–	–
Operating cash flows before movements in working capital	–	(117)	–	–
Decrease in other receivables	35	–	–	–
Increase/(decrease) in accruals and other payables	456,180	(274,781)	(394)	34
Increase in amount due to a director	428,320	322,490	1,026	–
Net cash generated from operating activities	884,535	47,592	632	34
INVESTING ACTIVITIES				
Construction cost invested in property under development	(4,187)	(1,892)	(632)	(34)
Net cash effect on acquisition of a subsidiary *(note 23)*	(851,169)	–	–	–
Interest received	120	–	–	–
Net cash used in investing activities	(855,236)	(1,892)	(632)	(34)
FINANCING ACTIVITIES				
Issue of share upon incorporation	1	–	–	–
Repayment of bank borrowings	(29,300)	(45,700)	–	–
Net cash used in financing activities	(29,299)	(45,700)	–	–

	Period from 25 May 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Net increase in cash and cash equivalents	–	–	–	–
Cash and cash equivalents at the beginning of the periods/year	–	–	–	–
Cash and cash equivalents at the end of the periods/year	–	–	–	–

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Modern Vision was incorporated in the British Virgin Islands with limited liability. The address of the registered office of Modern Vision is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

The principal activities of Modern Vision is investment holding and the principal activities of its subsidiaries are set out in note 17.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK$'000), which is the same as the functional currency of Modern Vision.

2. Basis of preparation

The Modern Vision Group had incurred net liabilities of approximately HK$435,036,000, HK$521,232,000 and HK$521,266,000 as at 31 December 2007 and 2008 and 31 March 2009 respectively. The shareholder of Modern Vision has confirmed to provide continuing financial support to the Modern Vision Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

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

The Financial Information has been prepared under historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modern Vision Group's accounting policies.

The Modern Vision Group's books and records are maintained in Hong Kong Dollars ("HK$") as the director of Modern Vision controls and monitors the performance and financial position of the Modern Vision Group in HK$.

3. Issued but not yet effective Hong Kong Financial Reporting Standards

The Modern Vision Group has not early adopted the following new and revised standards, amendments or interpretations (the "new HKFRSs") that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 3 (Revised)	Business Combinations[4]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

[1] Regarding the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Modern Vision Group is in the process of assessing the potential impacts of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

(a) Basis of consolidation

The Financial Information includes the financial statements of Modern Vision and its subsidiaries made up to 31 March 2009 which are the entities controlled by Modern Vision. Control is achieved where Modern Vision has the power to govern the financial and operating polices of an entity so as to obtain benefits from its activity.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Modern Vision Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Modern Vision Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Modern Vision Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary 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 consolidated balance sheet.

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

(c) Interests in subsidiaries

Subsidiaries are all entities over which Modern Vision has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that currently exercisable or convertible are considered when assessing whether Modern Vision controls another entity.

Interests in subsidiaries are stated in the financial statements of Modern Vision at cost less provision for impairment loss. The result of subsidiary is accounted for by Modern Vision on the basis of dividends received and receivables.

(d) Impairment loss

At each balance sheet date, the Modern Vision Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(e) Property under development

When the leasehold land and buildings are in the course of development for production, for rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised on a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is recognised as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

(f) Financial instruments

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

Financial assets

The Modern Vision Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Modern Vision 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.

Other financial liabilities

Other financial liabilities including accruals and other payables, amount due to a director and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Modern Vision 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 the consolidated income statement.

For financial liabilities, they are removed from the consolidated balance sheet 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 the consolidated income statement.

(g) 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.

(h) Revenue recognition

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

(i) 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 Relevant Periods. Taxation profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Modern Vision Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Modern Vision 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 assets to be recovered.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(j) ***Foreign currencies***

The Financial Information is presented in HK$, which is the Modern Vision Group's functional and presentation currency. In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the prevailing rates on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Modern Vision Group's foreign operations are translated into presentation currency of the Modern Vision Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the Relevant Periods, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(k) ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

(l) ***Provisions***

Provisions are recognised when the Modern Vision Group has a present obligation as a result of a past event, and it is probable that the Modern Vision Group will be required to settle that obligation. Provisions are measured at the director's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(m) ***Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Modern Vision Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Modern Vision Group. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Related parties

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

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Modern Vision Group; (b) has an interest in the Modern Vision Group that gives it significant influence over the Modern Vision Group; or (c) has joint control over the Modern Vision Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Modern Vision Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Modern Vision Group, or of any entity that is a related party of the Modern Vision Group.

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. The Modern Vision Group evaluates performance on the basis of profit or loss from operations after tax expense and minority interests. No intersegment turnover is accounted for as the Modern Vision Group had no turnover during the Relevant Periods.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Modern Vision Group's accounting policies which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Modern Vision Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Impairment of property under development

As described in note 15 to the Financial Information, the carrying value of the property under development was reassessed at the balance sheet date on market value basis by reference to independent professional valuers for impairment assessment purpose. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Modern Vision Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

Impairment of goodwill

The Modern Vision Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 4(b). 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.

6. Financial instruments

(a) Categories of financial instruments

	At 31 December		**At 31 March**
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables	2	2	2
Financial liabilities			
Amortised cost	999,225	1,001,234	1,001,268

(b) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input.

The director of Modern Vision considers that the carrying amounts of financial assets and financial liabilities recorded in the Financial Information approximate to their fair values.

(c) Financial risk management objectives and policies

The Modern Vision Group's major financial instruments include other receivables, accruals and other payables, amount due to a director and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Modern Vision Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Foreign currency risk

The main operation of the Modern Vision Group is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, the Modern Vision Group's receivables and payables were mainly denominated in MOP. Management believes that the Modern Vision Group does not have significant foreign currency exchange risk as the exchange rate between MOP and HK$ did not fluctuate significantly. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

(ii) Cash flow and fair value interest rate risk

The Modern Vision Group's cash flow interest-rate risk arises from bank borrowings. The Modern Vision Group's fair value interest-rate risk mainly arises from fixed-rate short-term bank deposits. The Modern Vision Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should need arises.

Credit risk

The Modern Vision Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 and 2008 and 31 March 2009 in relation to each class of recognised financial assets are the carrying amount of those assets as stated in the consolidated balance sheet.

The Modern Vision Group made transactions with counterparties with acceptable credit quality in conformance to the Modern Vision Group treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Modern Vision Group reviews its financial counterparties periodically in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparties.

In an attempt to forestall adverse market movement, the Modern Vision Group also monitors potential exposures to each financial institution counterparties. In addition, the Modern Vision Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of Modern Vision considers that the Modern Vision Group's credit risk is significantly reduced.

The Modern Vision Group's concentration of credit risk by geographical locations is mainly in Macau.

Liquidity risk

The Modern Vision Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise/re-finance bank borrowings whenever necessary.

The table below analyses the Modern Vision Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted payment, was as follows:

		At 31 March 2009				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Amount due to a director	–	750,810	–	–	750,810	750,810
Accruals and other payables	–	250,458	–	–	250,458	250,458
Total		1,001,268	–	–	1,001,268	1,001,268

		At 31 December 2008				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Amount due to a director	–	750,810	–	–	750,810	750,810
Accruals and other payables	–	250,424	–	–	250,424	250,424
Total		1,001,234	–	–	1,001,234	1,001,234

		At 31 December 2007				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	6.496%	45,700	–	–	45,700	45,700
Amount due to a director	–	428,320	–	–	428,320	428,320
Accruals and other payables	–	525,205	–	–	525,205	525,205
Total		999,225	–	–	999,225	999,225

7. Capital risk management

The Modern Vision Group manages its capital to ensure that entities in the Modern Vision Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Modern Vision Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Modern Vision Group consists of debts which include bank borrowings and equity attributable to equity holders of the Modern Vision Group, comprising share capital, reserves and accumulated losses.

The director of Modern Vision reviews the capital structure on an annual basis. As a part of this review, the director of Modern Vision considers the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the director of Modern Vision, the Modern Vision Group will balance its overall capital structure through raising or repayment of borrowings.

The Modern Vision Group aimed at maintaining a gearing ratio of not more than 50%. The gearing ratios as at 31 December 2007 and 2008 and 31 March 2009 were as follows:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings			
– due within one year (i)	45,700	–	–
Net debts	45,700	–	–
Total equity (ii)	(435,036)	(521,232)	(521,266)
Net debt to equity ratio	N/A	N/A	N/A

(i) Bank borrowings are detailed in note 22;

(ii) Total equity includes all share capital, reserves and minority interests at the balance sheet date.

8. Segment information

No business or geographical analysis of the Modern Vision Group's performance for the Relevant Periods as the Modern Vision Group did not generate turnover during the Relevant Periods.

9. Other revenue

	Period from 25 May 2007 (date of incorporation) to 31 December	Year ended 31 December	Three months ended 31 March	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Bank interest income	120	–	–	–

10. Loss before taxation

Loss before taxation for the Relevant Periods has been arrived at after charging:

	Period from 25 May 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Auditors' remuneration	–	–	–	–
Staff costs (including Director's emoluments):				
– Salaries and other allowances	–	–	–	–
– Contribution to retirement benefits scheme	–	–	–	–

11. Director's emoluments

No emoluments were paid to the director of Modern Vision for the Relevant Periods.

For the period from 25 May 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2008 (unaudited) and 2009:

	Fees	Salaries and bonuses	Mandatory provident fund	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ms. Chen Ming Yin, Tiffany *(Note i)*	–	–	–	–	–

Note:

(i) Ms. Chen Ming Yin, Tiffany was appointed as a director on 15 June 2007.

During the Relevant Periods, no emoluments were paid by the Modern Vision Group to the director of Modern Vision as an inducement to join or upon joining the Modern Vision Group or as compensation for loss of office. None of the director of Modern Vision has waived any emoluments during the Relevant Periods.

12. Taxation

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as Modern Vision and its subsidiaries have no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%; 2008: 16.5%) on the estimated assessable profits for the year 2009.

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

The taxation for the Relevant Periods can be reconciled to the loss before taxation per the consolidated income statement as follows:

	Period from 25 May 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Loss before taxation	(435,037)	(86,196)	–	(34)
Taxation at domestic income tax rate (2007: 17.5%; 2008: 16.5%; 2009: 16.5%)	(76,131)	(14,222)	–	(6)
Tax effect of expenses not deductible for tax purpose	76,152	14,222	–	6
Tax effect of income not taxable for tax purpose	(21)	–	–	–
Tax charge for the periods/year	–	–	–	–

There are no material unprovided deferred tax assets and liabilities at the balance sheet date.

13. Dividends

The director of Modern Vision does not recommend a payment of dividend nor transfer of any amount to reserves for the Relevant Periods.

14. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

15. Property under development

	At 31 December 2007	At 31 December 2008	At 31 March 2009
	HK$'000	HK$'000	HK$'000
Cost	564,187	566,079	566,113
Less: Impairment loss recognised	–	(86,079)	(86,113)
	564,187	480,000	480,000

At the balance sheet date, the director of Modern Vision reviewed the carrying value of the property under development with reference to current market situation and the estimated selling price of the property under development provided by DTZ Debenham Tie Leung Limited and impairment loss of approximately HK$86,079,000 and HK$34,000 were recognised for the year ended 31 December 2008 and the three months ended 31 March 2009 respectively.

For the year ended 31 December 2007, the fair value of property under development at the acquisition date was based on the gross floor area of the land concession contract executed on 14 August 2001 and published in the Macau Official Gazette no. 34 of 22 August 2001 (the "Land Grant") and therefore the rejection of the draft contract of amendment to the Land Grant dated 21 September 2006 by the Macau Government did not have any impact on the disclosure and/or measurement during the Relevant Periods.

16. Goodwill

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January	–	435,157	435,157
Arising from acquisition of subsidiaries	435,157	–	–
At 31 December/March	435,157	435,157	435,157
Impairment			
At 1 January	–	(435,157)	(435,157)
Impairment loss recognised	(435,157)	–	–
At 31 December/March	(435,157)	(435,157)	(435,157)
Carrying amounts			
At 31 December/March	–	–	–

Goodwill arising from the acquisition of the Summer Sound Group has been allocated to business segment of property investment and development which is a cash-generating unit ("CGU").

For the Relevant Periods, the Modern Vision Group assessed the recoverable amount of goodwill and determined that goodwill was impaired by approximately HK$435,157,000. The recoverable amount of the business segment was assessed by reference to value in use.

Impairment of goodwill

The recoverable amount of the CGU was assessed by reference to value-in-use model which based on a five years cash flow projection approved by the director of Modern Vision. A discount rate of approximately 6% per annum was applied in the value-in-use model when assessing the recoverability of the goodwill.

There are a number of assumptions and estimates involved for the preparation of the cash flow projection. Key assumptions included gross margin and discount rate which are determined by the management of the Modern Vision Group based on past performance and its expectation for market development. Gross margin are budgeted gross margin. The discount rate used is pre-tax and reflect specific risks relating to the industry.

17. Interest in a subsidiary

	At 31 December 2007	At 31 December 2008	At 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	1	1	1
Amount due to a subsidiary	(1)	(1)	(1)
	–	–	–

The amount due to a subsidiary is unsecured, interest-free and repayable on demand. In the opinion of the director of Modern Vision, the fair value of the amount due to a subsidiary as at 31 December 2007 and 2008 and 31 March 2009 approximates to its carrying amount.

The carrying amount of the investment in a subsidiary is stated at its recoverable amount which is determined by reference to the estimation of future cash flows expected to be generated from the subsidiary.

Details of the Modern Vision Group's subsidiaries at the Relevant Periods are set out as follows:

Name of subsidiary	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Modern Vision: Directly	Attributable equity interests held by Modern Vision: Indirectly	Principal activities
Over Profit	the British Virgin Islands 20 April 2007	US$100	50%	–	Investment holding
Summer Sound	the British Virgin Islands 30 January 2006	US$100	–	50%	Investment holding
Crown Gem	the British Virgin Islands 3 January 2006	HK$1	–	50%	Investment holding
Stronghold	Macau 10 March 2006	MOP25,000	–	50%	Investment holding
Hercules	Macau 10 March 2006	MOP25,000	–	50%	Investment holding
Legstrong	Macau 20 June 1989	MOP100,000	–	50%	Property investment and development

18. Other receivables

The director of Modern Vision considers that the fair values of other receivables at the balance sheet date approximate to their carrying amounts.

19. Share capital

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
1 ordinary share of US$1	1	1	1

20. Accruals and other payables

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	3,582	68	102
Other payables	521,623	250,356	250,356
	525,205	250,424	250,458

The director of Modern Vision considers that the fair values of accruals and other payables at the balance sheet date approximate to their carrying amounts.

21. Amount due to a director

The amount due to a director is unsecured, interest-free and repayable on demand.

The director of Modern Vision considers that the fair value of the amount due to a director at the balance sheet date approximates to its carrying amount.

22. Bank borrowings

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans repayable within a period of:			
– Less than one year	45,700	–	–

The bank loans are variable-rate borrowings which carry interest at HIBOR+2% per annum for the Relevant Periods.

The secured bank loans are secured by the Modern Vision Group's property under development in Macau with carrying value of approximately HK$564,187,000 as at 31 December 2007. The secured bank loans have been fully repaid on 25 April 2008.

The director of Modern Vision considers that the fair value of bank borrowings approximate to their carrying amounts.

The Modern Vision Group's borrowings that are denominated in currencies other than Hong Kong dollars are set out below:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Macau Pataca (2007: MOP 47,071,000; 2008: Nil; 2009: Nil)	45,700	–	–

23. Acquisition of Summer Sound and its subsidiaries

On 19 July 2007, Modern Vision acquired the entire equity interest of Summer Sound by Over Profit, a subsidiary of Modern Vision, with a total consideration of approximately HK$883,256,000.

Net assets of Summer Sound and its subsidiaries (the "Summer Sound Group") acquired by Over Profit at the date of acquisition are as follows:

	Carrying amounts before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property under development *(note i)*	371,877	188,123	560,000
Other receivables	37	–	37
Cash and bank balances	32,087	–	32,087
Accruals and other payables	(17,477)	–	(17,477)
Amount due to a director	(51,548)	–	(51,548)
Bank borrowings	(75,000)	–	(75,000)
	259,976	188,123	448,099
Goodwill			435,157
Total consideration			883,256
Satisfied by:			
Cash consideration paid			883,256
Net cash outflow arising on acquisition:			
Cash and bank balances acquired			32,087
Cash consideration paid			(883,256)
			(851,169)

Notes:

(i) The fair value of the property under development was determined based on the valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified professional valuers and not connected with the Modern Vision Group, as at the acquisition date. The property under development is leased to Legstrong under the Land Grant.

(ii) Since its acquisition, the Summer Sound Group contributed approximately HK$120,000 to the consolidated profit of the Modern Vision Group for the period from 19 July 2007 (date of acquisition) to 31 December 2007, and HK$86,196,000 and HK$34,000 to the consolidated loss of the Modern Vision Group for the year ended 31 December 2008 and the three months ended 31 March 2009 respectively. However, the Summer Sound Group did not contribute any turnover to the Modern Vision Group since its acquisition.

(iii) If the acquisition had been completed on 25 May 2007 (date of incorporation of Modern Vision), no turnover was contributed from the Summer Sound Group but contributed to the Modern Vision Group a profit of approximately HK$302,000 for the period from 25 May 2007 (date of incorporation of Modern Vision) to 31 December 2007.

24. Capital commitments and contingent liabilities

(a) Capital commitments:

At the balance sheet date, the Modern Vision Group had capital commitments in respect of the property under development as follows:

	At 31 December		**At 31 March**
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for in the Financial Information	1,500	7,023	7,023

(b) Contingent liabilities:

The Modern Vision Group did not have any significant contingent liabilities as at 31 March 2009.

25. Material related party transactions

Save as disclosed elsewhere in the Financial Information, there was no other material related party transaction incurred during the Relevant Periods.

Compensation by any kind to the director and other key management personnel of the Modern Vision Group during the Relevant Periods was set out in note 11.

26. Subsequent events

No significant subsequent events took place subsequent to 31 March 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Modern Vision Group, Modern Vision or any of the companies comprising the Modern Vision Group in respect of any period subsequent to 31 March 2009. No dividend has been declared, made or paid by Modern Vision in respect of any period subsequent to 31 March 2009.

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

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

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

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

17 August 2009

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Reform Base Holdings Limited ("Reform Base") set out in Section I, II and III below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 17 August 2009 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Reform Base by Bestjump Holdings Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the balance sheets of Reform Base as at 31 December 2007 and 2008 and 31 March 2009 and the income statements, the statements of changes in equity and the cash flow statements for the period from 5 June 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

Reform Base was incorporated in the British Virgin Islands on 5 June 2007 as a limited company and its principal activity is investment holding. Particular of its associates are on note 13 to the Financial Information.

Reform Base has adopted 31 December as its financial year end date. No audited financial statements of Reform Base have been prepared since its date of incorporation up to the date of this report because there is no statutory requirement to do so.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Reform Base based on the unaudited management accounts of Reform Base. No audited financial statements have previously been prepared for Reform Base for the Relevant Periods. The unaudited management accounts of Reform Base have been adjusted as are appropriate to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of Reform Base is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Reform Base as at 31 December 2007 and 2008 and 31 March 2009 and of the results and cash flows of Reform Base for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of director and reporting accountants

The director of Reform Base is responsible for the preparation of the unaudited financial information of Reform Base including the income statement, the statement of changes in equity and the cash flow statement for the three months ended 31 March 2008, together with the notes thereto (the "Unaudited Comparative Financial Information").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information, for which the director of Reform Base is responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of the Reform Base's management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Income Statements

	Notes	Period from 5 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	Three months ended 31 March 2009
		HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Share of results of associates		–	–	–	–
Impairment loss in respect of investment in associates		(1)	–	–	–
Loss before taxation	*8*	(1)	–	–	–
Taxation	*10*	–	–	–	–
Loss for the periods/year		(1)	–	–	–

Balance Sheets

		At 31 December		At 31 March
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current asset				
Interests in associates	*13*	–	–	–
Current asset				
Amount due from a shareholder	*14*	1	1	1
Total assets		1	1	1
CAPITAL AND RESERVES				
Share capital	*15*	1	1	1
Reserves		(1)	(1)	(1)
Total equity		–	–	–
LIABILITIES				
Current liability				
Amount due to an associate	*16*	1	1	1
Total liabilities		1	1	1
Total equity and liabilities		1	1	1
Net current assets		–	–	–
Total assets less current liabilities		–	–	–

Statements of Changes in Equity

	Share capital	**Accumulated loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 5 June 2007 (date of incorporation)	–	–	–
Issue of shares upon incorporation	1	–	1
Loss for the period	–	(1)	(1)
At 31 December 2007 and 1 January 2008	1	(1)	–
Profit for the year	–	–	–
At 31 December 2008 and 1 January 2009	1	(1)	–
Profit for the period	–	–	–
At 31 March 2009	1	(1)	–

For the three months ended 31 March 2008 (unaudited)

	Share capital	**Accumulated loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	1	(1)	–
Profit for the period	–	–	–
At 31 March 2008	1	(1)	–

Cash Flow Statements

	Period from 5 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	
				2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
OPERATING ACTIVITIES				
Loss before taxation	(1)	–	–	–
Adjustment for:				
Impairment loss recognised in respect of interest in an associate	1	–	–	–
Operating cash flows before movement in working capital	–	–	–	–
Increase in amount due from a shareholder	(1)	–	–	–
Net cash used in operating activities	(1)	–	–	–
FINANCIAL ACTIVITIES				
Issue of shares upon incorporation	1	–	–	–
Net cash generated from financing activities	1	–	–	–
Net increase in cash and cash equivalents	–	–	–	–
Cash and cash equivalents at the beginning of the periods/year	–	–	–	–
Cash and cash equivalents at the end of the periods/year	–	–	–	–

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Reform Base was incorporated in the British Virgin Islands with limited liability. The address of the registered office of Reform Base is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

The principal activities of Reform Base is investment holding and the principal activities of its associates are set out in note 13.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK$'000), which is the same as the functional currency of Reform Base.

2. Issued but not yet effective Hong Kong Financial Reporting Standards

Reform Base has not early adopted the following new and revised standards, amendments or interpretations (the "new HKFRSs") that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 3 (Revised)	Business Combinations[4]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

1 Regarding the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

Reform Base is in the process of assessing the potential impacts of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

(a) Basis of preparation

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

The Financial Information has been prepared under historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Reform Base's accounting policies.

Reform Base's books and records are maintained in Hong Kong Dollars ("HK$") as the director of Reform Base controls and monitors the performance and financial position of Reform Base in HK$.

(b) Impairment loss

At each balance sheet date, Reform Base reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(c) Financial instruments

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

Financial assets

Reform Base's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Reform Base'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.

Other financial liabilities

Other financial liabilities including amount due to an associate is subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Reform Base 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 the income statement.

For financial liabilities, they are removed from the balance sheet 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 the income statement.

(d) Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in Reform Base's share of the net assets of the associates, less any identified impairment loss. When Reform Base's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of Reform Base's net investment in the associate), Reform Base discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that Reform Base has incurred legal or constructive obligations or made payments on behalf of that associates.

Any excess of the cost of acquisition over Reform Base's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

(e) ***Revenue recognition***

No turnover was generated during the Relevant Periods.

(f) ***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 Relevant Periods. Taxation profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. Reform Base's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where Reform Base 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 assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(g) ***Foreign currencies***

The Financial Information is presented in HK$, which is Reform Base's functional and presentation currency. Transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the prevailing rates on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(h) Provisions

Provisions are recognised when Reform Base has a present obligation as a result of a past event, and it is probable that Reform Base will be required to settle that obligation. Provisions are measured at the director's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Reform Base. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Reform Base. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(j) Related parties

A party is considered to be related to Reform Base if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, Reform Base; (b) has an interest in Reform Base that gives it significant influence over Reform Base; or (c) has joint control over Reform Base;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Reform Base or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of Reform Base, or of any entity that is a related party of Reform Base.

(k) Segment reporting

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. Reform Base evaluates performance on the basis of profit or loss from operations after tax expense. No intersegment turnover is accounted for as Reform Base had no turnover during the Relevant Periods.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

5. Financial instruments

(a) Categories of financial instruments

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables	1	1	1
Financial liabilities			
Amortised cost	1	1	1

(b) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input.

The director of Reform Base considers that the carrying amounts of financial assets and financial liabilities recorded in the Financial Information approximate to their fair values.

(c) Financial risk management objectives and policies

Reform Base's major financial instruments include amount due from a shareholder and amount due to an associate. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to Reform Base's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) *Foreign currency risk*

Reform Base mainly operates in Hong Kong and majority of transactions are dominated in Hong Kong dollars. Therefore, the Company is not exposed to significant foreign currency risk.

Reform Base does not hold foreign currency denominated monetary assets and monetary liabilities at the reporting date.

(ii) *Cash flow interest rate risk*

Reform Base has no interest bearing assets and variable-rate borrowings, and is therefore not exposed to cash flow interest rate risk. Reform Base currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

Reform Base's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 and 2008 and 31 March 2009 in relation to each class of recognised financial assets are the carrying amount of those assets as stated in the balance sheet.

Reform Base made transactions with counterparties with acceptable credit quality in conformance to Reform Base's treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for nonrated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. Reform Base reviews its financial counterparties periodically in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparties.

In an attempt to forestall adverse market movement, Reform Base also monitors potential exposures to each financial institution counterparties. In addition, Reform Base reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of Reform Base considers that Reform Base's credit risk is significantly reduced.

Reform Base's concentration of credit risk by geographical locations is mainly in Hong Kong.

Liquidity risk

Reform Base manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise or re-finance bank borrowings whenever necessary.

The table below analyses Reform Base's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted payment, was as follows:

		At 31 March 2009				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liability						
Amount due to an associate	–	1	–	–	1	1

		At 31 December 2008				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liability						
Amount due to an associate	–	1	–	–	1	1

		At 31 December 2007				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liability						
Amount due to an associate	–	1	–	–	1	1

6. Capital risk management

Reform Base manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Reform Base's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Reform Base consists of amount due from a shareholder, amount due to an associate and equity attributable to equity holders of Reform Base, comprising issued capital and retained earnings.

The director of Reform Base reviews the capital structure on an annual basis. As a part of this review, the director of Reform Base considers the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the director of Reform Base, Reform Base will balance its overall capital structure through raising or repayment of borrowings.

Gearing ratio

Reform Base has adopted a capital structure policy primary not to finance its operation through debt. Based on Reform Base's policy, the gearing ratio at the Relevant Periods were zero.

7. Segment information

No business or geographical analysis of Reform Base's performance for the Relevant Periods as Reform Base did not generate turnover during the Relevant Periods.

8. Loss before taxation

Loss before taxation for the periods/year has been arrived at after charging:

	Period from 5 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	Three months ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Auditors' remuneration	–	–	–	–
Staff cost (including Director's emoluments):				
– Salaries and other allowance	–	–	–	–
– Contribution to retirement benefits scheme	–	–	–	–

9. Director's emoluments

No emoluments were paid to the director of Reform Base for the Relevant Periods.

For the period from 5 June 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2008 (unaudited) and 2009:

	Fees	Salaries and bonuses	Mandatory provident fund	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ms. Chen Ming Yin, Tiffany *(Note i)*	–	–	–	–	–

Note:

(i) Ms. Chen Ming Yin, Tiffany was appointed as a director on 15 June 2007.

During the Relevant Periods, no emoluments were paid by Reform Base to the director of Reform Base as an inducement to join or upon joining Reform Base or as compensation for loss of office. None of the director of Reform Base has waived any emoluments during the Relevant Periods.

10. Taxation

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as Reform Base has no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%; 2008: 16.5%) on the estimated assessable profits for the year 2009.

The taxation for the Relevant Periods can be reconciled to the loss before taxation per the income statement as follows:

	Period from 5 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Loss before taxation	(1)	–	–	–
Taxation at domestic income tax rate (2007: 17.5%; 2008: 16.5%; 2009: 16.5%)	–	–	–	–
Tax effect of share of results of associates	–	–	–	–
Tax charge for the periods/year	–	–	–	–

There are no material unprovided deferred tax assets and liabilities as at the balance sheet date.

11. Dividends

The director of Reform Base does not recommend a payment of dividend nor transfer of any amount to reserves for the Relevant Periods.

12. Loss per share

Loss per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. Interests in associates

	At 31 December 2007	At 31 December 2008	At 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*
Cost of investment in associates, unlisted	1	1	1
Impairment loss recognised	(1)	(1)	(1)
	–	–	–

The summarised financial information in respect of Reform Base's associates is set out below:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	564,189	480,002	480,002
Total liabilities	(999,225)	(1,001,234)	(1,001,268)
Net liabilities	(435,036)	(521,232)	(521,266)
Reform Base's share of net liabilities of associates	–	–	–
Turnover	–	–	–
Loss for the periods/year	(435,037)	(86,196)	(34)
Reform Base's share of results of associates for the periods/year	–	–	–

On 18 July 2007, Reform Base acquired 25 shares of Over Profit at US$1 per share for a consideration of approximately US$25. Following the completion on 18 July 2007, Reform Base's share in Over Profit was 25% and thus Over Profit became an associate of Reform Base during the year ended 31 December 2007.

Details of Reform Base's associates during the Relevant Periods are set out as follows:

Name of associate	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Reform Base		Principal activities
			Directly	Indirectly	
Over Profit International Limited ("Over Profit")	the British Virgin Islands 20 April 2007	US$100	25%	–	Investment holding
Summer Sound Investments Limited ("Summer Sound")	the British Virgin Islands 30 January 2006	US$100	–	25%	Investment holding
Crown Gem Investments Limited ("Crown Gem")	the British Virgin Islands 3 January 2006	HK$1	–	25%	Investment holding
Stronghold Holding Company Limited ("Stronghold")	Macau 10 March 2006	MOP25,000	–	25%	Investment holding
Hercules Holding Company Limited ("Hercules")	Macau 10 March 2006	MOP25,000	–	25%	Investment holding
Legstrong Construction and Investment Company Limited ("Legstrong")	Macau 20 June 1989	MOP100,000	–	25%	Property investment and development

14. Amount due from a shareholder

The amount due from a shareholder is unsecured, interest-free and recoverable on demand.

The director of Reform Base considers that the fair value of amount due from a shareholder at the balance sheet date approximates to its carrying amount.

15. Share capital

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
1 ordinary share of US$1	1	1	1

16. Amount due to an associate

The amount due to an associate is unsecured, interest-free and repayable on demand.

The director of Reform Base considers that the fair value of amount due to an associate at the balance sheet date approximates to its carrying amount.

17. Contingent liabilities

Reform Base did not have any significant contingent liabilities as at 31 March 2009.

18. Material related party transactions

Save as disclosed elsewhere in the Financial Information, there was no other material related party transaction incurred in the Relevant Periods.

Compensation by any kind to the director and other key management personnel of Reform Base during the Relevant Periods was set out in note 9.

19. Subsequent events

No significant subsequent events took place subsequent to 31 March 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Reform Base in respect of any period subsequent to 31 March 2009. No dividend has been declared, made or paid by Reform Base in respect of any period subsequent to 31 March 2009.

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

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

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

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

17 August 2009

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Over Profit International Limited ("Over Profit") and its subsidiaries (hereinafter collectively referred to as the "Over Profit Group") set out in Section I, II and III below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 17 August 2009 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Modern Vision (Asia) Limited ("Modern Vision") and Reform Base Holdings Limited by Bestjump Holdings Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the consolidated balance sheets of the Over Profit Group and the balance sheets of Over Profit as at 31 December 2007 and 2008 and 31 March 2009 and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the period from 20 April 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

Modern Vision is the immediate holding company of Over Profit since Modern Vision subscribed for 50 shares, representing 50% of the issued share capital, of Over Profit on 18 July 2007.

Over Profit was incorporated in the British Virgin Islands on 20 April 2007 as a limited company and its principal activity is investment holding. Particulars of its subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Over Profit		Principal activities
			Directly	Indirectly	
Summer Sound Investments Limited ("Summer Sound")	the British Virgin Islands 30 January 2006	US$100	100%	–	Investment holding
Crown Gem Investments Limited ("Crown Gem")	the British Virgin Islands 3 January 2006	HK$1	–	100%	Investment holding
Stronghold Holding Company Limited ("Stronghold")	Macau 10 March 2006	MOP25,000	–	100%	Investment holding
Hercules Holding Company Limited ("Hercules")	Macau 10 March 2006	MOP25,000	–	100%	Investment holding
Legstrong Construction and Investment Company Limited ("Legstrong")	Macau 20 June 1989	MOP100,000	–	100%	Property investment and development

The Over Profit Group has adopted 31 December as its financial year end date. No audited financial statements of Over Profit, Summer Sound, Crown Gem, Stronghold, Hercules and Legstrong have been prepared since their respective dates of incorporation up to the date of this report because there is no statutory requirement to do so.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of Over Profit based on the unaudited consolidated management accounts of the Over Profit Group. No audited consolidated financial statements have previously been prepared for the Over Profit Group for the Relevant Periods. The unaudited consolidated management accounts of the Over Profit Group have been adjusted as are appropriate to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Over Profit are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Over Profit and the Over Profit Group as at 31 December 2007 and 2008 and 31 March 2009 and of the consolidated results and cash flows of the Over Profit Group for the Relevant Periods.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 2 to the Financial Information which indicates that the Over Profit Group recorded net liabilities of approximately HK$435,036,000, HK$521,232,000 and HK$521,266,000 as at 31 December 2007 and 2008 and 31 March 2009 respectively. These conditions, along with other matters as set forth in note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about the Over Profit Group's ability to continue as a going concern.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of Over Profit are responsible for the preparation of the unaudited financial information of the Over Profit Group including the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2008, together with the notes thereto (the "Unaudited Comparative Financial Information").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information, for which the directors of Over Profit are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of the Over Profit Group's management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	Period from 20 April 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
		HK$'000	*HK$'000*	*HK$'000* (*Unaudited*)	*HK$'000*
Other revenue	*9*	120	–	–	–
Administrative expenses		–	(117)	–	–
Impairment loss on property under development	*15*	–	(86,079)	–	(34)
Impairment loss recognised in respect of goodwill	*16*	(435,157)	–	–	–
Loss before taxation	*10*	(435,037)	(86,196)	–	(34)
Taxation	*12*	–	–	–	–
Loss for the periods/year		(435,037)	(86,196)	–	(34)

Consolidated Balance Sheets

		At 31 December		At 31 March
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property under development	*15*	564,187	480,000	480,000
Goodwill	*16*	–	–	–
		564,187	480,000	480,000
Current asset				
Other receivables	*18*	2	2	2
Total assets		564,189	480,002	480,002
CAPITAL AND RESERVES				
Share capital	*19*	1	1	1
Accumulated losses		(435,037)	(521,233)	(521,267)
Total equity		(435,036)	(521,232)	(521,266)
LIABILITIES				
Current liabilities				
Accruals and other payables	*20*	382,705	165	199
Amounts due to directors	*21*	570,820	1,001,069	1,001,069
Bank borrowings – due within one year	*22*	45,700	–	–
Total liabilities		999,225	1,001,234	1,001,268
Total equity and liabilities		564,189	480,002	480,002
Net current liabilities		(999,223)	(1,001,232)	(1,001,266)
Total assets less current liabilities		(435,036)	(521,232)	(521,266)

Balance Sheets

		At 31 December		At 31 March
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current asset				
Investment in a subsidiary	*17*	1	1	1
Current asset				
Other receivables	*18*	1	1	1
Total assets		2	2	2
CAPITAL AND RESERVES				
Share capital	*19*	1	1	1
Total equity		1	1	1
LIABILITIES				
Current liability				
Amount due to a subsidiary	*17*	1	1	1
Total liabilities		1	1	1
Total equity and liabilities		2	2	2
Net current assets		–	–	–
Total assets less current liabilities		1	1	1

Consolidated Statements of Changes in Equity

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 20 April 2007 (date of incorporation)	–	–	–
Issue of shares upon incorporation	1	–	1
Loss for the period	–	(435,037)	(435,037)
At 31 December 2007 and 1 January 2008	1	(435,037)	(435,036)
Loss for the year	–	(86,196)	(86,196)
At 31 December 2008 and 1 January 2009	1	(521,233)	(521,232)
Loss for the period	–	(34)	(34)
At 31 March 2009	1	(521,267)	(521,266)

For the three months ended 31 March 2008 (unaudited)

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	1	(435,037)	(435,036)
Loss for the period	–	–	–
At 31 March 2008	1	(435,037)	(435,036)

Consolidated Cash Flow Statements

	Period from 20 April 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	Three months ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
OPERATING ACTIVITIES				
Loss before taxation	(435,037)	(86,196)	–	(34)
Adjustments for:				
Impairment loss on property under development	–	86,079	–	34
Impairment loss recognised in respect of goodwill	435,157	–	–	–
Interest income	(120)	–	–	–
Operating cash flow before movements in working capital	–	(117)	–	–
Decrease in other receivables	35	–	–	–
Increase/(decrease) in accruals and other payables	313,680	(382,540)	(394)	34
Increase in amounts due to directors	570,820	430,249	1,026	–
Net cash generated from operating activities	884,535	47,592	632	34
INVESTING ACTIVITIES				
Construction cost invested in property under development	(4,187)	(1,892)	(632)	(34)
Net cash effect on acquisition of a subsidiary *(note 23)*	(851,169)	–	–	–
Interest received	120	–	–	–
Net cash used in investing activities	(855,236)	(1,892)	(632)	(34)
FINANCING ACTIVITIES				
Issue of shares upon incorporation	1	–	–	–
Repayment of bank borrowings	(29,300)	(45,700)	–	–
Net cash used in financing activities	(29,299)	(45,700)	–	–
Net increase in cash and cash equivalents	–	–	–	–
Cash and cash equivalents at the beginning of the year/periods	–	–	–	–
Cash and cash equivalents at the end of the year/periods	–	–	–	–

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Over Profit was incorporated in the British Virgin Islands with limited liability. The address of the registered office of Over Profit is located at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

The principal activities of Over Profit is investment holding and the principal activities of its subsidiaries are set out in note 17.

The Financial Information is presented in thousands of units of Hong Kong dollars (HK$'000), which is the same as the functional currency of Over Profit.

2. Basis of preparation

The Over Profit Group had incurred net liabilities of approximately HK$435,036,000, HK$521,232,000 and HK$521,266,000 as at 31 December 2007 and 2008 and 31 March 2009 respectively. The ultimate shareholders of Over Profit have confirmed to provide continuing financial support to the Over Profit Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

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

The Financial Information has been prepared under historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Over Profit Group's accounting policies.

The Over Profit Group's books and records are maintained in Hong Kong Dollars ("HK$") as the directors of Over Profit control and monitor the performance and financial position of the Over Profit Group in HK$.

3. Issued but not yet effective Hong Kong Financial Reporting Standards

The Over Profit Group has not early adopted the following new and revised standards, amendments or interpretations (the "new HKFRSs") that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 3 (Revised)	Business Combinations[4]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

[1] Regarding the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Over Profit Group is in the process of assessing the potential impacts of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

(a) Basis of consolidation

The Financial Information includes the financial statements of Over Profit and its subsidiaries made up to 31 March 2009 which are the entities controlled by Over Profit. Control is achieved where Over Profit has the power to govern the financial and operating polices of an entity so as to obtain benefits from its activity.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

(b) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Over Profit Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary 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 consolidated balance sheet.

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

(c) Interests in subsidiaries

Subsidiaries are all entities over which Over Profit has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that currently exercisable or convertible are considered when assessing whether Over Profit controls another entity.

Interests in subsidiaries are stated in the financial statements of Over Profit at cost less provision for impairment loss. The result of subsidiary is accounted for by Over Profit on the basis of dividends received and receivables.

(d) Impairment loss

At each balance sheet date, the Over Profit Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(e) Property under development

When the leasehold land and buildings are in the course of development for production, for rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised on a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is recognised as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

(f) Financial instruments

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

Financial assets

The Over Profit Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Over Profit 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.

Other financial liabilities

Other financial liabilities including accruals and other payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Over Profit 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 the consolidated income statement.

For financial liabilities, they are removed from the consolidated balance sheet 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 the consolidated income statement.

(g) 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.

(h) Revenue recognition

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

(i) ***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 Relevant Periods. Taxation profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Over Profit Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Over Profit 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 assets to be recovered.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(j) ***Foreign currencies***

The Financial Information is presented in HK$, which is the Over Profit Group's functional and presentation currency. In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the prevailing rates on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Over Profit Group's foreign operations are translated into presentation currency of the Over Profit Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the Relevant Periods, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

(l) Provisions

Provisions are recognised when the Over Profit Group has a present obligation as a result of a past event, and it is probable that the Over Profit Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Over Profit Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Over Profit Group. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Related parties

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

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Over Profit Group; (b) has an interest in the Over Profit Group that gives it significant influence over the Over Profit Group; or (c) has joint control over the Over Profit Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Over Profit Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Over Profit Group, or of any entity that is a related party of the Over Profit Group.

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. The Over Profit Group evaluates performance on the basis of profit or loss from operations after tax expense. No intersegment turnover is accounted for as the Over Profit Group had no turnover during the Relevant Periods.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Over Profit Group's accounting policies which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Over Profit Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Impairment of property under development

As described in note 15 to the Financial Information, the carrying value of the property under development was reassessed at the balance sheet date on market value basis by reference to independent professional valuers for impairment assessment purpose. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Over Profit Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

Impairment of goodwill

The Over Profit Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 4(b). 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.

6. Financial instruments

(a) Categories of financial instruments

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables	2	2	2
Financial liabilities			
Amortised cost	999,225	1,001,234	1,001,268

(b) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input.

The directors of Over Profit consider that the carrying amounts of financial assets and financial liabilities recorded in the Financial Information approximate to their fair values.

(c) Financial risk management objectives and policies

The Over Profit Group's major financial instruments include other receivables, accruals and other payables, amounts due to directors and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Over Profit Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Foreign currency risk

The main operation of the Over Profit Group is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, the Over Profit Group's receivables and payables were mainly denominated in MOP. Management believes that the Over Profit Group does not have significant foreign currency exchange risk as the exchange rate between MOP and HK$ did not fluctuate significantly. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

(ii) Cash flow and fair value interest rate risk

The Over Profit Group's cash flow interest-rate risk arises from bank borrowings. The Over Profit Group's fair value interest-rate risk mainly arises from fixed-rate short-term bank deposits. The Over Profit Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should need arises.

Credit risk

The Over Profit Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 and 2008 and 31 March 2009 in relation to each class of recognised financial assets are the carrying amount of those assets as stated in the consolidated balance sheet.

The Over Profit Group made transactions with counterparties with acceptable credit quality in conformance to the Over Profit Group treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Over Profit Group reviews its financial counterparties periodically in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparties.

In an attempt to forestall adverse market movement, the Over Profit Group also monitors potential exposures to each financial institution counterparties. In addition, the Over Profit Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Over Profit consider that the Over Profit Group's credit risk is significantly reduced.

The Over Profit Group's concentration of credit risk by geographical locations is mainly in Macau.

Liquidity risk

The Over Profit Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise/re-finance bank borrowings whenever necessary.

The table below analyses the Over Profit Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted payment, was as follows:

		At 31 March 2009				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Amounts due to directors	–	1,001,069	–	–	1,001,069	1,001,069
Accruals and other payables	–	199	–	–	199	199
Total		1,001,268	–	–	1,001,268	1,001,268

		At 31 December 2008				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Amounts due to directors	–	1,001,069	–	–	1,001,069	1,001,069
Accruals and other payables	–	165	–	–	165	165
Total		1,001,234	–	–	1,001,234	1,001,234

		At 31 December 2007				
	Weighted average effective interest rate	Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings – Current	6.496%	45,700	–	–	45,700	45,700
Amounts due to directors	–	570,820	–	–	570,820	570,820
Accruals and other payables	–	382,705	–	–	382,705	382,705
Total		999,225	–	–	999,225	999,225

7. Capital risk management

The Over Profit Group manages its capital to ensure that entities in the Over Profit Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Over Profit Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Over Profit Group consists of debts which include bank borrowings and equity attributable to equity holders of the Over Profit Group, comprising share capital and retained earnings.

The directors of Over Profit review the capital structure on an annual basis. As a part of this review, the directors of Over Profit consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of Over Profit, the Over Profit Group will balance its overall capital structure through raising or repayment of borrowings.

The Over Profit Group aimed at maintaining a gearing ratio of not more than 50%. The gearing ratios as at 31 December 2007 and 2008 and 31 March 2009 were as follows:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings			
– due within one year (i)	45,700	–	–
Net debts	45,700	–	–
Total equity (ii)	(435,036)	(521,232)	(521,266)
Net debt to equity ratio	N/A	N/A	N/A

(i) Bank borrowings are detailed in note 22;

(ii) Total equity includes all share capital and accumulated loss at the balance sheet date.

8. Segment information

No business or geographical analysis of the Over Profit Group's performance for the Relevant Periods as the Over Profit Group did not generate turnover during the Relevant Periods.

9. Other revenue

	Period from 20 April 2007 (date of incorporation) to 31 December	Year ended 31 December	Three months ended 31 March	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Bank interest income	120	–	–	–

10. Loss before taxation

Loss before taxation for the Relevant Periods has been arrived at after charging:

	Period from 20 April 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	
			2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Auditors' remuneration	–	–	–	–
Staff costs (including Directors' emoluments):				
– Salaries and other allowances	–	–	–	–
– Contribution to retirement benefits scheme	–	–	–	–

11. Directors' emoluments

No emoluments were paid to the directors of Over Profit for the Relevant Periods.

For the period from 20 April 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the three months ended 31 March 2008 (unaudited) and 2009:

	Fees	Salaries and bonuses	Mandatory provident fund	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ms. Chen Ming Yin, Tiffany *(Note i)*	–	–	–	–	–
Ms. Wong Hoi Ping *(Note ii)*	–	–	–	–	–
	–	–	–	–	–

Notes:

(i) Ms. Chen Ming Yin, Tiffany was appointed as a director on 18 July 2007.

(ii) Ms. Wong Hoi Ping was appointed as a director on 18 July 2007.

During the Relevant Periods, no emoluments were paid by the Over Profit Group to the directors of Over Profit as an inducement to join or upon joining the Over Profit Group or as compensation for loss of office. None of the directors of Over Profit has waived any emoluments during the Relevant Periods.

12. Taxation

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as Over Profit and its subsidiaries have no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%; 2008: 16.5%) on the estimated assessable profits for the year 2009.

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

The taxation for the Relevant Periods can be reconciled to the loss before taxation per the consolidated income statement as follows:

	Period from 20 April 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Three months ended 31 March 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Loss before taxation	(435,037)	(86,196)	–	(34)
Taxation at domestic income tax rate (2007: 17.5%; 2008: 16.5%; 2009: 16.5%)	(76,131)	(14,222)	–	(6)
Tax effect of expenses not deductible for tax purpose	76,152	14,222	–	6
Tax effect of income not taxable for tax purpose	(21)	–	–	–
Tax charge for the periods/year	–	–	–	–

There are no material unprovided deferred tax assets and liabilities at the balance sheet date.

13. Dividends

The directors of Over Profit do not recommend a payment of dividend nor transfer of any amount to reserves for the Relevant Periods.

14. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

15. Property under development

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK\$'000	*HK\$'000*	*HK\$'000*
Cost	564,187	566,079	566,113
Less: Impairment loss recognised	–	(86,079)	(86,113)
	564,187	480,000	480,000

At the balance sheet date, the directors of Over Profit reviewed the carrying value of the property under development with reference to current market situation and the estimated selling price of the property under development provided by DTZ Debenham Tie Leung Limited and impairment loss of approximately HK\$86,079,000 and HK\$34,000 were recognised for the year ended 31 December 2008 and the three months ended 31 March 2009 respectively.

For the year ended 31 December 2007, the fair value of property under development at the acquisition date was based on the gross floor area of the land concession contract executed on 14 August 2001 and published in the Macau Official Gazette no. 34 of 22 August 2001 (the "Land Grant") and therefore the rejection of the draft contract of amendment to the Land Grant dated 21 September 2006 by the Macau Government did not have any impact on the disclosure and/or measurement during the Relevant Periods.

16. Goodwill

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK\$'000	*HK\$'000*	*HK\$'000*
Cost			
At 1 January	–	435,157	435,157
Arising from acquisition of subsidiaries	435,157	–	–
At 31 December/March	435,157	435,157	435,157
Impairment			
At 1 January	–	(435,157)	(435,157)
Impairment loss recognised	(435,157)	–	–
At 31 December/March	(435,157)	(435,157)	(435,157)
Carrying amounts			
At 31 December/March	–	–	–

Goodwill arising from the acquisition of the Summer Sound Group has been allocated to business segment of property investment and development which is a cash-generating unit ("CGU").

For the Relevant Periods, the Over Profit Group assessed the recoverable amount of goodwill and determined that goodwill was impaired by approximately HK\$435,157,000. The recoverable amount of the business segment was assessed by reference to value in use.

Impairment of goodwill

The recoverable amount of the CGU was assessed by reference to value-in-use model which based on a five years cash flow projection approved by the directors of Over Profit. A discount rate of approximately 6% per annum was applied in the value-in-use model when assessing the recoverability of the goodwill.

There are a number of assumptions and estimates involved for the preparation of the cash flow projection. Key assumptions included gross margin and discount rate which are determined by the management of the Over Profit Group based on past performance and its expectation for market development. Gross margin are budgeted gross margin. The discount rate used is pre-tax and reflect specific risks relating to the industry.

17. Interest in a subsidiary

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	1	1	1
Amount due to a subsidiary	(1)	(1)	(1)
	–	–	–

The amount due to a subsidiary is unsecured, interest-free and repayable on demand. In the opinion of the directors of Over Profit, the fair value of the amount due to a subsidiary as at 31 December 2007 and 2008 and 31 March 2009 approximates to its carrying amount.

The carrying amount of the investment in a subsidiary is stated to its recoverable amount which is determined by reference to the estimation of future cash flows expected to be generated form the subsidiary.

Details of the Over Profit Group's subsidiaries at the Relevant Periods are set out as follows:

Name of subsidiary	Place and date of incorporation	Issued share capital/ registered capital	Attributable equity interests held by Over Profit		Principal activities
			Directly	Indirectly	
Summer Sound	the British Virgin Islands 30 January 2006	US$100	100%	–	Investment holding
Crown Gem	the British Virgin Islands 3 January 2006	HK$1	–	100%	Investment holding
Stronghold	Macau 10 March 2006	MOP25,000	–	100%	Investment holding
Hercules	Macau 10 March 2006	MOP25,000	–	100%	Investment holding
Legstrong	Macau 20 June 1989	MOP100,000	–	100%	Property investment and development

Other than holding each of the 96% equity interest in Stronghold and Hercules and the 100% equity interest in Crown Gem, Summer Sound has not carried out any other business since its date of incorporation. On 19 July 2007, Over Profit acquired the entire issued share capital of Summer Sound from Everyield Services Limited and Full Benefit Investments Limited.

Other than holding each of the 4% equity interest in Stronghold and Hercules, Crown Gem has not carried out any other business since its incorporation.

Other than holding the 25% equity interest in Legstrong, Stronghold has not carried out any other business since its incorporation.

Other than holding the 75% equity interest in Legstrong, Hercules has not carried out any other business since its incorporation.

Legstrong is principally engaged in property investment and development in Macau, with its principal asset being the Property located in Macau. Legstrong has obtained the lease of the Property for a term of 25 years commencing on 22 August 2001. On 21 September 2006, the Macau Government sent Legstrong a draft contract of amendment to the Land Grant to modify the terms and conditions of the Land Grant. On 22 June 2009, Legstrong received a letter from the Macau Government informing the draft contract of amendment to the Land Grant dated 21 September 2006 has been rejected.

18. Other receivables

The directors of Over Profit consider that the fair values of other receivables at the balance sheet date approximate to their carrying amounts.

19. Share capital

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
100 ordinary shares of US$1 each	1	1	1

20. Accruals and other payables

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	3,582	68	102
Other payables	379,123	97	97
	382,705	165	199

The directors of Over Profit consider that the fair values of accruals and other payables at the balance sheet date approximate to their carrying amounts.

21. Amounts due to directors

The amounts due to directors are unsecured, interest-free and repayable on demand.

The directors of Over Profit consider that the fair value of the amounts due to directors at the balance sheet date approximate to their carrying amounts.

22. Bank borrowings

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans repayable within a period of:			
– Less than one year	45,700	–	–

The bank loans are variable-rate borrowings which carry interest at HIBOR+2% per annum for the Relevant Periods.

The secured bank loans are secured by the Over Profit Group's property under development in Macau with carrying value of approximately HK$564,187,000 as at 31 December 2007. The secured bank loans have been fully repaid on 25 April 2008.

The directors of Over Profit consider that the fair value of bank borrowings approximate to their carrying amounts.

The Over Profit Group's borrowings that are denominated in currencies other than Hong Kong dollars are set out below:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Macau Pataca (2007: MOP 47,071,000; 2008: Nil; 2009: Nil)	45,700	–	–

23. Acquisition of Summer Sound and its subsidiaries

On 19 July 2007, Over Profit acquired the entire equity interest of Summer Sound with a total consideration of approximately HK$883,256,000.

Net assets of Summer Sound and its subsidiaries (the "Summer Sound Group") acquired by Over Profit at the date of acquisition are as follows:

	Carrying amounts before the acquisition *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Property under development *(note i)*	371,877	188,123	560,000
Other receivables	37	–	37
Cash and bank balances	32,087	–	32,087
Accruals and other payables	(17,477)	–	(17,477)
Amount due to a director	(51,548)	–	(51,548)
Bank borrowings	(75,000)	–	(75,000)
	259,976	188,123	448,099
Goodwill			435,157
Total consideration			883,256
Satisfied by:			
Cash consideration paid			883,256
Net cash outflow arising on acquisition:			
Cash and bank balances acquired			32,087
Cash consideration paid			(883,256)
			(851,169)

Notes:

(i) The fair value of the property under development was determined based on the valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified professional valuers and not connected with the Over Profit Group, as at the acquisition date. The property under development is leased to Legstrong under the Land Grant.

(ii) Since its acquisition, the Summer Sound Group contributed approximately HK$120,000 to the consolidated profit of the Over Profit Group for the period from 19 July 2007 (date of acquisition) to 31 December 2007, and HK$86,196,000 and HK$34,000 to the consolidated loss of the Over Profit Group for the year ended 31 December 2008 and the three months ended 31 March 2009 respectively. However, the Summer Sound Group did not contribute any turnover to the Over Profit Group since its acquisition.

(iii) If the acquisition had been completed on 20 April 2007 (date of incorporation of Over Profit), no turnover was contributed from the Summer Sound Group but contributed to the Over Profit Group a profit of approximately HK$302,000 for the period from 20 April 2007 (date of incorporation of Over Profit) to 31 December 2007.

24. Capital commitments and contingent liabilities

(a) Capital commitments:

At the balance sheet date, the Over Profit Group had capital commitments in respect of the property under development as follows:

	At 31 December		At 31 March
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for in the Financial Information	1,500	7,023	7,023

(b) Contingent liabilities:

The Over Profit Group did not have any significant contingent liabilities as at 31 March 2009.

25. Material related party transactions

Save as disclosed elsewhere in the Financial Information, there was no other material related party transaction incurred during the Relevant Periods.

Compensation by any kind to the directors and other key management personnel of the Over Profit Group during the Relevant Periods was set out in note 11.

26. Subsequent events

No significant subsequent events took place subsequent to 31 March 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Over Profit Group, Over Profit or any of the companies comprising the Over Profit Group in respect of any period subsequent to 31 March 2009. No dividend has been declared, made or paid by Over Profit in respect of any period subsequent to 31 March 2009.

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

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

17 August 2009

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Legstrong Construction and Investment Company Limited ("Legstrong") set out in Section I, II and III below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 17 August 2009 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Modern Vision (Asia) Limited ("Modern Vision") and Reform Base Holdings Limited ("Reform Base") by Bestjump Holdings Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the balance sheets of Legstrong as at 31 December 2006, 2007 and 2008 and 31 March 2009 and the income statements, the statements of changes in equity and the cash flow statements for each of the three years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

Modern Vision is the immediate holding company of Over Profit International Limited ("Over Profit") since Modern Vision subscribed for 50 shares, representing 50% of the issued share capital, of Over Profit on 18 July 2007. Over Profit is the immediate holding company of Summer Sound Investments Limited ("Summer Sound") upon acquisition of the entire issued share capital of Summer Sound on 19 July 2007.

Summer Sound and its wholly-owned subsidiary, Crown Gem Investments Limited ("Crown Gem") together hold the entire equity interests of Stronghold Holding Company Limited ("Stronghold") and Hercules Holding Company Limited ("Hercules") since Summer Sound and Crown Gem subscribed for the entire registered capital of Stronghold and Hercules on 10 March 2006, on which date Stronghold and Hercules in turn together acquired the entire equity interests of Legstrong.

Legstrong was incorporated in Macau on 20 June 1989 as a limited company and its principal activity is property investment and development in Macau.

Legstrong has adopted 31 December as its financial year end date. No audited financial statements of Legstrong have been prepared since its date of incorporation up to the date of this report because there is no statutory requirement to do so.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of Legstrong based on the unaudited management accounts of Legstrong. No audited financial statements have previously been prepared for Legstrong for the Relevant Periods. The unaudited management accounts of Legstrong have been adjusted as are appropriate to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Legstrong are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Legstrong as at 31 December 2006, 2007 and 2008 and 31 March 2009 and of the results and cash flows of Legstrong for the Relevant Periods.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 3(a) to the Financial Information which indicates that Legstrong recorded net current liabilities of approximately HK$250,107,000, HK$115,872,000, HK$117,881,000 and HK$117,915,000 as at 31 December 2006, 2007 and 2008 and 31 March 2009 respectively. These conditions, along with other matters as set forth in note 3(a) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Legstrong's ability to continue as a going concern.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of Legstrong are responsible for the preparation of the unaudited financial information of Legstrong including the income statement, the statement of changes in equity and the cash flow statement for the three months ended 31 March 2008, together with the notes thereto (the "Unaudited Comparative Financial Information").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information, for which the directors of Legstrong are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of Legstrong management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Income Statements

		Years ended 31 December			Three months ended 31 March	
		2006	**2007**	**2008**	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Other revenue	*8*	922	748	–	–	–
Administrative expenses		(31)	(4)	(117)	–	–
Profit/(loss) before taxation	*9*	891	744	(117)	–	–
Taxation	*11*	–	–	–	–	–
Profit/(loss) for the years/periods		891	744	(117)	–	–

Balance Sheets

		At 31 December			At 31 March
		2006	**2007**	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current asset					
Property under development	*14*	250,902	117,411	119,303	119,337
Current assets					
Other receivables	*15*	36	–	–	–
Amounts due from shareholders	*16*	97	97	97	97
Cash and bank balances	*17*	34,380	–	–	–
		34,513	97	97	97
Total assets		285,415	117,508	119,400	119,434
CAPITAL AND RESERVES					
Share capital	*18*	97	97	97	97
Reserves		698	1,442	1,325	1,325
Total equity		795	1,539	1,422	1,422
LIABILITIES					
Current liabilities					
Accruals and other payables	*19*	158,149	69,449	165	199
Amounts due to directors	*20*	51,471	820	117,813	117,813
Bank borrowings – due within one year	*21*	75,000	45,700	–	–
Total liabilities		284,620	115,969	117,978	118,012
Total equity and liabilities		285,415	117,508	119,400	119,434
Net current liabilities		(250,107)	(115,872)	(117,881)	(117,915)
Total assets less current liabilities		795	1,539	1,422	1,422

Statements of Changes in Equity

	Share capital	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006	97	(193)	(96)
Profit for the year	–	891	891
At 31 December 2006 and 1 January 2007	97	698	795
Profit for the year	–	744	744
At 31 December 2007 and 1 January 2008	97	1,442	1,539
Loss for the year	–	(117)	(117)
At 31 December 2008 and 1 January 2009	97	1,325	1,422
Profit for the period	–	–	–
At 31 March 2009	97	1,325	1,422

For the three months ended 31 March 2008 (unaudited)

	Share capital	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	97	1,442	1,539
Loss for the period	–	–	–
At 31 March 2008	97	1,442	1,539

Cash Flow Statements

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
OPERATING ACTIVITIES					
Profit/(loss) before taxation	891	744	(117)	–	–
Adjustment for:					
Interest income	(922)	(748)	–	–	–
Operating cash flows before movements in working capital	(31)	(4)	(117)	–	–
(Increase)/decrease in other receivables	(36)	36	–	–	–
Decrease in amounts due from shareholders	4,069	–	–	–	–
Increase/(decrease) in accruals and other payables	158,149	(88,700)	(69,284)	(394)	34
Increase/(decrease) in amounts due to directors	30,060	(50,651)	116,993	1,026	–
Decrease in amount due to a shareholder	(9,518)	–	–	–	–
Net cash generated from/(used in) operating activities	182,693	(139,319)	47,592	632	34
INVESTING ACTIVITIES					
Construction cost invested in property under development	(149,555)	(6,931)	(1,892)	(632)	(34)
Reversal of construction cost invested in property under development	–	140,422	–	–	–
Interest received	922	748	–	–	–
Net cash (used in)/generated from investing activities	(148,633)	134,239	(1,892)	(632)	(34)
FINANCING ACTIVITIES					
Repayment of bank borrowings	–	(29,300)	(45,700)	–	–
Net cash used in financing activities	–	(29,300)	(45,700)	–	–
Net increase/(decrease) in cash and cash equivalents	34,060	(34,380)	–	–	–
Cash and cash equivalents at the beginning of the years/periods	320	34,380	–	–	–
Cash and cash equivalents at the end of the years/periods	34,380	–	–	–	–
Analysis of the balances of cash and cash equivalents					
Cash and bank balances	34,380	–	–	–	–

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Legstrong was incorporated in Macau with limited liability. The address of the registered office of Legstrong is located at Rua de Pequim, nos 173-177, Edifício Marina Plaza, P, Q, R/C, Macau.

The principal activities of Legstrong is property investment and development in Macau.

The Financial Information is presented in thousands of units of Hong Kong Dollars (HK$'000) that is different from the functional currency of Legstrong which is MOP as the directors of Legstrong control and monitor the performance and financial position of Legstrong in Hong Kong Dollars.

2. Issued but not yet effective Hong Kong Financial Reporting Standards

Legstrong has not early adopted the following new and revised standards, amendments or interpretations (the "new HKFRSs") that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 3 (Revised)	Business Combinations[4]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

1 Regarding the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

Legstrong is in the process of assessing the potential impacts of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

(a) Basis of preparation

Legstrong had incurred net current liabilities of approximately HK$250,107,000, HK$115,872,000, HK$117,881,000 and HK$117,915,000 as at 31 December 2006, 2007 and 2008 and 31 March 2009 respectively. The ultimate shareholder of Legstrong has confirmed to provide continuing financial support to Legstrong to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable futures.

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

The Financial Information has been prepared under historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Legstrong's accounting policies.

Legstrong's books and records are maintained in Hong Kong Dollars ("HK$") as the directors of Legstrong control and monitor the performance and financial position of Legstrong in HK$.

(b) Impairment loss

At each balance sheet date, Legstrong reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(c) Property under development

When the leasehold land and buildings are in the course of development for production, for rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised on a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is recognised as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

(d) Financial instruments

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

Financial assets

Legstrong's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Legstrong'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.

Other financial liabilities

Other financial liabilities including accruals and other payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Legstrong 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 the income statements.

For financial liabilities, they are removed from the balance sheet 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 the income statements.

(e) 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.

(f) ***Revenue recognition***

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

(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 Relevant Periods. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. Legstrong's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information 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 the deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 investments in subsidiaries and associates, and interests in joint ventures, except where the Legstrong 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 to income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(h) ***Foreign currencies***

The Financial Information is presented in HK$ that is different from the functional currency of Legstrong which is MOP. Transactions in currencies other than the presentation currency of that entity (functional currencies) are recorded in its currency at the rates of exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in functional currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in functional currencies are retranslated at the prevailing rates on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a functional currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the Relevant Periods in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the Relevant Periods except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(i) ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those asset. Capitalisation of such borrowing costs ceases when the assets are subsequently ready for their intended use or sale.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

(j) ***Provisions***

Provisions are recognised when Legstrong has a present obligation as a result of a past event, and it is probable that Legstrong will be required to settle that obligations. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(k) ***Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Legstrong. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Legstrong. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) ***Related parties***

A party is considered to be related to Legstrong if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, Legstrong; (b) has an interest in Legstrong that gives it significant influence over Legstrong; or (c) has joint control over Legstrong;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Legstrong or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of Legstrong, or of any entity that is a related party of Legstrong.

(m) ***Segment reporting***

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. Legstrong evaluates performance on the basis of profit or loss from operations after tax expense. No intersegment turnover is accounted for as Legstrong had no turnover during the Relevant Periods.

4. **Critical accounting judgments and key sources of estimation uncertainty**

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

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

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimation, that management has made in the process of applying the Legstrong's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Impairment of property under development

As described in note 14 to the Financial Information, the carrying value of the property under development was reassessed at the balance sheet date on market value basis by reference to independent professional valuers for impairment assessment purpose. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, Legstrong considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

5. **Financial instruments**

(a) Categories of financial instruments

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables	34,513	97	97	97
Financial liabilities				
Amortised cost	284,620	115,969	117,978	118,012

(b) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input.

The directors of Legstrong consider that the carrying amounts of financial assets and financial liabilities recorded in the Financial Information approximate to their fair values.

(c) ***Financial risk management objectives and polices***

Legstrong's major financial instruments include cash and bank balances, other receivables, amounts due from shareholders, accruals and other payables, amounts due to directors and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to Legstrong's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) *Foreign currency risk*

The main operation of Legstrong is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, Legstrong's receivables and payables were mainly denominated in MOP. Management believes that Legstrong does not have significant foreign currency exchange risk as the exchange rate between MOP and HK$ did not fluctuate significantly. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

(ii) *Cash flow and fair value interest rate risk*

Legstrong's cash flow interest-rate risk arises from bank borrowings. Legstrong's fair value interest-rate risk mainly arises from fixed-rate short-term bank deposits. Legstrong currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should need arises.

Credit risk

Legstrong's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006, 2007 and 2008 and 31 March 2009 in relation to each class of recognised financial assets are the carrying amount of those assets as stated in the balance sheet.

Legstrong made transactions with counterparties with acceptable credit quality in conformance to Legstrong treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for nonrated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. Legstrong reviews its financial counterparties periodically in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty.

In an attempt to forestall adverse market movement, the Legstrong also monitors potential exposures to each financial institution counterparties. In addition, Legstrong reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Legstrong considers that Legstrong's credit risk is significantly reduced.

Legstrong's concentration of credit risk by geographical locations is mainly in Macau.

Liquidity risk

Legstrong manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise or re-finance bank borrowings whenever necessary.

The table below analyses Legstrong's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted payment, was as follows:

	Weighted average effective interest rate	At 31 March 2009 Within 1 year HK$'000	Within 2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Amounts due to directors	–	117,813	–	–	117,813	117,813
Accruals and other payables	–	199	–	–	199	199
Total		118,012	–	–	118,012	118,012

	Weighted average effective interest rate	At 31 December 2008 Within 1 year HK$'000	Within 2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Amounts due to directors	–	117,813	–	–	117,813	117,813
Accruals and other payables	–	165	–	–	165	165
Total		117,978	–	–	117,978	117,978

	Weighted average effective interest rate	At 31 December 2007 Within 1 year HK$'000	Within 2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Bank borrowings						
– Current	6.368%	45,700	–	–	45,700	45,700
Amounts due to directors	–	820	–	–	820	820
Accruals and other payables	–	69,449	–	–	69,449	69,449
Total		115,969	–	–	115,969	115,969

	Weighted average effective interest rate	At 31 December 2006 Within 1 year	Within 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	6.161%	75,000	–	–	75,000	75,000
Amounts due to directors	–	51,471	–	–	51,471	51,471
Accruals and other payables	–	158,149	–	–	158,149	158,149
Total		284,620	–	–	284,620	284,620

6. Capital risk management

Legstrong manages its capital to ensure the entity will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Legstrong's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Legstrong consists of debts which include bank borrowings, cash and cash equivalents, and equity attributable to equity holders of Legstrong, comprising share capital, reserves and retained earnings.

The directors of Legstrong review the capital structure on an annual basis. As a part of this review, the directors of Legstrong consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of Legstrong, Legstrong will balance its overall capital structure through raising or repayment of borrowings.

The gearing ratios as at 31 December 2006, 2007 and 2008 and 31 March 2009 were as follows:

	At 31 December 2006	2007	2008	At 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings				
– due within one year (i)	75,000	45,700	–	–
Cash and cash equivalents (ii)	(34,380)	–	–	–
Net debts	40,620	45,700	–	–
Total equity (iii)	795	1,539	1,422	1,422
Net debt to equity ratio	5,109%	2,969%	0%	0%

(i) Secured bank loan is detailed in note 21;

(ii) Cash and cash equivalents comprise cash and bank balances at the balance sheet dates;

(iii) Total equity includes all share capital and reserves at the balance sheet date.

7. Segment information

No business or geographical analysis of Legstrong's performance for the Relevant Periods as Legstrong did not generate turnover during the Relevant Periods.

8. Other revenue

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*Unaudited*)	*HK$'000*
Bank interest income	922	748	–	–	–

9. Profit/(loss) before taxation

Profit/(loss) before taxation for the years/periods has been arrived at after charging:

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*Unaudited*)	*HK$'000*
Auditors' remuneration	–	–	–	–	–
Staff costs (including Directors' remuneration):					
– Salaries and other allowances	–	–	–	–	–
– Contribution to retirement benefits scheme	–	–	–	–	–

10. Directors' emoluments

No emoluments were paid to the directors of Legstrong for the Relevant Periods.

For the years ended 31 December 2006, 2007 and 2008 and the three months ended 31 March 2008 (unaudited) and 2009:

	Fees	**Salaries and bonuses**	**Mandatory provident fund**	**Share-based payment expenses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung [1]	–	–	–	–	–
Ms. Chen Ming Yin, Tiffany [1]	–	–	–	–	–
Ms. Wong Hoi Ping [1]	–	–	–	–	–
Mr. Pedro Chiang [2]	–	–	–	–	–
Ms. Cheng Wai Ling, Annie [3]	–	–	–	–	–
Mr. Lam Him [4]	–	–	–	–	–
Ms. Leong Lai Heng [4]	–	–	–	–	–
Mr. Leong Pak Kan [5]	–	–	–	–	–
Mr. Wu Ka I [5]	–	–	–	–	–
	–	–	–	–	–

1 Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Wong Hoi Ping were appointed as directors on 19 July 2007.

2 Mr. Pedro Chiang was appointed as a director on 8 August 2001 and resigned on 19 July 2007.

3 Ms. Cheng Wai Ling, Annie was appointed as a director on 10 March 2006 and resigned on 19 July 2007.

4 Mr. Lam Him and Ms. Leong Lai Heng were appointed as directors on 8 August 2001 and resigned on 10 March 2006.

5 Mr. Leong Pak Kan and Mr. Wu Ka I were appointed as directors on 20 June 1989 and resigned on 10 March 2006.

During the Relevant Periods, no emoluments were paid by Legstrong to the directors of Legstrong as an inducement to join or upon joining Legstrong or as compensation for loss of office. None of the directors of Legstrong has waived any emoluments during the Relevant Periods.

11. Taxation

No provision for Macau Profits Tax has been made for the Relevant Periods as Legstrong has no assessable profits for the Relevant Periods.

The taxation for the Relevant Periods can be reconciled to the profit/(loss) before taxation per the income statements as follows:

	Years ended 31 December			Three months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Profit/(loss) before taxation	891	744	(117)	–	–
Taxation at domestic income tax rate (12%)	107	89	(14)	–	–
Tax effect on expenses not deductible for tax purpose	3	1	14	–	–
Tax effect on income not taxable for tax purpose	(110)	(90)	–	–	–
Tax charge for the years/periods	–	–	–	–	–

There are no material unprovided deferred tax assets and liabilities as at the balance sheet date.

12. Dividends

The directors of Legstrong do not recommend a payment of dividend nor transfer of any amount to reserves for the Relevant Periods.

13. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. Property under development

		At 31 December		At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost	250,902	117,411	119,303	119,337

At the balance sheet date, the directors of Legstrong reviewed the carrying value of the property under development with reference to current market situation and the estimated selling price of the property under development provided by DTZ Debenham Tie Leung Limited and no impairment loss was recognised during the Relevant Periods.

For the year ended 31 December 2006, the cost of property under development was based on the land concession contract executed on 14 August 2001 and published in the Macau Gazette no. 34 of 22 August 2001 (the "Land Grant") and a land premium of MOP138,824,970 pursuant to the draft contract of amendment to the Land Grant dated 21 September 2006 (the "Draft Contract of Amendment").

As the Macau Government rejected the Draft Contract of Amendment in June 2009, the land premium of MOP138,824,970 was reversed from property under development during the year ended 31 December 2007.

15. Other receivables

The directors of Legstrong consider that the fair values of other receivables at the balance sheet date approximate to their carrying amounts.

16. Amounts due from shareholders

The amounts due from shareholders are unsecured, interest-free and recoverable on demand.

The directors of Legstrong consider that the fair values of amounts due from shareholders at the balance sheet date approximate to their carrying amounts.

17. Cash and bank balances

		At 31 December		At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank	27	–	–	–
Deposits in banks	34,353	–	–	–
	34,380	–	–	–

The effective interest rates of deposits in banks ranged from 2.56% to 3.81% during the Relevant Periods.

The directors of Legstrong consider that the fair value of cash and bank balances at the balance sheet date approximates to the corresponding carrying amount.

18. Share capital

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Registered capital:				
MOP100,000	97	97	97	97
Fully paid capital:				
MOP100,000	97	97	97	97

19. Accruals and other payables

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	3,587	3,582	68	102
Other payables	154,562	65,867	97	97
	158,149	69,449	165	199

The directors of Legstrong consider that the fair values of accruals and other payables at the balance sheet date approximate to their carrying amounts.

20. Amounts due to directors

The amounts due to directors are unsecured, interest-free and repayable on demand.

The directors of Legstrong consider that the fair values of amounts due to directors at the balance sheet date approximate to their carrying amounts.

21. Bank borrowings

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans repayable within a period of:				
– Less than one year	75,000	45,700	–	–

The bank loans are variable-rate borrowings which carry interest at HIBOR+2% per annum for the Relevant Periods.

The secured bank loans are secured by Legstrong's property under development in Macau with carrying values of approximately HK$250,902,000 and HK$117,411,000 as at 31 December 2006 and 2007 respectively. The secured bank loans have been fully repaid on 25 April 2008.

The directors of Legstrong consider that the fair value of bank borrowings approximate to their carrying amounts.

Legstrong's borrowings that are denominated in currencies other than Hong Kong dollars are set out below:

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Macau Pataca (2006: MOP51,500,000; 2007: MOP47,071,000; 2008: Nil; 2009: Nil)	50,000	45,700	–	–

22. Capital commitments and contingent liabilities

(a) Capital commitments

At the balance sheet date, Legstrong had capital commitments in respect of the property under development as follows:

	At 31 December			At 31 March
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for in the Financial Information	1,500	1,500	7,023	7,023

(b) Contingent liabilities

Legstrong did not have any significant contingent liabilities as at 31 March 2009.

23. Material related party transactions

Save as disclosed elsewhere in the Financial Information, there was no other material related party transaction incurred in the Relevant Periods.

Compensation by any kind to the director and other key management personnel of Legstrong during the Relevant Periods was set out in note 10.

24. Subsequent events

No significant subsequent events took place subsequent to 31 March 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Legstrong in respect of any period subsequent to 31 March 2009. No dividend has been declared, made or paid by Legstrong in respect of any period subsequent to 31 March 2009.

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

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for each of the three years ended 31 December 2008 as extracted from the relevant published annual financial statements of the Group.

During the three years ended 31 December 2008, there was no extraordinary and exceptional item applicable to the financial statements of the Group.

Consolidated Income Statement

	For the year ended 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000* (re-presented)	*HK$'000*
Turnover	227,747	78,351	152,777
Cost of sales	(19,471)	(49,415)	(103,365)
Gross profit	208,276	28,936	49,412
Other revenue	7,920	9,076	9,068
Other income	43,987	8,885	3,682
Administrative expenses	(80,141)	(75,451)	(38,309)
Marketing and distribution expenses	(671)	(5,791)	(9,777)
Share-based payment expenses	(7,463)	(17,660)	(11,340)
Net realised and unrealised (loss)/gain on financial assets classified as held-for-trading	(14,877)	22,866	(16,256)
Impairment loss recognised in respect of goodwill	(13,646)	(30,141)	–
Impairment loss recognised in respect of film rights	(9,760)	(16,850)	–
(Decrease)/increase in fair value of investment properties	(11,930)	10,220	2,880
Profit/(loss) from operations	121,695	(65,910)	(10,640)
Finance costs	(31,522)	(12,827)	(2,212)
Share of results of associates	(3,303)	56,648	(9,796)
Changes in fair value in respect of conversion options embedded in convertible notes receivable	–	(50)	–
Impairment loss recongised in respect of investments in associates	–	–	(32,565)
Discount on acquisition of subsidiaries	–	15,498	–
Loss on disposal of subsidiaries	(6,170)	(45,471)	–
Gain on disposal of an associate	–	–	21,400
(Loss)/gain on deemed disposal of interests in associates	(17,551)	(49,744)	62,582
Impairment loss reversed in respect of convertible notes receivables	–	–	10,000
Profit/(loss) before taxation	63,149	(101,856)	38,769
Taxation credit/(charge)	2,441	(1,951)	(1,918)
Profit/(loss) for the year	65,590	(103,807)	36,851
Attributable to:			
Equity holders of the Company	90,604	(92,547)	36,880
Minority interests	(25,014)	(11,260)	(29)
	65,590	(103,807)	36,851
Dividends:			
Final dividends proposed	4,790	–	–

Consolidated Balance Sheet

	At 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	494,983	7,138	9,630
Interests in leasehold land	502,524	5,642	5,807
Investment properties	49,930	51,100	40,880
Goodwill	24,391	29,062	59,203
Intangible assets	989,205	–	–
Available-for-sale financial assets	16,800	39,900	42,700
Convertible notes receivable from an associate	–	667	–
Conversion options embedded in convertible notes receivable from an associate	–	222	–
Interests in associates	–	375,148	198,113
	2,077,833	508,879	356,333
Current assets			
Inventories	399	301	364
Convertible notes receivables	–	–	52,000
Film rights	29,753	50,797	97,427
Films in progress	18,379	24,948	29,469
Trade receivables	68,770	51,666	8,016
Deposits, prepayments and other receivables	61,077	36,790	45,161
Deposits for investments	–	400,000	40,000
Held-for-trading investments	25,713	16,600	64,560
Loan to a minority shareholder	183,750	–	–
Amounts due from associates	–	7,359	5,905
Prepaid tax	632	456	455
Cash and bank balances	138,145	22,735	89,347
	526,618	611,652	432,704
Assets classified as held for sale	716	1,187,072	–
	527,334	1,798,724	432,704
Total assets	2,605,167	2,307,603	789,037
Capital and reserves			
Share capital	26,612	140,305	35,232
Reserves	1,392,099	1,033,828	659,595
Equity attributable to equity holders of the Company	1,418,711	1,174,133	694,827
Minority interests	284,264	1,328	1,382
Total equity	1,702,975	1,175,461	696,209

	At 31 December		
	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
Non-current liabilities			
Bank borrowings – due after one year	280,906	8,523	10,948
Unsecured convertible notes	138,390	–	–
Deferred tax liabilities	88,317	3,466	1,888
	507,613	11,989	12,836
Current liabilities			
Bank overdraft	174,826	–	–
Trade payables	7,083	17,621	18,310
Deposits received, accruals and other payables	69,271	66,018	39,561
Bank borrowings – due within one year	102,561	2,418	2,254
Unsecured convertible notes	–	–	19,867
Amounts due to minority shareholders	40,502	–	–
Tax payable	336	–	–
	394,579	86,057	79,992
Liabilities associated with assets classified as held for sale	–	1,034,096	–
	394,579	1,120,153	79,992
Total liabilities	902,192	1,132,142	92,828
Total equity and liabilities	2,605,167	2,307,603	789,037
Net current assets	132,755	678,571	352,712
Total assets less current liabilities	2,210,588	1,187,450	709,045

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group, and the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 44 to 175 of the annual report of the Company for the year ended 31 December 2008. For avoidance of doubt, capitalised terms used in the extract below shall have the same meaning as ascribed to them and the page numbers referred to in this section are the page numbers in the annual report of the Company for the year ended 31st December 2008.

Consolidated Income Statement
For the year ended 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000 (re-presented)
Turnover	7	227,747	78,351
Cost of sales		(19,471)	(49,415)
Gross profit		208,276	28,936
Other revenue	8	7,920	9,076
Other income	9	43,987	8,885
Administrative expenses		(80,141)	(75,451)
Marketing and distribution expenses		(671)	(5,791)
Share-based payment expenses		(7,463)	(17,660)
Net realised and unrealised (loss)/gain on financial assets classified as held-for-trading		(14,877)	22,866
Impairment loss recognised in respect of goodwill	21	(13,646)	(30,141)
Impairment loss recognised in respect of film rights	27	(9,760)	(16,850)
(Decrease)/increase in fair value of investment properties	19	(11,930)	10,220
Profit/(loss) from operations		121,695	(65,910)
Finance costs	10	(31,522)	(12,827)
Share of results of associates	25	(3,303)	56,648
Changes in fair value in respect of conversion options embedded in convertible notes receivable		–	(50)
Discount on acquisition of subsidiaries	45	–	15,498
Loss on disposal of subsidiaries	46	(6,170)	(45,471)
Loss on deemed disposal of interests in associates		(17,551)	(49,744)

	Notes	2008 HK$'000	2007 HK$'000 (re-presented)
Profit/(loss) before taxation	11	63,149	(101,856)
Taxation credit/(charge)	12	2,441	(1,951)
Profit/(loss) for the year		65,590	(103,807)
Attributable to:			
Equity holders of the Company		90,604	(92,547)
Minority interests		(25,014)	(11,260)
		65,590	(103,807)
Dividend	13		
Final dividend proposed		4,790	–
Earnings/(loss) per share			
Basic	14	HK$0.22	(HK$0.66)
Diluted	14	HK$0.22	(HK$0.66)

Consolidated Balance Sheet
At 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	494,983	7,138
Interests in leasehold land	18	502,524	5,642
Investment properties	19	49,930	51,100
Goodwill	21	24,391	29,062
Intangible assets	22	989,205	–
Available-for-sale financial assets	23	16,800	39,900
Convertible notes receivable from an associate	24	–	667
Conversion options embedded in convertible notes receivable from an associate	24	–	222
Interests in associates	25	–	375,148
		2,077,833	508,879
Current assets			
Inventories	26	399	301
Film rights	27	29,753	50,797
Films in progress	28	18,379	24,948
Trade receivables	29	68,770	51,666
Deposits, prepayments and other receivables	30	61,077	36,790
Deposits for investments	31	–	400,000
Held-for-trading investments	32	25,713	16,600
Loan to a minority shareholder	33	183,750	–
Amounts due from associates	34	–	7,359
Prepaid tax		632	456
Cash and bank balances	35	138,145	22,735
		526,618	611,652
Assets classified as held for sale	36	716	1,187,072
		527,334	1,798,724
Total assets		2,605,167	2,307,603

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	37	26,612	140,305
Reserves		1,392,099	1,033,828
Equity attributable to equity holders of the Company		1,418,711	1,174,133
Minority interests		284,264	1,328
Total equity		1,702,975	1,175,461
Non-current liabilities			
Bank borrowings – due after one year	39	280,906	8,523
Unsecured convertible notes	40	138,390	–
Deferred tax liabilities	41	88,317	3,466
		507,613	11,989
Current liabilities			
Bank overdraft	35	174,826	–
Trade payables	42	7,083	17,621
Deposits received, accruals and other payables	43	69,271	66,018
Bank borrowings – due within one year	39	102,561	2,418
Amounts due to minority shareholders	44	40,502	–
Tax payable		336	–
		394,579	86,057
Liabilities associated with assets classified as held for sale	36	–	1,034,096
		394,579	1,120,153
Total liabilities		902,192	1,132,142
Total equity and liabilities		2,605,167	2,307,603
Net current assets		132,755	678,571
Total assets less current liabilities		2,210,588	1,187,450

Balance Sheet
At 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	20	1,582,452	597,703
Current assets			
Deposits, prepayments and other receivables	30	826	1,808
Deposits for investments	31	–	400,000
Amounts due from subsidiaries	20	87,041	241,317
Amounts due from associates	34	–	700
Cash and bank balances	35	115,579	21,054
		203,446	664,879
Total assets		1,785,898	1,262,582
Capital and reserves			
Share capital	37	26,612	140,305
Reserves	38	1,424,217	1,035,535
Total equity attributable to equity shareholders of the Company		1,450,829	1,175,840
Non-current liabilities			
Amounts due to subsidiaries	20	172,698	67,942
Deferred tax liabilities		4,878	–
Unsecured convertible notes	40	138,390	–
		315,966	67,942
Current liabilities			
Deposits received, accruals and other payables	43	18,997	14,998
Amounts due to subsidiaries	20	106	3,802
		19,103	18,800
Total liabilities		335,069	86,742
Total equity and liabilities		1,785,898	1,262,582
Net current assets		184,343	646,079
Total assets less current liabilities		1,766,795	1,243,782

Consolidated Statement of Changes in Equity

For the year ended 31st December 2008

The Group	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Revaluation reserve	Financial assets revaluation reserve	Capital reduction reserve	Retained profit/ (accumulated losses)	Sub-total	Minority Interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note a)	*(note b)*			*(note c)*	*(note d)*			*(note e)*	*(note g)*			
At 1st January 2007	35,232	906,988	186,624	3,723	(6,867)	43,238	566	–	(9,800)	316,008	(780,885)	694,827	1,382	696,209
Exchange alignment	–	–	–	571	–	–	–	–	–	–	–	571	(4)	567
Share of reserves of associates	–	–	–	6,246	–	7,695	1,247	–	–	–	–	15,188	–	15,188
Disposal of interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	320,471	320,471
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	–	(2,800)	–	–	(2,800)	–	(2,800)
Net income/(expense) directly recognised in equity	–	–	–	6,817	–	7,695	1,247	–	(2,800)	–	–	12,959	320,467	333,426
Transfer to liabilities associated with assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–	(309,261)	(309,261)
Net loss for the year	–	–	–	–	–	–	–	–	–	–	(92,547)	(92,547)	(11,260)	(103,807)
Total recognised income and expense for the year	–	–	–	6,817	–	7,695	1,247	–	(2,800)	–	(92,547)	(79,588)	(54)	(79,642)
Placement of shares	32,335	167,953	–	–	–	–	–	–	–	–	–	200,288	–	200,288
Issue of shares upon exercise of share options	3,914	30,761	–	–	–	(13,301)	–	–	–	–	–	21,374	–	21,374
Share issuing expenses	–	(10,226)	–	–	–	–	–	–	–	–	–	(10,226)	–	(10,226)
Redemption of convertible notes	–	–	–	–	–	–	(566)	–	–	–	566	–	–	–
Issue of convertible notes	–	–	–	–	–	–	54,307	–	–	–	–	54,307	–	54,307
Conversion of convertible notes	26,636	134,409	–	–	–	–	(54,307)	–	–	–	–	106,738	–	106,738
Issue of shares from rights issue	42,188	126,565	–	–	–	–	–	–	–	–	–	168,753	–	168,753
Share-based payment expenses	–	–	–	–	–	17,660	–	–	–	–	–	17,660	–	17,660
At 31st December 2007 and 1st January 2008	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	–	(12,600)	316,008	(872,866)	1,174,133	1,328	1,175,461

The Group	Share capital HK$'000	Share premium HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Exchange reserve HK$'000	Special reserve HK'000	Share-based payment reserve HK$'000 (note c)	Convertible notes reserve HK$'000 (note d)	Revaluation reserve HK$'000	Financial assets revaluation reserve HK$'000	Capital reduction reserve HK$'000 (note e)	Retained profit/ (accumulated losses) HK$'000 (note g)	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Exchange alignment	–	–	–	(146)	–	–	–	–	–	–	–	(146)	–	(146)
Share of reserves of associates	–	–	–	10,982	–	1,079	–	–	–	–	–	12,061	–	12,061
Disposal of subsidiaries	–	–	–	(20,008)	6,867	(7,844)	–	–	9,073	–	977	(10,935)	(1,183)	(12,118)
Released on deemed disposal of an associate	–	–	–	–	–	(930)	(1,247)	–	–	–	–	(2,177)	–	(2,177)
Winding up of subsidiaries	–	–	–	(348)	–	–	–	–	–	–	–	(348)	(128)	(476)
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	–	(32,235)	–	–	(32,235)	–	(32,235)
Net income/(expense) directly recognised in equity	–	–	–	(9,520)	6,867	(7,695)	(1,247)	–	(23,162)	–	977	(33,780)	(1,311)	(35,091)
Net profit for the year	–	–	–	–	–	–	–	–	–	–	90,604	90,604	(25,014)	65,590
Total recognised income and expense for the year	–	–	–	(9,520)	6,867	(7,695)	(1,247)	–	(23,162)	–	91,581	56,824	(26,325)	30,499
Transfer from liabilities associated with assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–	309,261	309,261
Issue of consideration shares upon acquisition of a subsidiary	11,817	2,363	–	–	–	–	–	–	–	–	–	14,180	–	14,180
Placement of shares	74,400	102,576	–	–	–	–	–	–	–	–	–	176,976	–	176,976
Share issuing expenses	–	(4,290)	–	–	–	–	–	–	–	–	–	(4,290)	–	(4,290)
Capital reorganisation														
– capital reduction	(199,910)	–	199,910	–	–	–	–	–	–	–	–	–	–	–
– share premium cancellation *(note f)*	–	(1,356,450)	1,356,450	–	–	–	–	–	–	–	–	–	–	–
– set off against accumulated losses *(note f)*	–	–	(864,665)	–	–	–	–	–	–	–	864,665	–	–	–
Issue of convertible notes	–	–	–	–	–	–	71,691	–	–	–	–	71,691	–	71,691
Surplus on revaluation upon transfer	–	–	–	–	–	–	–	6,383	–	–	–	6,383	–	6,383
Redemption of convertible notes	–	–	–	–	–	–	(33,672)	–	–	–	(44,570)	(78,242)	–	(78,242)
Deferred tax	–	–	–	–	–	–	(5,354)	(1,053)	–	–	–	(6,407)	–	(6,407)
Share options lapsed	–	–	–	–	–	(1,394)	–	–	–	–	1,394	–	–	–
Share-based payment expenses	–	–	–	–	–	7,463	–	–	–	–	–	7,463	–	7,463
At 31st December 2008	26,612	100,649	878,319	1,020	–	53,666	32,665	5,330	(35,762)	316,008	40,204	1,418,711	284,264	1,702,975

Notes:

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

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

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

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

(e) The capital reduction reserve of the Group represented 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.

(f) At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the entire amount of approximately HK$1,356,450,000 standing to the credit of the share premium account of the Company as at 31st December 2007 be cancelled and such credit amount arising from the share premium cancellation be transferred to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus account of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006 and the remaining credit balance in the contributed surplus account of the Company will be utilised by the board of directors of the Company in accordance with the bye-laws of the Company and all applicable laws.

(g) The proposed final dividend as at 31st December 2008 was HK$4,790,000 and the balance of retained profit after the proposed final dividend was HK$35,414,000.

Consolidated Cash Flow Statement
For the year ended 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		63,149	(101,856)
Adjustments for:			
Interest expenses		31,522	12,827
Interest income		(1,497)	(3,897)
Dividend income		(1,251)	(79)
Reversal of impairment loss on trade receivables		(95)	–
Impairment loss on amount due from associates		25,179	14,975
Impairment loss on trade receivables		23	–
Impairment loss on other receivables		89	–
Impairment loss recognised in respect of film rights		9,760	16,850
Impairment loss recognised in respect of goodwill		13,646	30,141
Depreciation and amortisation of property, plant and equipment and leasehold land		2,811	23,866
Decrease/(increase) in fair value of investment properties		11,930	(10,220)
Loss/(gain) on disposal of property, plant and equipment		20	(107)
Gain on winding up of subsidiaries		(476)	–
Loss on disposal of subsidiaries		6,170	45,471
Discount on acquisition of a subsidiary		–	(15,498)
Loss on deemed disposal of interests in associates		17,551	49,744
Net realised and unrealised loss/(gain) on financial assets classified as held-for-trading		14,877	(22,866)
Gain on redemption of convertible notes		(39,000)	(2,315)
Change in fair value in respect of conversion options		–	50
Share of results of associates		3,303	(56,648)
Share-based payment expenses		7,463	17,660

	Notes	2008 HK$'000	2007 HK$'000
Operating cash flows before movements in working capital		165,174	(1,902)
Decrease in inventories		115	885
Decrease in film rights		11,284	29,780
Decrease in films in progress		6,569	4,521
Increase in trade receivables		(15,660)	(39,130)
Increase in deposits, prepayments and other receivables		(11,547)	(3,977)
Increase in deposits for investments		–	(400,000)
Increase in amounts due from associates		(17,820)	(16,429)
(Decrease)/increase in trade payables		(12,688)	569
Increase in amount due to a minority shareholder		–	502
Increase in deposits received, accruals and other payables		6,303	18,647
Cash generated from/(used in) operations		131,730	(406,534)
Tax (paid)/refund		(452)	235
Net cash generated from/(used in) operating activities		131,278	(406,299)

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,457	3,773
Dividend income		1,251	79
Acquisition of interests in associates		–	(130,813)
Acquisition of subsidiaries (net cash and cash equivalent)	45	(199,999)	(668,929)
Loan to a minority shareholder		–	(196,000)
Proceeds from disposal of financial assets at fair value through profit or loss		–	94,858
Proceeds from disposal of property, plant and equipment		–	20
Repayment from a minority shareholder		12,250	–
Proceeds from disposal of subsidiaries	46	330,560	315,000
Subscription of convertible notes (including expenses)		–	(22,630)
Purchase of financial assets at fair value through profit or loss		(24,052)	(24,032)
Purchases of property, plant and equipment		(197,131)	(5,899)
Repayment of convertible notes receivables		–	52,000
Net cash used in investing activities		(75,664)	(582,573)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(28,682)	(11,724)
Proceeds from issue of shares		176,976	390,415
Proceeds from issue of convertible notes		–	160,075
Redemption of convertible notes		(216,000)	(20,000)
Repayment of bank loans		(77,474)	(2,261)
New bank loan acquired		–	450,000
Share issuing expenses		(4,290)	(10,226)
Net cash (used in)/generated from financing activities		(149,470)	956,279
Decrease in cash and cash equivalents		(93,856)	(32,593)
Cash and cash equivalents at the beginning of the year		57,321	89,347
Effect of foreign exchange rate changes		(146)	567
Cash and cash equivalents at the end of the year			
Cash and cash equivalents	35	(36,681)	57,321

Notes to the Financial Statements

For the year ended 31st December 2008

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and head office and principal place of business of the Company are Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activities of the Group are film production, distribution of film and television drama series, provision of post-production services, investing in operations which receive profit streams from the gaming promotion business and property and hotel investment.

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

In the current year, the Group has applied, for the first time, the following amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new amendments and interpretations has no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvement to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

[1] Effective for annual periods beginning on or after 1st January 2009 except for the amendment to HKFRS 5, effective for annual period beginning on or after 1st July 2009
[2] Effective for annual periods beginning on or after 1st January 2009
[3] Effective for annual periods beginning on or after 1st July 2009
[4] Effective for annual periods beginning on or after 1st July 2008
[5] Effective for annual periods beginning on or after 1st October 2008

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Group is in the process of making an assessment of the impact of these new HKFRSs and anticipates that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group and the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of preparation

The consolidated financial statements have been prepared under historical cost convention except for certain investment properties and financial instrument, which are carried at fair values.

(b) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

(c) Business combinations

The acquisition of business is accounted for using the purchase method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's portion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Investment in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of loses is provided for a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(e) Goodwill

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

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

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

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

(f) Intangible assets

Intangible assets acquired in a business combination

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

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

(g) Revenue recognition

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

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

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

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

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

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

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

Hotel operating income is recognised upon provision of the services.

(h) Property, plant and equipment

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

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

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as construction in progress. Construction in progress is stated at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress), using the straight-line method, over their estimated useful lives. The principal annual rates are as follows:

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

No depreciation is provided on construction in progress.

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

(i) Interests in leasehold land

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

(j) Investment properties

Investment properties are completed properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

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

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

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

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excluded items of income or expense that are taxable or deductible in other years and its further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(l) Borrowing costs

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

(m) Non-current assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

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

(n) Inventories

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

(o) Film rights

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

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

(p) Films in progress

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

(q) Financial Instruments

Financial assets and financial liabilities are recognised on the 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 the consolidated income statement.

i. Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, 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 as at fair value through profit or loss on initial recognition.

A financial asset is classified as held-for-trading if:

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

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss can be those financial assets acquired principally not for the purpose of selling in the short term but designated by management as such at inception. A financial asset other than a financial asset held-for-trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

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

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

ii. *Financial liabilities and equity instruments*

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held-for-trading if:

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

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one of more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

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

Convertible notes

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

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes – 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 retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

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

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

Financial guarantee contracts

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

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

(r) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(s) Foreign currencies

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(t) Leasing

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

(i) The Group as lessor

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

(ii) The Group as lessee

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

(u) Employee benefits

(i) Bonuses

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

(ii) Retirement benefit obligations

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

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

(iii) Share-based payment expenses

The fair value of the employee services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share-based payment reserve).

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits.

(v) Related party transactions

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

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets not yet available for use are tested for impairment annually, and whether there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

(a) Estimated impairment of intangible assets and goodwill

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

(b) Trade receivables

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

(c) Useful lives of property, plant and equipment

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

(d) Investment properties

As described in note 19, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and are satisfied that the method of valuation is reflective of the current market conditions. Should there are changes in assumptions due to change of market conditions, the fair value of the investment properties will change in future.

(e) Impairment of films in progress

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

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Financial assets		
Held-for-trading investments	25,713	16,822
Loans and receivables (including cash and bank balances)	391,612	85,734
Available-for-sale financial assets	16,800	40,567
Financial liabilities		
Amortised cost	813,539	94,580

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, borrowings, trade and other receivables, trade payables, cash and cash equivalents. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

The Group operates mainly in both Hong Kong and Macau and majority of transactions are dominated in Hong Kong dollars ("HK$") and Macau Pataca ("MOP"). The Group is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against MOP. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	2008	2007
	HK$'000	*HK$'000*
Assets		
MOP	222,501	391,337
Liabilities		
MOP	221,458	193,947

Sensitivity analysis on foreign currency risk

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

	2008	2007
	HK$'000	*HK$'000*
Assets		
Impact of MOP		
Profit or loss	54	10,165

(ii) *Price risk*

The Group's equity investments classified as available-for-sale investments and financial assets at fair value through profit or loss which are measured at fair value at each balance sheet date and expose the Group to equity price risk. The Group's equity price risk is mainly concentrated on equity securities operating in provision for cold storage and related logistic services, manufacturing industry and public transportation business in the People's Republic of China and Hong Kong, which are quoted in the Stock Exchange. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. In addition, the Group will monitor the price risk and will consider hedging the risk exposure should the need rise.

Sensitivity analysis

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

If equity prices had been 5% higher/lower, the Group's:

- profit before taxation for the year ended 31st December 2008 would increase/decrease by HK$1,286,000 (2007: increase/decrease by HK$830,000). This is mainly due to the changes in fair value of financial assets at fair value through profit and loss; and

- financial assets revaluation reserve would increase/decrease by HK$840,000 (2007: increase/decrease by HK$1,995,000) as a result of the changes in fair value of financial assets at available-for-sale investments.

(iii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its time deposits and borrowings. Bank borrowings at variable rates expose the Group to fair value interest rate risk (see note 39 for details of these borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 31st December 2008 and 31st December 2007, a reasonably possible change of 50 basis-points interest rates on borrowings would have no material impact on the Group's results for the year and equity as at the year end.

Credit risk

As at 31st December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Liquidity risk

The Group manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise or refinance bank borrowings whenever necessary.

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

	At 31st December 2008					
	Weighted average effective interest rate	Within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank overdraft	–	174,826	–	–	174,826	174,826
Bank borrowings						
– current	–	102,561	–	–	102,561	102,561
– non-current	–	–	280,882	24	280,906	280,906
Trade payables	–	7,083	–	–	7,083	7,083
Deposits received, accruals and other payables	–	69,271	–	–	69,271	69,271
Amounts due to minority shareholders	–	40,502	–	–	40,502	40,502
Unsecured convertible notes	7.75%	–	–	168,000	168,000	138,390
Total		394,243	280,882	168,024	843,149	813,539

	At 31st December 2007					
	Weighted average effective interest rate	Within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– current	–	2,418	–	–	2,418	2,418
– non-current	–	–	8,209	314	8,523	8,523
Trade payables	–	17,621	–	–	17,621	17,621
Deposits received, accruals and other payables	–	66,018	–	–	66,018	66,018
Total		86,057	8,209	314	94,580	94,580

(c) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair value.

	2008		**2007**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Convertible notes receivable from an associate	–	–	667	691
Financial liabilities				
Unsecured convertible notes	138,390	77,775	–	–

(d) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts which include bank borrowings and convertible notes, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained profits.

The directors of the Company review the capital structure on an annual basis. As a part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of the Company, the Group will balance its overall capital structure through raising or repayment of borrowings.

The Group aimed at maintaining a gearing ratio of not more than 50%. The gearing ratios as at 31st December 2008 and 31st December 2007 are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Total debt (i)	696,683	10,941
Less: Cash and bank balances	(138,145)	(22,735)
Net debt	558,538	(11,794)
Equity (ii)	1,418,711	1,174,133
Net debt to equity ratio	39%	–
Total debt to equity ratio	49%	0.9%

Notes:

(i) Debt comprises bank overdraft, bank borrowings and unsecured convertible notes as detailed in notes 35, 39 and 40 respectively.

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

6. SEGMENT INFORMATION

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. There are no sales or trading transaction between the business segments or geographical segments.

Business segments

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

Film distribution	–	Production and distribution of motion pictures and television drama series
Hotel services	–	Provision of hotel services in Macau
Gaming and entertainment	–	Investing in operations which receive profit streams from the gaming promotion business

Segment information about these businesses is presented as below.

2008

	Film distribution	Hotel services	Gaming and entertainment	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED INCOME STATEMENT					
Turnover	19,141	–	203,327	5,279	227,747
Segment results	(455)	–	203,327	4,733	207,605
Impairment loss recognised in respect of goodwill	(13,646)	–	–	–	(13,646)
Impairment loss recognised in respect of film rights	(9,760)	–	–	–	(9,760)
Decrease in fair value of investment properties					(11,930)
Net realised and unrealised loss on financial assets classified as held-for-trading					(14,877)
Share of loss of associates					(3,303)
Loss on disposal of subsidiaries					(6,170)
Loss on deemed disposal of interests in associates					(17,551)
Unallocated corporate income					51,907
Unallocated corporate expenses					(119,126)
Profit before taxation					63,149
Taxation credit					2,441
Profit for the year					65,590

2008

	Film distribution	Hotel services	Gaming and entertainment	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED BALANCE SHEET					
Assets					
Segment assets	369,633	1,214,264	1,018,529	2,741	2,605,167
Interests in associates					–
Consolidated total assets					2,605,167
Liabilities					
Segment liabilities	218,441	677,347	5	6,399	902,192

	Film distribution	Hotel services	Gaming and entertainment	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION					
Amortisation of film rights	18,593	–	–	–	18,593
Amortisation of interests in leasehold land	129	90	–	–	219
Depreciation of property, plant and equipment	2,139	453	–	–	2,592
Impairment loss recognised in respect of film rights	9,760	–	–	–	9,760
Impairment loss recognised in respect of goodwill	13,646	–	–	–	13,646

2007

	Film distribution *HK$'000*	Hotel services *HK$'000*	Gaming and entertainment *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
CONSOLIDATED INCOME STATEMENT					
Turnover	58,970	14,046	–	5,335	78,351
Segment results	8,336	9,474	–	5,335	23,145
Impairment loss recognised in respect of goodwill	(30,141)	–	–	–	(30,141)
Impairment loss recognised in respect of film rights	(16,850)	–	–	–	(16,850)
Increase in fair value of investment properties					10,220
Net realised and unrealised gain on financial assets classified as held-for-trading					22,866
Share of profit of associates					56,648
Discount on acquisition of subsidiaries					15,498
Loss on disposal of subsidiaries					(45,471)
Loss on deemed disposal of interests in associates					(49,744)
Unallocated corporate income					17,961
Unallocated corporate expenses					(105,988)
Loss before taxation					(101,856)
Taxation charge					(1,951)
Loss for the year					(103,807)

2007

	Film distribution HK$'000	Hotel services HK$'000	Gaming and entertainment HK$'000	Others HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET					
Assets					
Segment assets	742,326	1,187,072	–	3,057	1,932,455
Interests in associates					375,148
Consolidated total assets					2,307,603
Liabilities					
Segment liabilities	81,977	1,034,096	–	16,069	1,132,142

	Film distribution HK$'000	Hotel services HK$'000	Gaming and entertainment HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION					
Amortisation of film rights	43,747	–	–	–	43,747
Amortisation of interests in leasehold land	165	15,259	–	–	15,424
Depreciation of property, plant and equipment	2,891	5,551	–	–	8,442
Impairment loss recognised in respect of film rights	16,850	–	–	–	16,850
Impairment loss recognised in respect of goodwill	30,141	–	–	–	30,141

Geographical segments

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

2008

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED INCOME STATEMENT				
Turnover	17,330	203,327	7,090	227,747
Cost of sales	(12,022)	–	(7,449)	(19,471)
Marketing and distribution expenses	(268)	–	(403)	(671)
Segment results	5,040	203,327	(762)	207,605
Net realised and unrealised loss on financial assets classified as held-for-trading	(14,877)	–	–	(14,877)
Decrease in fair value of investment properties	(11,930)	–	–	(11,930)
Impairment loss recognised in respect of goodwill				(13,646)
Impairment loss recognised in respect of film rights				(9,760)
Share of loss of associates				(3,303)
Loss on disposal of subsidiaries				(6,170)
Loss on deemed disposal of interests in associates				(17,551)
Unallocated corporate income				51,907
Unallocated corporate expenses				(119,126)
Profit before taxation				63,149
Taxation credit				2,441
Profit for the year				65,590

2008

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED BALANCE SHEET				
Assets				
Segment Assets	370,115	2,232,751	2,301	2,605,167
Interests in associates				–
Consolidated total assets				2,605,167
Liabilities				
Segment liabilities	224,749	677,352	91	902,192

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION				
Amortisation of interests in leasehold land	129	90	–	219
Depreciation of property, plant and equipment	2,139	453	–	2,592

2007

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED INCOME STATEMENT				
Turnover	62,366	14,046	1,939	78,351
Cost of sales	(42,731)	(4,572)	(2,112)	(49,415)
Marketing and distribution expenses	(5,606)	–	(185)	(5,791)
Segment results	14,029	9,474	(358)	23,145
Net realised and unrealised gain on financial assets classified as held-for-trading	22,866	–	–	22,866
Increase in fair value of investment properties	10,220	–	–	10,220
Impairment loss recognised in respect of goodwill				(30,141)
Impairment loss recognised in respect of film rights				(16,850)
Share of profit of associates				56,648
Discount on acquisition of subsidiaries				15,498
Loss on disposal of subsidiaries				(45,471)
Loss on deemed disposal of interests in associates				(49,744)
Unallocated corporate income				17,961
Unallocated corporate expenses				(105,988)
Loss before taxation				(101,856)
Taxation charge				(1,951)
Loss for the year				(103,807)

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED BALANCE SHEET				
Assets				
Segment Assets	743,416	1,187,072	1,967	1,932,455
Interests in associates				375,148
Consolidated total assets				2,307,603
Liabilities				
Segment liabilities	95,877	1,034,096	2,169	1,132,142

	Hong Kong	Macau	Worldwide other than Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION				
Amortisation of interest in leasehold land	165	15,259	–	15,424
Depreciation of property, plant and equipment	2,891	5,551	–	8,442

7. TURNOVER

	2008	2007
	HK$'000	*HK$'000*
Distribution fee income	19,140	10,285
Sales of film rights	–	48,672
Sales of video products	1	13
Service income	365	300
Production fee income	4,914	5,035
Receive profit streams from the gaming promotion business	203,327	–
Hotel service income	–	14,046
	227,747	78,351

8. OTHER REVENUE

	2008	2007
	HK$'000	*HK$'000*
Bank interest income	1,456	3,587
Interest income receivable from convertible notes	40	228
Rental income	312	240
Management fee income from associates	4,860	4,860
Other interest income	1	82
Dividend income	1,251	79
	7,920	9,076

9. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Reversal of impairment loss on trade receivables	95	–
Gain on redemption of convertible notes	39,000	2,315
Gain on disposal of property, plant and equipment	–	107
Other	4,892	6,463
	43,987	8,885

10. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Imputed interest on convertible notes wholly repayable within five years	13,729	1,501
Interest on bank borrowing wholly repayable within five years	17,746	11,228
Interest on bank borrowing not wholly repayable within five years	47	91
Interest on other loan wholly repayable within five years	–	7
	31,522	12,827

11. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Amortisation of film rights (included in cost of sales)	18,593	43,747
Auditors' remuneration	610	633
Cost of inventories (included in cost of sales)	1	6
Depreciation of property, plant and equipment	2,592	8,442
Amortisation of interests in leasehold land	219	15,424
Net foreign exchange losses	279	1,109
Change in fair value in respect of conversion options embedded in convertible notes receivable from an associate	–	50
Operating lease rental in respect of rented premises	2,447	3,644
Employee benefit expenses *(note 15)*	32,774	36,985
Impairment loss recognised in respect of amount due from associates	25,179	14,975

12. TAXATION CREDIT/(CHARGE)

	2008	2007
	HK$'000	*HK$'000*
The taxation credit/(charge) is as follow:		
Current tax in other jurisdictions:		
Provision for the year	(3)	(15)
Under provision in prior years	–	(358)
	(3)	(373)
Deferred tax:		
Current year	2,444	(1,578)
	2,441	(1,951)

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

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. With effect from the year of assessment 2008/2009, the Hong Kong Profits Tax has been reduced from 17.5% to 16.5%.

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

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

	2008		2007	
	HK$'000	*%*	*HK$'000*	*%*
Profit/(loss) before taxation	63,149		(101,856)	
Taxation at domestic income tax rate	(10,420)	(16.5)	17,825	17.5
Tax effect of share of results of associates	(545)	(0.9)	2,896	2.8
Tax effect of expenses not deductible for tax purpose	(23,677)	(37.5)	(28,914)	(28.3)
Tax effect of income not taxable for tax purpose	19,681	31.2	9,772	9.6
Tax effect of estimated tax losses not recognised	(12,062)	(19.1)	(15,145)	(14.9)
Tax effect of utilisation of estimated tax losses previously not recognised	29,466	46.7	17,254	16.9
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2)	–	(5,639)	(5.5)
Tax credit/(charge) for the year	2,441	3.9	(1,951)	(1.9)

13. DIVIDEND

	2008	2007
	HK$'000	*HK$'000*
Final dividend proposed	4,790	–

The directors recommend a final dividend of HK$0.001 per share (2007: nil) for the year ended 31st December 2008. Assuming the capital reorganisation as announced by the Company on 26th February 2009 will become effective on 4th May 2009, the final dividend will be adjusted from HK$0.001 per share (before capital reorganisation) to HK$0.02 per share (after capital reorganisation).

The dividend proposed after the balance sheet date have not been recognised as a liability at the balance sheet date.

14. 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:

	2008	**2007**
	HK$'000	*HK$'000*
Earnings/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	90,604	(92,547)

Number of shares	**2008**	**2007**
		(restated)
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	418,861,793	139,159,327

The weighted average number of ordinary shares for the year ended 31st December 2008 and 31st December 2007 for the purpose of basis and diluted earnings/(loss) per share has been adjusted and restated respectively resulting from share consolidation which effective on 9th May 2008. The computation of diluted earnings/(loss) per share did not assume the conversion of the outstanding convertible notes of the Company since their conversion would result in an increase in earnings per share and a decrease in loss per share respectively and thus anti-dilutive.

15. EMPLOYEE BENEFIT EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Directors' remuneration	5,203	5,414
Directors' fee	360	360
Salaries and bonuses	19,077	13,134
Share-based payment expenses	7,463	17,660
Mandatory provident fund	400	372
Staff welfare expenses	271	45
	32,774	36,985

(a) Directors' emoluments

The Company's board of directors is currently composed of three independent non-executive directors and three executive directors.

The aggregate amount of emoluments payable to the directors of the Company during the year was HK$5,599,000 (2007: HK$5,810,000). The remuneration of every director for the year ended 31st December 2008 and 31st December 2007 is as below:

Name of director	Fee		Salaries and bonuses		Mandatory provident fund		Employee share-based payment		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	2,400	2,500	12	12	–	–	2,412	2,512
Ms. Chen Ming Yin, Tiffany	–	–	2,160	2,280	12	12	–	–	2,172	2,292
Ms. Li Yuk Sheung	–	–	643	634	12	12	–	–	655	646
Mr. Hung Cho Sing	120	120	–	–	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	–	–	120	120
Mr. Fung Ho Sum (resigned on 1st March 2007)	–	20	–	–	–	–	–	–	–	20
Mr. Leung Hok Man (appointed on 1st March 2007)	120	100	–	–	–	–	–	–	120	100
	360	360	5,203	5,414	36	36	–	–	5,599	5,810

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

	Number of directors	
	2008	2007
Nil to HK$1,000,000	4	5
HK$2,000,001 to HK$2,500,000	2	2
	6	7

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: two) directors of the Company whose emoluments are reflected in note (a) above and amounted to HK$4,584,000 (2007: HK$4,804,000). The emoluments payable to the remaining three individuals (2007: three) during the year were as follow:

	2008	**2007**
	HK$'000	*HK$'000*
Salaries and other allowances	2,220	1,328
Retirement benefits scheme contributions	32	24
Share-based payment expenses	1,891	5,349
	4,143	6,701

The aggregated emoluments of each of these remaining three (2007: three) highest paid individuals fell within the following bands:

	Number of directors	
	2008	**2007**
HK$1,000,001 to HK$1,500,000	2	–
HK$2,000,001 to HK$2,500,000	1	3
	3	3

16. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1st December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' monthly relevant income but limited to the mandatory cap of HK$20,000. The contributions are charged to the consolidated income statements as incurred. In respect of those employees who leave the Group prior to completion of qualifying service period, the relevant portion of the employer's voluntary contributions forfeited (represents the assets transferred from the Old Scheme) will be reverted to the Group. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund.

During the year, the retirement benefits schemes contributions net of forfeited contributions of HK$nil (2007: HK$5,000) amounted to approximately HK$400,000 (2007: HK$372,000).

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

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress	Buildings	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	HK$'000
Cost							
At 1st January 2007	–	7,316	1,246	10,705	37,391	3,842	60,500
Additions	–	–	5	34	230	130	399
Disposals	–	–	–	(3)	(20)	(498)	(521)
At 31st December 2007 and 1st January 2008	–	7,316	1,251	10,736	37,601	3,474	60,378
Additions	214,450	–	–	324	378	–	215,152
Deficit on revaluation upon transfer	–	(1,179)	–	–	–	–	(1,179)
Transfer to investment properties	–	(1,943)	–	–	–	–	(1,943)
Transfer from/(to) non-current assets held for sale	274,196	3,049	–	514	(34,489)	195	243,465
Disposals	–	–	–	(256)	(638)	–	(894)
Disposals of subsidiaries	–	–	–	–	(2)	–	(2)
At 31st December 2008	488,646	7,243	1,251	11,318	2,850	3,669	514,977
Accumulated depreciation							
At 1st January 2007	–	3,470	126	9,606	35,642	2,026	50,870
Charge for the year *(note)*	–	365	474	721	754	577	2,891
Eliminated on disposals	–	–	–	(3)	(20)	(498)	(521)
At 31st December 2007 and 1st January 2008	–	3,835	600	10,324	36,376	2,105	53,240
Charge for the year	–	418	417	485	752	520	2,592
Transfer to investment properties	–	(1,191)	–	–	–	–	(1,191)
Transfer to non-current assets held for sale	–	–	–	–	(33,773)	–	(33,773)
Eliminated on disposals	–	–	–	(237)	(637)	–	(874)
At 31st December 2008	–	3,062	1,017	10,572	2,718	2,625	19,994
Net book value							
At 31st December 2008	488,646	4,181	234	746	132	1,044	494,983
At 31st December 2007	–	3,481	651	412	1,225	1,369	7,138

note: For the year ended 31st December 2007, depreciation charge amounted to HK$5,551,000 of KHL, which classified under discontinued operations were excluded from the charge for the year. Details are set out in note 36(b) to the financial statements.

At 31st December 2008 , construction in progress and buildings of approximately HK$488,646,000 and HK$2,931,000 respectively have been pledged to secure banking facilities granted to the Group.

18. INTERESTS IN LEASEHOLD LAND

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Cost		
At 1st January	7,294	7,294
Surplus on revaluation upon transfer	7,562	–
Transfer to investments properties	(10,690)	–
Transfer from non-current assets held for sale	517,568	–
At 31st December	521,734	7,294
Accumulated amortisation		
At 1st January	1,652	1,487
Charge for the year *(note)*	18,240	165
Transfer to investment properties	(682)	–
At 31st December	19,210	1,652
Net book value		
At 31st December	502,524	5,642

note: For the year ended 31st December 2007, amortisation charge amounted to HK$15,259,000 of KHL, which classified under discontinued operations were excluded from the charge for the year. Details are set out in note 36(b) to the financial statements.

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

	2008	**2007**
	HK$'000	*HK$'000*
Land in Hong Kong, held on:		
Medium-term leases	3,067	5,642
Land in Macau, held on:		
Medium-term leases	499,457	–
	502,524	5,642

Interests in leasehold land of approximately HK$499,457,000 (2007: nil) have been pledged to secure banking facilities granted to the Group.

Amortisation expense on prepaid lease payments of HK$18,021,000 (2007: nil) has been capitalised to construction in progress under property, plant and equipment for the year. Amortisation expense on prepaid lease payments of HK$219,000 (2007: nil) has been charged to the consolidated income statement for the year.

19. INVESTMENT PROPERTIES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1st January	51,100	40,880
Transfer from		
– Property, plant and equipment	752	–
– Interests in leasehold land	10,008	–
(Decrease)/increase in fair value	(11,930)	10,220
At 31st December	49,930	51,100

Investment properties were valued at their open market values at 31st December 2008 by Grant Sherman Appraisal Limited, independent qualified professional valuers not connected with the Group who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation report on the investment properties is signed by a director of Grant Sherman, who is a member of the Hong Kong Institute of Surveyors. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on the market value basis.

The aggregate fair value of investment properties of approximately HK$40,880,000 (2007: HK$51,100,000) have been pledged to secure banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

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

	2008	**2007**
	HK$'000	*HK$'000*
Investment properties in Hong Kong, held under:		
Medium-term leases	49,930	51,100

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2008	**2007**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,028,888	30,708
Impairment loss recognised	(30,299)	(30,299)
	998,589	409
Amounts due from subsidiaries	1,570,086	1,603,524
Impairment loss recognised	(986,223)	(1,006,230)
	583,863	597,294
	1,582,452	597,703

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 amounts due from subsidiaries are therefore shown as non-current.

Other amounts due from/to subsidiaries of the Company are classified under current assets/liabilities accordingly. In the opinion of the directors of the Company, the carrying amounts of amounts due from/to subsidiaries as at 31st December 2008 approximate to their fair values.

The carrying amounts of 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 2008 are set out in note 51.

21. GOODWILL

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

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Cost		
At 1st January	108,703	108,703
Additions	8,975	–
At 31st December	117,678	108,703
Accumulated impairment		
At 1st January	79,641	49,500
Impairment loss recognised	13,646	30,141
At 31st December	93,287	79,641
Carrying amounts		
At 31st December	24,391	29,062

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount of goodwill (net of accumulated impairment losses) as at 31st December 2008 is allocated as follow:

	2008	**2007**
	HK$'000	*HK$'000*
Film production	15,416	29,062
Gaming and entertainment	8,975	–
	24,391	29,062

During the year, the directors of the Company reassessed the recoverable amount of the CGU of film production and gaming and entertainment businesses with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that an impairment loss of approximately HK$13,646,000 on goodwill associated with the CGU of film production was identified and no impairment on goodwill associated with the CGU of gaming and entertainment businesses was identified.

The recoverable amount of the CGU of film production business and gaming and entertainment business were assessed by reference to value-in-use calculation based on a five year projection of the relevant cash-generating unit with a zero growth rate (2007: zero). 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 business and gaming and entertainment business operate. A discount rate of 18.20% and 17.24% per annum for film production business and gaming and entertainment business was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included gross margin, growth and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the CGU Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

22. INTANGIBLE ASSETS

The Group

	Rights in sharing of profit streams
	HK$'000
Cost	
At 1st January 2007, 31st December 2007 and 1st January 2008	–
Acquisition of a subsidiary	989,205
At 31st December 2008	989,205
Accumulated impairment	
At 1st January 2007, 31st December 2007 and 1st January 2008	–
Impairment loss recognised	–
At 31st December 2008	–
Carrying amounts	
At 31st December 2008	989,205
At 31st December 2007	–

The intangible assets represent the right in sharing of profit streams, from junket business at the one of the casino's VIP rooms in Macau for an indefinite period of time. Such intangible assets are carried at cost less accumulated impairment.

As at 31st December 2008, the directors of the Company have assessed the recoverable amount of intangible assets by reference to the valuation report issued by Grant Sherman Appraisal Limited, independent qualified professional valuers which valued the right in sharing of profit streams using the discounted cash flow method, no impairment was identified.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Equity securities, listed in Hong Kong, at fair value	16,800	39,900

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

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

Name of entity	Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
Daido Group Limited	Bermuda	Hong Kong	Ordinary	16.79%	16.79%	Cold storage and logistic services, manufacturing and trading of ice and property and hotel investment

24. CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Convertible notes receivable from an associate	–	667
Conversion options embedded in convertible notes receivable from an associate	–	222
	–	889

	Convertible notes receivable from an associate	Conversion options embedded in convertible notes receivable from an associate
	HK$'000	*HK$'000*
At 1st January 2007	–	–
Subscription of convertible notes	15,693	6,807
Imputed interest income	124	–
Conversion of convertible notes	(15,150)	(6,535)
Changes in fair value in respect of conversion options embedded in convertible notes receivable	–	(50)
At 31st December 2007 and 1st January 2008	667	222
Imputed interest income	40	–
Disposal	(707)	(222)
At 31st December 2008	–	–

During the year ended 31st December 2007, Classical Statue Limited ("CSL"), a wholly owned subsidiary of the Company, entered into an agreement to subscribe convertible notes ("Brilliant Arts CN") with an principal amount of HK$25,000,000 from Brilliant Arts Multi Media Holding Limited ("Brilliant Arts") at a price of HK$22,500,000. Brilliant Arts has its shares listed on the Growth Enterprise Market of the Stock Exchange. The Brilliant Arts CN carries zero coupon and will mature on 24th May 2012. The initial conversion price is HK$0.33 per share (subject to adjustment). Unless previously converted or lapsed, Brilliant Arts will redeem the Brilliant Arts CN on 24th May 2012 at the redemption amount which is 100% of the principal amount of outstanding Brilliant Arts CN.

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts.

On 18th August 2008, the Group disposed the entire interest in CSL and the outstanding Brilliant Arts CN.

25. INTERESTS IN ASSOCIATES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Share of net assets of associates *(Note a)*	–	329,678
Goodwill *(Note b)*	–	45,470
	–	375,148
Fair value of listed shares	–	150,353

(a) Share of net assets of associates

	2008	**2007**
	HK$'000	*HK$'000*
At 1st January	329,678	143,346
(Loss)/profit attributable to the Group	(3,303)	16,548
Discount on acquisition	–	40,100
Share of results of associates	(3,303)	56,648
Deemed disposal *(Note c)*	(16,123)	(19,849)
Initial acquisition of 29.17% equity interest in Brilliant Arts	–	3,616
Further investment in associates	–	130,729
Share of changes in reserves of associates	12,061	15,188
Disposal of an associate *(Note d)*	(322,313)	–
	(326,375)	129,684
At 31st December	–	329,678

(b) Goodwill

	2008	2007
	HK\$'000	*HK\$'000*
At 1st January	45,470	54,767
Deemed disposal *(Note c)*	(18,176)	(29,895)
Initial acquisition of 29.17% equity interest in Brilliant Arts	–	20,514
Further investments in associates	–	84
Disposal of an associate *(Note d)*	(27,294)	–
At 31st December	–	45,470

Impairment test

For the year ended 31st December 2007, the recoverable amount of the goodwill of Brilliant Arts and China Star Investment Holdings Limited ("China Star Investment") were assessed by reference to value-in-use calculation. For the purpose of impairment testing, a discount rate of 10% and 16.14% for Brilliant Arts and China Star Investment per annum was applied respectively in the value-in-use models which use cash flow projections based on financial forecasts approved by the directors of the Company covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero and a steady 7% growth rate for Brilliant Arts and China Star Investment respectively. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the financial forecasts. 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 financial forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

(c) Interest in Brilliant Arts

As at 28th January 2008, Brilliant Arts had issued 180,000,000 shares to an independent third party which increased the issued share capital of Brilliant Arts from 423,853,908 shares to 603,853,908 shares. As a result, the Group's interest in Brilliant Arts was diluted from 25.74% to 18.07%. Such dilution of interest resulted Brilliant Arts ceased to be an associate of the Group.

(d) Interest in China Star Investment

During the year ended 31st December 2007, China Star Investment issued approximately 1,303,426,000 new shares of China Star Investment (after considering the effect of consolidation of 10 shares into 1 new share of China Star Investment) through open offer, placing and exercise of options. As a result, the Group's interest in China Star Investment was diluted. Moreover, the Group acquired further equity interest in China Star Investment in the open market at a total consideration of approximately HK\$33,181,000. The Group has also subscripted its entitlement and applied for excess subscription for an aggregate amount of HK\$92,177,000 in the open offer of China Star Investment on the basis of one offer share for every two existing shares held on the record date. The aggregate effect of the above decreased the Group interest in China Star Investment from 34.4% to 29.9% as at 31st December 2007.

On 13th May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of Classical Statue Limited ("CSL") for a cash consideration of HK\$330,567,000. CSL's major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement. The disposal had completed on 18th August 2008.

Details of the principal associates at 31st December 2008 are set out in note 52.

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

	2008	2007
	HK$'000	*HK$'000*
Turnover	2,000	61,552
(Loss)/profit before taxation	(20,281)	29,677
(Loss)/profit after taxation attributable to the Group	(3,303)	16,548
Non-current assets	–	933,816
Current assets	–	700,329
Non-current liabilities	–	(366,949)
Current liabilities	–	(181,981)
Net assets	–	1,085,215
Net assets attributable to the Group	–	329,678

26. INVENTORIES

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Finished goods	399	301

Included above are finished goods of HK$195,000 (2007: HK$197,000) which are carried at net realisable values.

27. FILM RIGHTS

The Group

	HK$'000
Cost	
At 1st January 2007	637,858
Additions	13,967
Disposals	(348,249)
At 31st December 2007 and 1st January 2008	303,576
Additions	7,309
Expired	(88)
At 31st December 2008	310,797
Amortisation and impairment	
At 1st January 2007	540,431
Amortised for the year	43,747
Impairment loss recognised	16,850
Eliminated on disposals	(348,249)
At 31st December 2007 and 1st January 2008	252,779
Amortised for the year	18,593
Impairment loss recognised	9,760
Expired	(88)
At 31st December 2008	281,044
Carrying amounts	
At 31st December 2008	29,753
At 31st December 2007	50,797

During the year under review, the directors of the Company reassessed the recoverable amount of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, independent professional valuers and determined that impairment loss of approximately HK$9,760,000 (2007: HK$16,850,000) on the film rights was identified.

The recoverable amount of film rights was assessed by reference to value-in-use calculation. A discount rate of 18.20% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Film Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Film Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Film Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

28. FILMS IN PROGRESS

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Films in progress	18,379	24,948

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

29. TRADE RECEIVABLES

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

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Brilliant Art Multi-Media Holding Limited and its subsidiaries		
0 to 30 days	–	12
	–	12
Others		
0 to 30 days	22,721	885
31 to 60 days	339	2,784
61 to 90 days	136	224
91 to 180 days	73	151
Over 180 days	46,862	51,644
	70,131	55,688
Less: Impairment loss on trade receivables	(1,361)	(4,034)
	68,770	51,654
Total	68,770	51,666

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

61 – 90 days	136	224
Over 90 days	45,574	47,761
Total	45,710	47,985

Movement of impairment loss on trade receivables:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1st January	4,034	4,036
Impairment loss recognised	23	–
Written off	(2,601)	(2)
Reversal of impairment loss	(95)	–
At 31st December	1,361	4,034

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$45,710,000 (2007: HK$47,985,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of the Company consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors of the Company considered provision for impairment in values be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the provision for impairment.

30. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	59,644	32,237	6	1,426
Prepayments	486	579	215	382
Other receivables	947	3,974	605	–
	61,077	36,790	826	1,808

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

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

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Over 90 days	947	780

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

31. DEPOSITS FOR INVESTMENTS

On 16th August 2007 and 10th October 2007, the Company entered into sale and purchase agreements in respect of acquisition (the "Acquisition") of an aggregate 100% equity interest of Best Mind International Inc. ("Best Mind") with total considerations of HK$1,054,900,000. Total deposit of HK$400,000,000 was paid to the vendor as at 31st December 2007. Details of the Acquisition of Best Mind were set out in the Company's circulars dated 6th and 7th December 2007.

On 18th March 2008, the Acquisition was completed and the deposit paid of HK$400,000,000 has been used as consideration for the Acquisition. Details were set out in note 45 to the financial statements.

32. HELD-FOR-TRADING INVESTMENTS

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong, at fair value	25,713	16,600

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.

33. LOAN TO A MINORITY SHAREHOLDER

The loan to a minority shareholder of the Group is unsecured, interest-free and repayable for a term not exceeding 3 years from the drawdown date.

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

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

35. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash on hand and at bank	19,025	2,049	3,559	368
Time deposits	119,120	20,686	112,020	20,686
Cash and bank balances	138,145	22,735	115,579	21,054

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

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at 31st December 2008 and 31st December 2007 as shown in the cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Cash and bank balances	138,145	22,735
Bank overdraft	(174,826)	–
	(36,681)	22,735
Cash and cash equivalents included in Non-current assets held for sale *(Note 36)*		
Cash and bank balances	–	181,102
Bank overdraft	–	(146,516)
	–	34,586
	(36,681)	57,321

Bank overdraft carried interest at market rates which range from 4.25% to 5.75% per annum.

36. NON-CURRENT ASSETS HELD FOR SALE

(a) On 3rd December 2008, the Group entered into an agreement to dispose certain of its property, plant and equipment at a total consideration of HK$11,200,000. Accordingly, the carrying value of these property, plant and equipment was classified as assets held for sale as at 31st December 2008.

(b) On 1st August 2007, the Company entered into an agreement with China Star Investment and Legend Rich Limited, a wholly owned subsidiary of China Star Investment, whereby the Company has agreed to sell and/or procure the sale of 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a sale loan owned by Exceptional Gain to the Company amounted to approximately HK$409,222,000 as at the date of the agreement for an aggregate consideration of HK$447,000,000 (the "Proposed Disposal"). Exceptional Gain is the investment holding company which holds 50% interest in Kingsway Hotel Limited ("KHL"), a subsidiary of the Group which operates the hotel operations. The Proposed Disposal was approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and was expected to complete in May 2008. Accordingly, all the results of the group headed by Exceptional Gain which comprised the hotel operations were classified as discontinued operations and all its assets and liabilities as at 31st December 2007 were classified as assets and liabilities held for sale.

On 23rd December 2008, the Company entered into a termination agreement with China Star Investment and Legend Rich Limited to terminate the Proposed Disposal with immediate effect. The results of the discontinued operations for the year ended 31st December 2007 were re-presented as continuing operations in the consolidated income statement.

(c) The major classes of assets and liabilities classified as held for sale at the balance sheet date are as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Property, plant and equipment	716	3,758
Interests in leasehold land	–	517,568
Construction in progress	–	274,196
Inventories	–	213
Trade receivables	–	1,462
Deposits, prepayment and other receivables	–	12,773
Loan to a minority shareholder	–	196,000
Cash and cash equivalents	–	181,102
Assets classified as held for sale	716	1,187,072
Bank overdraft	–	146,516
Trade payables	–	2,150
Accruals and other payables	–	4,170
Amounts due to minority shareholders	–	40,502
Tax payables	–	609
Deferred taxation	–	80,888
Bank borrowings	–	450,000
Minority interests	–	309,261
Liabilities associated with assets classified as held for sale	–	1,034,096
Net assets classified as held for sale	716	152,976

At 31st December 2007, property, plant and equipment, interests in leasehold land and construction in progress with carrying value of approximately HK$794,813,000 were pledged to secure banking facilities granted to the Group.

37. SHARE CAPITAL

	Number of shares		Amount	
	2008	2007	2008	2007
	'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
Share consolidation *(Note b)*	(18,000,000)	–	–	–
Capital reduction *(Note b)*	–	–	(900,000)	–
	2,000,000	20,000,000	100,000	1,000,000
Issued and fully paid:				
At 1st January	2,806,097	704,646	140,305	35,232
Share consolidation *(Note b)*	(3,998,187)	–	–	–
Capital reduction *(Note b)*	–	–	(199,910)	–
Consideration shares for acquisition of a subsidiary *(Note c)*	236,333	–	11,817	–
Placement of shares *(Notes a, d, f & g)*	1,488,000	646,695	74,400	32,335
Rights issue *(Note e)*	–	843,769	–	42,188
Exercise of share options *(Note i)*	–	78,285	–	3,914
Conversion of convertible notes *(Note h)*	–	532,702	–	26,636
At 31st December	532,243	2,806,097	26,612	140,305

Notes:

(a) On 23rd December 2008, the Company allotted and issued an aggregate of 88,000,000 shares by way of placing to independent investors at a price of HK$0.102 per share. The net proceeds of approximately HK$64,600,000 will be used for subscription of the zero coupon convertible notes in principal of HK$60,000,000 issued by Golife Concepts Holdings Limited ("Golife").

(b) At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every ten existing shares of HK$0.05 each in the issued and unissued share capital of the Company be consolidated into one share of HK$0.50 each (the "Consolidated Share");

(ii) Capital reduction: the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK$0.45 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Shares will be reduced from HK$0.50 to HK$0.05 each; and

(iii) the nominal value of all the Consolidated Shares in the authorised share capital of the Company be reduced from HK$0.50 each to HK$0.05 each, resulting in the reduction of the authorised share capital from HK$1,000,000,000 divided into 2,000,000,000 Consolidated Shares to HK$100,000,000 divided into 2,000,000,000 share of HK$0.05 each, the Capital Reorganisation was effected on 9th May 2008.

(c) On 18th March 2008, the Group acquired entire equity interest in Best Mind at a total consideration of HK$1,054,900,000 which were satisfied by HK$600,000,000 in cash, HK$384,000,000 by the issue of the Convertible Notes and HK$70,900,000 by the allotment and issue 236,333,333 shares credited as fully paid.

(d) On 24th January 2008, the Company allotted and issued 1,400,000,000 shares of the Company by way of placing to independent investors at a price of HK$0.12 per share. The net proceeds of approximately HK$163,500,000 were used for the Acquisition.

(e) On 17th October 2007, the Company issued 843,769,024 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 15th October 2007 at a subscription price of HK$0.20 per share. The net proceeds of approximately HK$164,800,000 were used for the Acquisition.

(f) On 25th June 2007 and 28th September 2007, the Company allotted and issued an aggregate of 165,905,000 shares and 274,790,000 shares by way of placing to independent investors at a price of HK$0.40 per share and HK$0.21 per share respectively. The net proceeds of approximately HK$64,600,000 and HK$56,200,000 respectively were used for general working capital of the Group and for the Acquisition respectively.

(g) On 17th April 2007 and 30th May 2007, the Company allotted and issued 124,900,000 shares and 81,100,000 shares respectively by way of placing to independent investors at a price of HK$0.37 per share. The aggregate net proceeds of approximately HK$74,000,000 were used for general working capital of the Group.

(h) On 18th May 2007, the Company issued zero coupon convertible notes in the principle amount of HK$168,500,000 at an initial conversion price of HK$0.32 per share. These convertible notes were fully converted into ordinary shares during the year ended 31st December 2007.

(i) For the year ended 31st December 2007, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 shares at an exercise price of HK$0.242 per share, an aggregated of 26,800,000 shares at an exercise price of HK$0.277 per share, an aggregate of 5,900,000 shares at an exercise price of HK$0.42 per share and an aggregate of 12,600,000 shares at an exercise price of HK$0.277 per share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

38. RESERVES

	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Share-based payment reserve HK$'000 (Note d)	Convertible notes reserve HK$'000 (Note c)	Capital reduction reserve HK$'000 (Note e)	Retained profit/ (Accumulated losses) HK$'000	Total HK$'000
The Company							
At 1st January 2007	906,988	207,548	43,238	566	316,008	(864,665)	609,683
Loss for the year	–	–	–	–	–	(27,969)	(27,969)
Share-based payment expenses	–	–	17,660	–	–	–	17,660
Placement of shares	167,953	–	–	–	–	–	167,953
Share issuing expenses	(10,226)	–	–	–	–	–	(10,226)
Issue of convertible notes	–	–	–	54,307	–	–	54,307
Redemption of convertible notes	–	–	–	(566)	–	566	–
Conversion of convertible notes	134,409	–	–	(54,307)	–	–	80,102
Issue of shares upon rights issue	126,565	–	–	–	–	–	126,565
Issue of shares upon exercise of share options	30,761	–	(13,301)	–	–	–	17,460
At 31st December 2007 and at 1st January 2008	1,356,450	207,548	47,597	–	316,008	(892,068)	1,035,535
Net profit for the year	–	–	–	–	–	92,565	92,565
Consideration shares for acquisition of a subsidiary	2,363	–	–	–	–	–	2,363
Placement of shares	102,576	–	–	–	–	–	102,576
Share issuing expenses	(4,290)	–	–	–	–	–	(4,290)
Issue of convertible notes	–	–	–	71,691	–	–	71,691
Redemption of convertible notes	–	–	–	(33,672)	–	(44,570)	(78,242)
Deferred tax	–	–	–	(5,354)	–	–	(5,354)
Share options lapse	–	–	(1,394)	–	–	1,394	–
Share-based payment expenses	–	–	7,463	–	–	–	7,463
Capital reorganisation							
– capital reduction	–	199,910	–	–	–	–	199,910
– share premium cancellation	(1,356,450)	1,356,450	–	–	–	–	–
– set off against accumulated losses	–	(864,665)	–	–	–	864,665	–
At 31st December 2008	100,649	899,243	53,666	32,665	316,008	21,986	1,424,217

Notes:

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

(b) The contributed surplus of the Company brought forward represents the amounts transferred from the capital account due to the capital reduction effective on 10th September 2002. The difference between the underlying net tangible assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company at the time of the Group 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) Share-based payment reserve represent 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.

(d) Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for 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 retained profit/accumulated losses).

(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.

39. BANK BORROWINGS

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Secured bank loans	383,467	10,941
The maturity of the above borrowings is as follow:		
Within one year	102,561	2,418
Between one and two years	102,631	2,528
Between two and five years	178,251	5,681
Over five years	24	314
	383,467	10,941
Less: Amount due within one year shown under current liabilities	(102,561)	(2,418)
Amount due after one year	280,906	8,523

Secured bank loans comprise a mortgage loan which bears interest at commercial rates and a term loan which bears interest at 2.5% per annum below the bank's best lending rate. The mortgage loan is secured by the Group's investment property with carrying value of approximately HK$40,880,000 (2007: HK$51,100,000). The mortgage loan is repayable in installments over a period of ten years. The term loan is secured by the Group's leasehold land, buildings and construction in progress with carrying value of approximately HK$499,457,000 (2007: nil), HK$2,931,000 (2007: nil) and HK$488,646,000 (2007: nil) respectively. The term loan is repayable by 18 equal consecutive quarterly installments of HK$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. All interest-bearing borrowings are denominated in Hong Kong dollar.

The directors of the Company consider that the carrying amounts of the Group's borrowings approximate to their fair values.

40. UNSECURED CONVERTIBLE NOTES

On 18th March 2008, the Company issued unsecured convertible notes in the principal amount of HK$384,000,000 (the "Convertible Notes") to Lucky State Group Limited (the "Noteholder") as part of consideration for the Acquisition. The Convertible Notes are interest bearing at 5% per annum and will be matured on 17th March 2018. The Noteholder may convert the whole or part (in multiple of HK$1,000,000) of the Convertible Notes into shares of the Company at an initial conversion price of HK$0.30 per share (subject to adjustment) from the date either the guarantee profit from Mr. Ng Cheuk Fai, the guarantor and beneficial owner of the Noteholder, is achieved or the shortfall is received from the Noteholder to 17th March 2018.

The Convertible Notes contain two components, liability and equity elements. The fair value of the liability component, included in long-term borrowings, was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible notes reserve.

The Group and the Company

	Liability component of the convertible notes *HK$'000*
At 1st January 2007	19,867
Issue of convertible notes	105,768
Converted into ordinary shares	(106,738)
Imputed interest expenses	1,501
Interest paid	(398)
Redemption	(20,000)
At 31st December 2007 and 1st January 2008	–
Proceeds of issue	384,000
Equity component	(71,691)
Liability component at the date of issue	312,309
Interest charged	13,729
Redemption	(176,759)
Interest paid	(10,889)
At 31st December 2008	138,390

The effective interest rate on the liability component of the convertible notes is approximately 7.75%.

41. DEFERRED TAX LIABILITIES

The Group

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

	Fair value adjustment on acquisition of subsidiaries *HK$'000*	Unsecured convertible notes *HK$'000*	Fair value changes of investment property *HK$'000*	Total *HK$'000*
At 1st January 2007	–	–	1,888	1,888
Charge to the consolidated income statement	–	–	1,578	1,578
At 31st December 2007 and 1st January 2008	–	–	3,466	3,466
Acquisition of subsidiaries	80,888	–	–	80,888
Issue of convertible notes	–	11,829	–	11,829
Redemption of unsecured convertible notes	–	(6,475)	–	(6,475)
Surplus on revaluation upon transfer	–	–	1,053	1,053
Charge to the consolidated income statement	–	(476)	(1,968)	(2,444)
At 31st December 2008	80,888	4,878	2,551	88,317

At 31st December 2008, the Group had unused estimated tax losses of approximately HK$408,266,000 (2007: HK$417,320,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Company

No deferred tax assets has been recognised in respect of estimated tax losses of approximately HK$86,734,000 (2007: HK$81,870,000) due to the unpredictability of future profit streams.

42. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
0 to 30 days	650	2,980
31 to 60 days	48	1,174
61 to 90 days	17	5
91 to 180 days	632	167
Over 180 days	5,736	13,295
	7,083	17,621

43. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	53,731	55,123	10,000	10,000
Accruals	14,245	3,635	8,123	2,387
Other payables	1,295	7,260	874	2,611
	69,271	66,018	18,997	14,998

44. AMOUNTS DUE TO MINORITY SHAREHOLDERS

Amounts due to minority shareholders of the Group are unsecured, interest-free and repayable on demand.

45. ACQUISITION OF SUBSIDIARIES

For the year ended 31st December 2008

On 18th March 2008, the Group acquired entire equity interest in Best Mind at a total consideration of HK$1,054,900,000, which were satisfied by HK$600,000,000 in cash, HK$384,000,000 by the issue of the Convertible Notes and HK$70,900,000 by the allotment and issue 236,333,333 shares credited as fully paid.

Best Mind entered into a profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to share 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau.

Details of net assets acquired and goodwill are as follows:

	Carrying amount before the Acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Intangible assets *(note a)*	–	989,205	989,205
Cash at bank and in hand	1	–	1
Trade receivables	5	–	5
Other payables	(6)	–	(6)
	–	989,205	989,205
Goodwill			8,975
Total consideration at fair value			998,180
Total consideration at fair value satisfied by:			
Cash consideration paid			600,000
Issue of shares at fair value *(note b)*			14,180
Issue of the Convertible Notes			384,000
			998,180
Net cash outflow arising from the Acquisition:			
Cash consideration paid			200,000
Cash at bank and in hand acquired			(1)
			199,999

Notes:

(a) The intangible assets represented the rights in sharing of profit streams from junket business at one of the casino's VIP room in Macau for an indefinite period of time. The fair value of the intangible assets of approximately HK$989,205,000 has been arrived with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers, by using discounted cash flow method.

(b) As part of the consideration for the Acquisition, 236,333,333 ordinary shares of the Company with par value of HK$0.05 each were issued. The fair value of the ordinary shares of the Company, determined by using the published price of HK$0.06 per share available at the date of the Acquisition, amounted to approximately HK$14,180,000.

During the year ended 31st December 2008, Best Mind contributed profit of approximately HK$203,316,000 to the Group since the completion of the Acquisition.

For the year ended 31st December 2007

On 30th March, 2007, the Group acquired 38.5% equity interest in KHL ("Initial Acquisition") at a consideration of approximately HK$231,777,000. On 30th May 2007, the Group further acquired 61.5% interest in KHL through acquisition of the entire interest in Triumph Up Investment Limited and its subsidiaries and Great Chain Limited and its subsidiaries ("Second Acquisition"), at a consideration of approximately HK$490,000,000.

Following the completion of the Initial and Second Acquisition, the Group had 100% interest in KHL. The net assets acquired in the Initial and Second Acquisition were as follows:

	Carrying amount before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	48,881	221,865	270,746
Interest in leasehold land	87,796	452,203	539,999
Inventories	1,035	–	1,035
Trade receivables	5,982	–	5,982
Deposits, prepayments and other receivables	425	–	425
Cash at bank and in hand	12,848	–	12,848
Amounts due to immediate holding companies	(81,004)	–	(81,004)
Trade payables	(892)	–	(892)
Deposits received, accruals and other payables	(11,980)	–	(11,980)
Deferred tax	–	(80,888)	(80,888)
Net assets acquired	63,091	593,180	656,271
Discount on acquisition			(15,498)
			640,773
Total consideration satisfied by:			
Cash			721,777
Shareholder loan			(81,004)
			640,773
Net cash outflow arising on acquisition:			
Cash consideration paid			721,777
Bank balances and cash acquired			(12,848)
			708,929
Deposit paid			(40,000)
			668,929

Details of the Initial Acquisition and Second Acquisition were set out in the Company's circulars dated 10th March 2007 and 28th September 2006.

46. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2008

On 18th August 2008, the Group disposed CSL, an indirect wholly owned subsidiary of the Company, at a consideration of approximately HK$330,567,000.

On 27th October 2008, the Group disposed China Star Advertising Company Limited ("CSAL"), an indirect wholly owned subsidiary of the Company, at a consideration of approximately HK$50,000.

Details of the net assets disposed of are as follows:

	CSL	**CSAL**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net assets disposed of:			
Interest in associates	349,607	–	349,607
Property, plant and equipment	–	2	2
Available-for-sale financial assets	5,498	–	5,498
Convertible notes receivable from an associate	707	–	707
Conversion option embedded in convertible notes receivable from an associate	222	–	222
Deposits, prepayments and other receivables	12	26	38
Cash and bank balances	57	–	57
Amount due to the Group	–	(36,713)	(36,713)
Accruals and other payables	(5)	(7,221)	(7,226)
	356,098	(43,906)	312,192
Amount due to the Group assigned to the Purchaser	–	18,624	18,624
Amount due to the Group written off on disposal	–	18,089	18,089
Minority interest	–	(1,183)	(1,183)
Release of exchange reserve	(19,707)	(301)	(20,008)
Release of financial assets revaluation reserve	9,073	–	9,073
	345,464	(8,677)	336,787
Gain/(loss) on disposal of subsidiaries	(14,897)	8,727	(6,170)
	330,567	50	330,617
Satisfied by:			
Cash consideration	330,567	50	330,617
Net cash outflow from disposals:			
Cash consideration received	330,567	50	330,617
Bank balance and cash disposed of	(57)	–	(57)
	330,510	50	330,560

During the year ended 31st December 2008, CSL and CSAL did not contribute any to the Group's turnover and contributed a loss of approximately HK$20,840,000 and HK$1,566,000 to the Group's profit for the year respectively.

For the year ended 31st December 2007

On 22nd June 2007, the Group had disposed of 50% interest in a subsidiary, KHL and the relevant sale loan at a consideration of approximately HK$315,000,000, resulting in a loss on disposal of approximately HK$45,471,000. Accordingly, the Group's shareholding in KHL has decreased from 100% to 50%.

The net assets of KHL at the date of disposal were as follows:

	2007
	HK$'000
The Group's share of net assets before disposal	645,468
Expenses incurred by the Group	(4,526)
Share of net assets disposed	(320,471)
Share of net assets owned by the Group after disposal	320,471
Share of net assets disposed	320,471
Loss on disposal of interest in a subsidiary	(45,471)
	275,000
Total consideration satisfied by:	
Cash consideration received	315,000
Shareholder's loan disposed	(40,000)
	275,000
Net cash inflow arising on disposal:	
Cash consideration	315,000

47. LEASE COMMITMENTS

At 31st December 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year	2,250	1,566
In the second to fifth year inclusive	2,151	1,016
	4,401	2,582

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.

48. CAPITAL COMMITMENTS

The Group had the following outstanding commitments in respect of acquisitions of equity interests in certain entities at the balance sheet date:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for	163,680	654,900

49. EQUITY SETTLED SHARE-BASED TRANSACTION

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

The Old Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

The New Option Scheme

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

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

(ii) The participants include:

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

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

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

(d) any business or joint venture partner, contractor, agent or representative of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(e) any research assistant, technician, adviser, consultant, artist, actor, actress of, and any research company, technical support company, advisory company, consultancy company, production company, advertising company, distribution company and professional services company to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(f) any supplier, producer, director or licensor of films, television programmes, video features, goods or services to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(g) any customer, licensee (including any sub-licensee) or distributor of films television programmes, video features, goods or services of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(h) any landlord or tenant (including any sub-tenant) of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company; and

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

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of share options available for issue under the New Option Scheme (after refreshment) at the date of this annual report was 514,304, which represented approximately 0.01% of the issued share capital of the Company at the date of this annual report.

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

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

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

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

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

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

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

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

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

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

					Number of Share Option										
Category of Participants	Name of scheme	Date of grant	Exercisable period	Exercise price per share	Outstanding as at 01.01.2007	Granted during 2007	Exercised during 2007	Transfer between category	Adjustment during 2007	Outstanding as at 31.12.2007 and 01.01.2008	Lapsed during 2008	Adjustment during 2008*	Granted during 2008	Transfer between category	Outstanding as at 31.12.2008
				HK$									*(Note i)*		
Substantial shareholders and directors of the Company**	Old Option Scheme	28.03.2000	28.03.2000 – 27.03.2010	154.590*	922,123	–	–	–	78,965	1,001,088	–	(900,980)	–	–	100,108
		02.06.2000	02.06.2000 – 01.06 2010	74.920*	417,506	–	–	–	35,752	453,258	–	(407,932)	–	–	45,326
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	15.810*	221,446	–	–	–	18,964	240,410	–	(216,368)	–	–	24,042
		17.07.2003	17.07.2003 – 16.07.2013	5.200*	457,000	–	–	–	39,136	496,136	–	(446,524)	–	–	49,612
					2,018,075	–	–	–	172,817	2,190,892	–	(1,971,804)	–	–	219,088
Director of the Company***	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	15.810*	1,109,557	–	–	–	95,017	1,204,574	–	(1,084,117)	–	–	120,457
		17.07.2003	17.07.2003 – 16.07.2013	5.200*	2,285,000	–	–	–	195,677	2,480,677	–	(2,232,609)	–	–	248,068
					3,394,557	–	–	–	290,694	3,685,251	–	(3,316,726)	–	–	368,525
Employees of the Group	Old Option Scheme	05.01.1999	05.01.1999 – 04.01.2009	46.160*	44	–	–	–	3	47	–	(43)	–	–	4
		28.03.2000	28.03.2000 – 27.03.2010	154.590*	240,099	–	–	–	20,562	260,661	–	(234,594)	–	–	26,067
		02.06.2000	02.06.2000 – 01.06.2010	74.920*	417,508	–	–	–	35,754	453,262	–	(407,936)	–	–	45,326
	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	15.810*	2,219,114	–	–	–	190,035	2,409,149	–	(2,168,234)	–	–	240,915
		17.07.2003	17.07.2003 – 16.07.2013	5.200*	2,285,000	–	–	–	195,677	2,480,677	–	(2,232,609)	–	–	248,068
		13.12.2004	13.12.2004 – 12.12.2014	4.790*	6,000,000	–	–	–	513,812	6,513,812	–	(5,862,430)	–	(325,691)	325,691
		04.02.2005	04.02.2005 – 03.02.2015	4.960*	28,110,000	–	–	(4,200,000)	2,047,542	25,957,542	(4,559,668)	(19,258,086)	–	(153,075)	1,986,713
		30.12.2005	30.12.2005 – 29.12.2015	2.230*	18,005,000	–	(11,390,000)	–	566,477	7,181,477	–	(6,463,329)	–	–	718,148
		21.11.2006	21.11.2006 – 20.11.2016	2.550*	40,000,000	–	(22,000,000)	(6,000,000)	1,027,624	13,027,624	–	(11,724,862)	–	–	1,302,762
		25.05.2007	25.05.2007 – 24.05.2017	3.870*	–	27,585,000	(5,900,000)	–	1,857,003	23,542,003	–	(21,187,803)	–	(574,844)	1,779,356
		27.06.2007	27.06.2007 – 26.06.2017	3.850*	–	14,440,000	–	–	1,236,575	15,676,575	–	(14,108,918)	–	(556,388)	1,011,269
		23.10.2007	23.10.2007 – 22.10.2017	1.830*	–	66,170,000	–	–	–	66,170,000	–	(59,553,000)	–	(1,374,000)	5,243,000
		21.08.2008	21.08.2008 – 20.08.2018	0.236	–	–	–	–	–	–	–	–	21,395,000	–	21,395,000
					97,276,765	108,195,000	(39,290,000)	(10,200,000)	7,691,064	163,672,829	(4,559,668)	(143,201,844)	21,395,000	(2,983,998)	34,322,319
Other participants	New Option Scheme	16.07.2002	16.07.2002 – 15.07.2012	15.810*	4,438,228	–	–	–	380,068	4,818,296	–	(4,336,468)	–	–	481,828
		17.07.2003	17.07.2003 – 16.07.2013	5.200*	7,055,000	–	–	–	604,156	7,659,156	–	(6,893,240)	–	–	765,916
		13.12.2004	13.12.2004 – 12.12.2014	4.790*	11,820,000	–	–	–	1,012,210	12,832,210	–	(11,548,990)	–	325,691	1,608,911
		04.02.2005	04.02.2005 – 03.02.2015	4.960*	10,205,000	–	–	4,200,000	1,233,576	15,638,576	–	(14,074,719)	–	153,075	1,716,932
		30.12.2005	30.12.2005 – 29.12.2015	2.230*	33,995,000	–	(21,595,000)	–	1,061,879	13,461,879	–	(12,115,692)	–	–	1,346,187
		21.11.2006	21.11.2006 – 20.11.2016	2.550*	20,400,000	–	(17,400,000)	6,000,000	770,718	9,770,718	–	(8,793,646)	–	–	977,072
		25.05.2007	25.05.2007 – 24.05.2017	3.870*	–	30,675,000	–	–	2,626,864	33,301,864	–	(29,971,678)	–	574,844	3,905,030
		27.06.2007	27.06.2007 – 26.06.2017	3.850*	–	10,250,000	–	–	877,762	11,127,762	–	(10,014,986)	–	556,388	1,669,164
		23.10.2007	23.10.2007 – 22.10.2017	1.830*	–	46,530,000	–	–	–	46,530,000	–	(41,877,000)	–	1,374,000	6,027,000
		21.08.2008	21.08.2008 – 20.08.2018	0.236	–	–	–	–	–	–	–	–	22,515,000	–	22,515,000
					87,913,228	87,455,000	(38,995,000)	10,200,000	8,567,233	155,140,461	–	(139,626,419)	22,515,000	2,983,998	41,013,040
					190,602,625	195,650,000	(78,285,000)	–	16,721,808	324,689,433	(4,559,668)	(288,116,793)	43,910,000	–	75,922,972

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

** Represented the share options held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany, the substantial shareholders and directors of the Company.

*** Represented the share options held by Ms. Li Yuk Sheung, a director of the Company.

Notes:

(i) The closing price of the Company's shares immediately before the date of grant of share options in 2008 was HK$0.230 per share.

(ii) No share option was exercised (2007: 78,285,000 shares) or cancelled (2007: nil) during the year 2008.

Share-based payment expenses

Following to the adoption of HKFRS2, Share-based Payment, the fair value of the employee services received in exchange for the grant of the options after 7th November 2002 is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The estimated fair value of the options is measured based on Binomial Option Pricing Model. The variables input into the model are as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Weighted average share price at measurement date (HK$)	0.275	0.28
Weighted average exercise price (HK$)	0.236	0.280
Expected volatility (expressed as weighted average volatility)	70.03%	55.77%
No. of years for option life (expressed as weighted average life)	5	10
Expected dividends	–	–
Risk-free interest rate	3.019%	4.38%
Weighted average fair value at measurement date (HK$)	0.169966	0.09

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.

50. MATERIAL RELATED PARTY TRANSACTIONS

(a) On 13th May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited ("Glenstone") to dispose the entire issued share capital of CSL for a cash consideration of HK$330,567,000 (the "CSL Disposal"). CSL's major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement; 109,090,908 shares in Brilliant Arts, representing approximately 8.68% of the issued share capital of Brilliant Arts at date of agreement; and a convertible bond receivable from Brilliant Arts with principal face value of HK$1,000,000. Glenstone is a substantial shareholder of the Company and is beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany and as to 40% by Mr. Heung Wah Keung who are both the executive directors and substantial shareholders of the Company. The CSL Disposal is regarded as a connected transaction pursuant to Chapter 14A of the Listing Rules.

The independent non-executive directors confirm that the CSL Disposal is on normal commercial terms, in the interest of the Company and not in the ordinary course of the Company's business. The CSL Disposal was approved by independent shareholders on 11th July 2008 and had completed on 18th August 2008.

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

Nature of transactions	Notes	2008 HK$'000	2007 HK$'000
Interest income receivable from convertible notes	(i)	41	124
Production service income	(ii)	–	58
Film production expense paid or payable	(ii)	–	1,733
Film distribution income		–	21

Notes:

(i) The convertible notes issued from Brilliant Arts is held by CSL, a wholly owed subsidiary of the Company. The effective interest rate on the liability component of the convertible note is approximately 9.75%.

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

(iii) Brilliant Arts Group ceased to be associates of the Company with effect from 28th January 2008.

(c) During the year, the Group entered into the following transactions with Together Again Limited ("TAL"), together with its subsidiaries ("TAL Group"):

Nature of transactions	Notes	2008 HK$'000	2007 HK$'000
Management fee income from the TAL Group	(i) & (ii)	4,860	4,860
Artists promotion charges paid and payable to the TAL Group	(i) & (ii)	–	1,720

Notes:

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

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

(d) On 23rd October 2007, KHL, a non wholly owned subsidiary of the Company, entered into a loan agreement to grant a loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited, a substantial shareholder of KHL. The transaction is regarded as a connected transaction pursuant to Chapter 14A of the Listing Rules. The loan facility is unsecured, interest free and for a term not exceeding three years commencing from the drawdown date.

The independent non-executive directors of the Company confirmed that the transaction is not on normal commercial terms as it is interest free, not in the ordinary course of the Company's business but in the interests of the Company and the independent shareholders of the Company as a whole. The transaction was approved by the independent shareholders on 3rd December 2007 and amount of HK$196,000,000 was drawn on 3rd December 2007.

As at 31st December 2008, the outstanding loan granted according to the loan agreement amounted to HK$183,750,000.

(e) For the year ended 31st December 2008 and 31st December 2007, 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.

(f) Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet.

(g) Key management personnel

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in note 15, is as follow:

	2008	**2007**
	HK$'000	*HK$'000*
Salaries and other short-term benefits	7,473	6,742
Pension scheme contributions	68	60
Share-based payment	2,267	5,229
	9,808	12,031

51. 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
				%		
Best Combo Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Best Mind International Inc. *(Note b)*	Incorporated	British Virgin Islands	Ordinary	100	100 share of US$1	Investing in operations which receive profit streams from the gaming promotion business
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$	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

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 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 series	Distribution of motion pictures and television drama
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of services and 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
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.	Incorporated	Netherlands	Ordinary	100	400 ordinary shares of Dutch Guilders 100 each	Distribution of motion pictures and television drama series
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Kingsway Hotel Limited *(note b&d)*	Incorporated	Macau	Ordinary	50	250,000 ordinary shares of MOP 1 each	Provision of hotel services in Macau and property investment
Newrich (H.K.) Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Property holding
One Hundred Years of Film Company Limited	Incorporated	Hong Kong	Ordinary	100	3,000,000 ordinary shares of HK$1 each	Film production
S & W Entertainment Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Production of motion pictures and television drama series

Notes:

(a) Operating internationally.

(b) Operating in Macau.

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

(d) One of the shareholder of KHL holding 49% voting power in KHL has agreed to follow the voting and management decision of the Company. Therefore, KHL is considered as a subsidiary of the Company.

Best Combo Limited, Best Mind International Inc., China Star Entertainment (BVI) Limited and China Star Worldwide Distribution B.V. are directly held by the Company. All other subsidiaries are indirectly held by the Company.

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

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

52. PARTICULARS OF PRINCIPAL ASSOCIATE

The following table lists the associate of the Group which, in the opinion of the directors, principally affected the results and assets of the Group.

Name of associate	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Group %	Issued and fully paid share capital/ registered capital	Principal activities
Together Again Limited	Incorporated	British Virgin Islands	Ordinary	49.00	48,080 shares of US$1 each	Investment holding and provision of artists management services

53. SUBSEQUENT EVENTS

(a) On 8th December 2008, the directors of the Company announced the following proposed open offer and subscription of convertible notes:

(i) open offer of not less than 888,486,080 offer shares and not more than 1,064,486,080 offer shares at the subscription price of HK$0.05 each per offer share on the basis of 2 offer shares for every 1 ordinary share of the Company held on the record date, with bonus shares on the basis of 3 bonus shares for every 1 offer share taken up under the open offer (the "Open Offer");

(ii) subscription of convertible notes (the "GC Convertible Notes") issued by Golife Concept Holdings Limited, a company incorporated in Cayman Island with limited liability whose shares are listed on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited, in the principal amount of HK$60,000,000 in five tranches of HK$12,000,000 each; and

(iii) increase the authorised share capital of the Company from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 shares of HK$0.05 each.

Details of the open offer and subscription of the GC Convertible Notes were set out in the Company's circular dated 30th December 2008. The Open Offer has been completed on 2nd March 2009 and the GC Convertible Notes has been subscribed on 29th January 2009 respectively.

(b) On 26th February 2009, the directors of the Company announced the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every 20 issued and unissued shares be consolidated into one share (the "Consolidated Share");

(ii) Capital reduction: (i) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK$0.99 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Share will be reduced from HK$1.00 to HK$0.01 each; and (ii) the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and

(iii) Share subdivision: each of the authorised but unissued Consolidated Shares of HK$1.00 each be subdivided into 100 new shares of HK$0.01 each

Details of the Capital Reorganisation were set out in the Company's circular dated 20th March 2009.

(c) On 11th March 2009, the Company entered into a loan agreement with China Star Investment, a company which the directors of the Company have beneficial interest and its shares are listed on the main board of the Stock Exchange, in which China Star Investment agreed to grant an unsecured loan facility of up to HK$200,000,000 (the "Loan Facility") to the Company. Details of the Loan Facility were set out in the circular of China Star Investment dated 30th March 2009.

54. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27th April 2009.

INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

As at the close of business on 30 June 2009, being the latest practicable date for the purpose of the indebtedness, the Enlarged Group had outstanding borrowings of approximately HK$940,359,000 which comprised of (i) bank borrowings and overdrafts of approximately HK$627,857,000, which were secured by the leasehold land and buildings and investment properties of the Enlarged Group; (ii) liability component of the unsecured convertible notes of approximately HK$59,310,000 with principal amount of HK$72,000,000, (iii) advance of HK$200,000,000 from China Star Investment Holdings Limited; and (iv) amounts due to minority shareholders of approximately HK$40,502,000 which are unsecured, interest-free and repayable on demand.

Contingent liabilities

As at 30 June 2009, the Company had provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK$325,000,000, the Enlarged Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Enlarged Group did not have, as at 30 June 2009, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Board, after due and careful enquiry, is of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's present available internal resources, the Enlarged Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date of which the latest published audited financial statements of the Company were made up.

RECONCILIATION STATEMENT OF PROPERTY

Set out below is a statement of reconciliation among the valuation of the Property, the property interests held by the Group in Hong Kong and the property interests held by the Group in Macau, as stated in the valuation report in Appendix X, XI and XII to this circular respectively, carrying value from the Accountants' report on the Over Profit Group and the Group's audited consolidated balance sheet as at 31 December 2008 set out in Appendix IV and Appendix VI to this circular and the unaudited carrying value of the Property and the property interests held by the Group as at 31 May 2009. The statement below was prepared in accordance with Rule 5.07 of the Listing Rules.

The Property:

	HK$'000
Carrying value of the Property as at 31 December 2008 *(note 1)*	480,000
Valuation as at 31 May 2009 *(note 2)*	480,000

Property interests held by the Group for investment purpose in Hong Kong:

	HK$'000
Carrying value of the property interests held by the Group for investment purpose in Hong Kong as at 31 December 2008 *(note 3)* and 31 May 2009	49,930
Valuation surplus	6,700
Valuation as at 31 May 2009 *(note 4)*	56,630

Property interests held by the Group for owner occupation in Hong Kong:

	HK$'000
Carrying value of the property interests held by the Group for owner occupation in Hong Kong as at 31 December 2008 *(note 5)*	4,317
Movement for the five months ended 31 May 2009:	
Amortisation	(33)
Depreciation	(87)
Carrying value as at 31 May 2009	4,197
Valuation surplus	4,233
Valuation as at 31 May 2009 *(note 6)*	8,430

Property interests held by the Group under construction in progress in Macau:

	HK$'000
Carrying value of the property interests held by the Group under construction in progress in Macau as at 31 December 2008 *(note 7)*	985,394
Movement for the five months ended 31 May 2009:	
Amortisation	(7,509)
Carrying value as at 31 May 2009	977,885
Valuation surplus	82,115
Valuation as at 31 May 2009 *(note 8)*	1,060,000

Property interests held by the Group for owner occupation in Macau:

	HK$'000
Carrying value of the property interests held by the Group for owner occupation in Macau as at 31 December 2008 *(note 9)*	5,640
Movement for the five months ended 31 May 2009:	
Addition	1,623
Amortisation	(38)
Depreciation	(172)
Carrying value as at 31 May 2009	7,053
Valuation surplus	3,547
Valuation as at 31 May 2009 *(note 10)*	10,600

Notes:

1. The carrying value of the Property as at 31 December 2008 was approximately HK$480,000,000 as per note 15 to the Accountant's report on the Over Profit Group in Appendix IV to this circular.

2. The valuation of the Property as at 31 May 2009 was approximately HK$480,000,000 which stated in the valuation report in Appendix X to this circular.

3. The carrying value of the property interests held by the Group for investment purpose in Hong Kong as at 31 December 2008 was approximately HK$49,930,000 as per note 19 to the Group's audited consolidated balance sheet as at 31 December 2008 as reproduced in Appendix VI to this circular.

4. The valuation of the property interests held by the Group for investment purpose in Hong Kong as at 31 May 2009 was approximately HK$56,630,000 which stated in the valuation report in Appendix XI to this circular.

5. The carrying value of the property interests held by the Group for owner occupation in Hong Kong as at 31 December 2008 was approximately HK$4,317,000 comprises (i) interests in leasehold land of approximately HK$3,067,000, and (ii) buildings of approximately HK$1,250,000 as stated in notes 11 and 12 below respectively.

6. The valuation of the property interests held by the Group for owner occupation in Hong Kong as at 31 May 2009 was approximately HK$8,430,000 which stated in the valuation report in Appendix XI to this circular.

7. The carrying value of the property interests held by the Group under construction in progress in Macau as at 31 December 2008 was approximately HK$985,394,000 comprises (i) interests in leasehold land of approximately HK$496,748,000, and (ii) construction in progress of approximately HK$488,646,000 as per notes 11 below and note 17 to the Group's audited consolidated balance sheet as at 31 December 2008 as reproduced in Appendix VI to this circular respectively.

8. The valuation of the property interests held by the Group under construction in progress in Macau as at 31 May 2009 was approximately HK$1,060,000,000 which stated in the valuation report in Appendix XII to this circular.

9. The carrying value of the property interests held by the Group for owner occupation in Macau as at 31 December 2008 was approximately HK$5,640,000 comprises (i) interests in leasehold land of approximately HK$2,709,000, and (ii) buildings of approximately HK$2,931,000 as per notes 11 and 12 below respectively.

10. The valuation of the property interests held by the Group for owner occupation in Macau as at 31 May 2009 was approximately HK$10,600,000 which stated in the valuation report in Appendix XII to this circular.

11. The carrying value of the interests in leasehold land held by the Group as at 31 December 2008 was approximately HK$502,524,000 as per note 18 to the Group's audited consolidated balance sheet as at 31 December 2008 as reproduced in Appendix VI to this circular comprises (i) property interests held by the Group for owner occupation in Hong Kong of approximately HK$3,067,000, (ii) property interests held by the Group under construction in progress in Macau of approximately HK$496,748,000, and (iii) property interests held by the Group for owner occupation in Macau of approximately HK$2,709,000.

12. The carrying value of the buildings held by the Group as at 31 December 2008 was approximately HK$4,181,000 as per note 17 to the Group's audited consolidated balance sheet as at 31 December 2008 as reproduced in Appendix VI to this circular comprises (i) property interests held by the Group for owner occupation in Hong Kong of approximately HK$1,250,000, and (ii) property interests held by the Group for owner occupation in Macau of approximately HK$2,931,000.

13. The Company confirms that there had been no significant changes in the Property and property interests held by the Group since 31 May 2009 (being the effective date of the valuation) up to the Latest Practicable Date.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

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

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

17 August 2009

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group''), Modern Vision (Asia) Limited (''Modern Vision'') and its subsidiaries (the ''Modern Vision Group'') and Reform Base Holdings Limited (''Reform Base'') (together with the Group hereinafter referred to as ''Enlarged Group'') set out on pages 253 to 263 under the headings of ''Unaudited Pro Forma Financial Information on the Enlarged Group'' (the ''Unaudited Pro Forma Financial Information'') in Appendix VIII of the Company's circular dated 17 August 2009 (the ''Circular'') in connection with the proposed acquisition of the entire issued share capital of Modern Vision and Reform Base and the Sale Loans by Bestjump Holdings Limited, a wholly-owned subsidiary of the Company (the "Acquisition"). 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 Acquisition, which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix VIII of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 December 2008 or any future date; or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2008 or any future periods.

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

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

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet, income statement and cash flow statement of the Enlarged Group as if the Acquisition was completed on 31 December 2008 for the unaudited pro forma consolidated balance sheet and on 1 January 2008 for the unaudited pro forma consolidated income statement and cash flow statement. The accompanying Unaudited Pro Forma Financial Information on the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The accompanying Unaudited Pro Forma Financial Information on the Enlarged Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information on the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information on the Enlarged Group should be read in conjunctions with the Accountants' Report on the Modern Vision Group as set out in Appendix II to this Circular and the Accountants' Report on Reform Base as set out in Appendix III to this Circular, the historical financial information on the Group as set out in Appendix VI to this Circular and other financial information included elsewhere in this Circular.

(A) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet on the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2008. The unaudited consolidated balance sheet is based on the audited financial statements of the Group for the year ended 31 December 2008 as set out in Appendix VI to this Circular, the audited financial statements of the Modern Vision Group and Reform Base for the three months ended 31 March 2009 as set out in Appendix II and III to this Circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet on the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as the date to which it is made up to or at any future date.

I. Unaudited pro forma consolidated balance sheet

	The Group as at 31 December 2008	The Modern Vision Group as at 31 December 2008	Reform Base as at 31 December 2008	Sub Total	Pro forma adjustments	Notes	Pro forma adjustments	Notes	The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets									
Property, plant and equipment	494,983	–	–	494,983					494,983
Property under development	–	480,000	–	480,000					480,000
Interests in leasehold land	502,524	–	–	502,524					502,524
Investment properties	49,930	–	–	49,930					49,930
Goodwill	24,391	–	–	24,391			670,922	5	695,313
Intangible assets	989,205	–	–	989,205					989,205
Interests in associates	–	–	–	–					–
Available-for-sale financial assets	16,800	–	–	16,800					16,800
	2,077,833	480,000	–	2,557,833					3,228,755
Current assets									
Inventories	399	–	–	399					399
Film rights	29,753	–	–	29,753					29,753
Films in progress	18,379	–	–	18,379					18,379
Trade receivables	68,770	–	–	68,770					68,770
Deposits, prepayments and other receivables	61,077	2	–	61,079			(1)	*4*	61,078
Held-for-trading investments	25,713	–	–	25,713					25,713
Loan to a minority shareholder	183,750	–	–	183,750					183,750
Amount due from a shareholder	–	–	1	1					1
Prepaid tax	632	–	–	632					632
Cash and bank balances	138,145	–	–	138,145	(360,500)	*1*			(222,355)
	526,618	2	1	526,621					166,120
Assets classified as held for sale	716	–	–	716					716
	527,334	2	1	527,337					166,836
Total assets	2,605,167	480,002	1	3,085,170					3,395,591
Capital and reserves									
Share capital	26,612	1	1	26,614	(2)	*2*			26,612
Reserves	1,392,099	(521,233)	(1)	870,865	79,195	*1(iii)*	521,234	*3*	1,471,294
Equity attributable to equity holders of the Company	1,418,711	(521,232)	–	897,479					1,497,906
Minority interests	284,264	–	–	284,264					284,264
Total equity	1,702,975	(521,232)	–	1,181,743					1,782,170

	The Group as at 31 December 2008	The Modern Vision Group as at 31 December 2008	Reform Base as at 31 December 2008	Sub Total	Pro forma adjustments		Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Non-current liabilities									
Bank borrowings									
– due after one year	280,906	–	–	280,906					280,906
Unsecured convertible notes	138,390	–	–	138,390					138,390
Convertible bond	–	–	–	–	255,156	*1(ii)*			255,156
Deferred tax liabilities	88,317	–	–	88,317	15,649	*1(ii)*			103,966
	507,613	–	–	507,613					778,418
Current liabilities									
Bank overdraft	174,826	–	–	174,826					174,826
Trade payables	7,083	–	–	7,083					7,083
Deposits received, accruals and other payables	69,271	250,424	–	319,695					319,695
Bank borrowings									
– due within one year	102,561	–	–	102,561					102,561
Promissory note payable	–	–	–	–	190,000	*1(i)*			190,000
Amounts due to minority shareholders	40,502	–	–	40,502					40,502
Amount due to a director	–	750,810	–	750,810			(750,810)	*5*	–
Amount due to an associate	–	–	1	1			(1)	*4*	–
Tax payable	336	–	–	336					336
	394,579	1,001,234	1	1,395,814					835,003
Total liabilities	902,192	1,001,234	1	1,903,427					1,613,421
Total equity and liabilities	2,605,167	480,002	1	3,085,170					3,395,591
Net current assets/(liabilities)	132,755	(1,001,232)	–	(868,477)					(668,167)
Total assets less current liabilities	2,210,588	(521,232)	–	1,689,356					2,560,588

II. Notes to the unaudited pro forma consolidated balance sheet

Under HKFRS 3 "Business Combinations" ("HKFRS 3"), the Group will apply the purchase method to account for the Acquisition. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Modern Vision Group including but not limited to Legstrong Construction and Investment Company Limited ("Macau Co") and Summer Sound Investments Limited (the "Target Group") and Reform Base will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion of the Acquisition. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Modern Vision Group and Reform Base at the date of completion of the Acquisition. Negative goodwill resulting from the business combination should be recognised immediately in the consolidated income statement.

1. The consideration for the Acquisition to be satisfied by the Company is HK$900,500,000 assuming the Property is constructed with gross floor areas which are equal to the Land Grant Figures. The consideration is to be satisfied by:

	HK$'000
Cash consideration for the First Deposit	200,000
Cash consideration for the Second Deposit	160,000
Fair value of the Promissory Note *(i)*	190,000
Fair value of the Convertible Bond *(ii)*	350,000
	900,000
Add: transaction costs directly attributable to the Acquisition	500
Total consideration	900,500

Notes:

i. The Promissory Note shall be issued at the amount of HK$190,000,000 as to settle the remaining balance of the Consideration to the Vendor on Completion. The fair value of the Promissory Note in the amount of HK$190,000,000, if required to be issued, would be paid by the Company with a fixed term of twelve months to be matured and will not carry any interest. In preparing the Unaudited Pro Forma Financial Information on the Enlarged Group, the nominal value of the Promissory Note has taken to be its fair value as if it was issued on 31 December 2008. The adjustment of HK$190,000,000 represented the present value of the Promissory Note classified as current asset assuming the Promissory Note to be repaid within one year.

ii. In accordance with the Hong Kong Accounting Standards 32 "Financial Instruments: Presentation", the Convertible Bond should be separated into liability portion and equity portion. In preparing the Unaudited Pro Forma Financial Information on the Enlarged Group, the nominal value of the Convertible Bond in the amount of HK$350,000,000 has taken to be its fair value as if it was issued on 31 December 2008. The adjustment of approximately HK$255,156,000 represented the liability portion of the Convertible Bond based on the calculation of the discounted cash flow method. The pro forma adjustment represents deferred tax liabilities of approximately HK$15,649,000 arising from the Convertible Bond at the Hong Kong Profits Tax Rate of 16.5%. The equity component of the Convertible Bond was approximately HK$94,844,000.

iii. The pro forma adjustment of reserves comprised of the followings:

	HK$'000
Equity component of the Convertible Bond	94,844
Deferred tax liabilities effect in relation to equity component of the Convertible Bond	(15,649)
	79,195

2. The pro forma adjustment of approximately HK$2,000 represents the elimination of the share capital of the Modern Vision Group and Reform Base of approximately HK$1,000 and HK$1,000 respectively upon the consolidation of the Enlarged Group as if the Acquisition was completed on 31 December 2008.

3. The pro forma adjustment of deficit comprised of the followings:

	HK$'000
Pre-acquisition deficit of the Modern Vision Group	521,233
Pre-acquisition deficit of Reform base	1
	521,234

Elimination of the pre-acquisition deficit of the Modern Vision Group and Reform Base is approximately HK$521,233,000 and HK$1,000 respectively upon the consolidation of the Enlarged Group as if Acquisition was completed on 31 December 2008.

4. The pro forma adjustment of approximately HK$1,000 represents the elimination of the inter-company balance of Over Profit and Reform Base upon the consolidation of the Enlarged Group as if the Acquisition was completed on 31 December 2008.

5. Goodwill of approximately HK$670,922,000 arising from the Acquisition which is derived from the calculation as follow:

	HK$'000
Total consideration, at assumed fair value	900,500
Fair value of attributable interest:	
Net liability of the Modern Vision Group	521,232
Net asset value of Reform Base	–
Sale Loans:	
Legstrong	(88,368)
Over Profit	(662,442)
Goodwill	670,922

6. After making the above pro forma adjustment, the pro forma consolidated balance sheet showed a shortfall of cash and bank balances of approximately HK$222,355,000. The shortfall will be settled by (i) HK$200,000,000 advanced from China Star Investment Holdings Limited (stock code: 764) pursuant to the loan agreement dated 11 March 2009 entered into between the Company and China Star Investment Holdings Limited. The loan advanced will be set off in full by issuing of convertible bond announced by the Company on 27 July 2009; and (ii) proposed placing of new shares announced by the Company on 16 July 2009 which would generate net proceeds of approximately HK$45,238,000.

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement on the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2008. The unaudited pro forma consolidated income statement is based on the audited financial statements of the Group for the year ended 31 December 2008 as set out in Appendix VI to this Circular, the audited financial statements of the Modern Vision Group for the year ended 31 December 2008 as set out in Appendix II to this Circular and the audited financial statements of Reform Base for the year ended 31 December 2008 as set out in Appendix III to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement on the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the result of the Enlarged Group as the date to which it is made up to or for any future date.

I. Unaudited pro forma consolidated income statement

	The Group for the year ended 31 December 2008	The Modern Vision Group for the year ended 31 December 2008	Reform Base for the year ended 31 December 2008	Sub Total	Pro forma adjustments		Pro forma adjustments		The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Turnover	227,747	–	–	227,747					227,747
Cost of sales	(19,471)	–	–	(19,471)					(19,471)
Gross profit	208,276	–	–	208,276					208,276
Other revenue	7,920	–	–	7,920					7,920
Other income	43,987	–	–	43,987					43,987
Administrative expenses	(80,141)	(117)	–	(80,258)					(80,258)
Marketing and distribution expenses	(671)	–	–	(671)					(671)
Share-based payment expenses	(7,463)	–	–	(7,463)					(7,463)
Net realised and unrealised loss on financial assets classified as held-for-trading	(14,877)	–	–	(14,877)					(14,877)
Impairment loss recognised in respect of goodwill	(13,646)	–	–	(13,646)					(13,646)
Impairment loss recognised in respect of film rights	(9,760)	–	–	(9,760)					(9,760)
Decrease in fair value of investment properties	(11,930)	–	–	(11,930)					(11,930)
Impairment loss on property under development	–	(86,079)	–	(86,079)					(86,079)
Profit/(loss) from operations	121,695	(86,196)	–	35,499					35,499
Finance costs	(31,522)	–	–	(31,522)	(28,633)	7			(60,155)
Share of results of associates	(3,303)	–	–	(3,303)					(3,303)
Loss on disposal of subsidiaries	(6,170)	–	–	(6,170)					(6,170)
Loss on deemed disposal of interests in associates	(17,551)	–	–	(17,551)					(17,551)
Profit/(loss) before taxation	63,149	(86,196)	–	(23,047)					(51,680)
Taxation credit	2,441	–	–	2,441			4,724	8	7,165
Profit/(loss) for the year	65,590	(86,196)	–	(20,606)					(44,515)
Attributable to:									
Equity holders of the Company	90,604	(86,196)	–	4,408	(28,633)	7	4,724	8	(19,501)
Minority interests	(25,014)	–	–	(25,014)					(25,014)
	65,590	(86,196)	–	(20,606)					(44,515)

II. Notes to the unaudited pro forma consolidated income statement

7. The pro forma adjustment of approximately HK$28,633,000 represents the imputed interest expenses of the Convertible Bond to be recognised in the consolidated income statement of the Enlarged Group for the year ended 31 December 2008 as if the Acquisition was completed on 1 January 2008. These interest expenses will have the continuing effect on the financial statements of the Enlarged Group in the subsequent years.

8. The pro forma adjustment of approximately HK$4,724,000 represents the adjustment of the deferred tax effect in relation to the imputed interest expenses of the Convertible Bond for the year ended 31 December 2008 as if the Acquisition was completed on 1 January 2008.

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT ON THE ENLARGED GROUP

The following is the unaudited pro forma consolidated cash flow statement on the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2008. The unaudited consolidated cash flow statement is based on the audited financial statements of the Group for the year ended 31 December 2008 as set out in Appendix VI to this Circular, the audited financial statements of the Modern Vision Group for the year ended 31 December 2008 as set out in Appendix II to this Circular and the audited financial statements of Reform Base for the year ended 31 December 2008 as set out in Appendix III to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement on the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow on the Enlarged Group as the date to which it is made up to or for any future date.

I. Unaudited pro forma consolidated cash flow statement

	The Group for the year ended 31 December 2008	The Modern Vision Group for the year ended 31 December 2008	Reform Base for the year ended 31 December 2008	Sub Total	Pro forma adjustments	Notes	Pro forma adjustments	Notes	The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES									
Profit/(loss) before tax	63,149	(86,196)	–	(23,047)	(28,633)	7			(51,680)
Adjustment for:									
Financial cost	–	–	–	–	28,633	7			28,633
Interest expenses	31,522	–	–	31,522					31,522
Interest income	(1,497)	–	–	(1,497)					(1,497)
Dividend income	(1,251)	–	–	(1,251)					(1,251)
Reversal of impairment loss on trade receivables	(95)	–	–	(95)					(95)
Impairment loss on amount due from associates	25,179	–	–	25,179					25,179
Impairment loss on trade receivables	23	–	–	23					23
Impairment loss on other receivables	89	–	–	89					89
Impairment loss recognised in respect of film rights	9,760	–	–	9,760					9,760
Impairment loss recognised in respect of goodwill	13,646	–	–	13,646					13,646
Depreciation and amortisation of property, plant and equipment and leasehold land	2,811	–	–	2,811					2,811
Decrease in fair value of investment properties	11,930	–	–	11,930					11,930
Impairment loss on property under development	–	86,079	–	86,079					86,079
Loss on disposal of property, plant and equipment	20	–	–	20					20
Gain on winding up of subsidiaries	(476)	–	–	(476)					(476)
Loss on disposal of subsidiaries	6,170	–	–	6,170					6,170
Loss on deemed disposal of interests in associates	17,551	–	–	17,551					17,551
Net realised and unrealised loss on financial assets classified as held-for-trading	14,877	–	–	14,877					14,877
Gain on redemption of convertible notes	(39,000)	–	–	(39,000)					(39,000)
Share of results of associates	3,303	–	–	3,303					3,303
Share-based payment expenses	7,463	–	–	7,463					7,463

	The Group for the year ended 31 December 2008	The Modern Vision Group for the year ended 31 December 2008	Reform Base for the year ended 31 December 2008	Sub Total	Pro forma adjustments	Notes	Pro forma adjustments	Notes	The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Operating cash flow before movements in working capital	165,174	(117)	–	165,057					165,057
Decrease in inventories	115	–	–	115					115
Decrease in film rights	11,284	–	–	11,284					11,284
Decrease in films in progress	6,569	–	–	6,569					6,569
Increase in trade receivables	(15,660)	–	–	(15,660)					(15,660)
Increase in deposits, prepayments and other receivables	(11,547)	–	–	(11,547)					(11,547)
Increase in amounts due from associates	(17,820)	–	–	(17,820)					(17,820)
Decrease in trade payables	(12,688)	–	–	(12,688)					(12,688)
Increase/(decrease) in deposits received, accruals and other payables	6,303	(274,781)	–	(268,478)					(268,478)
Increase in amounts due to directors	–	322,490	–	322,490					322,490
Cash generated from operations	131,730	47,592	–	179,322					179,322
Tax paid	(452)	–	–	(452)					(452)
Net cash generated from operating activities	131,278	47,592	–	178,870					178,870
CASH FLOW FROM INVESTING ACTIVITIES									
Interest received	1,457	–	–	1,457					1,457
Dividend income	1,251	–	–	1,251					1,251
Acquisition of subsidiaries (net cash and cash equivalent)	(199,999)	–	–	(199,999)			(360,500)	*10*	(560,499)
Repayment from a minority shareholder	12,250	–	–	12,250					12,250
Proceeds from disposal of subsidiaries	330,560	–	–	330,560					330,560
Purchase of financial assets at fair value through profit or loss	(24,052)	–	–	(24,052)					(24,052)
Purchases of property, plant and equipment	(197,131)	–	–	(197,131)					(197,131)
Construction cost invested in property under development	–	(1,892)	–	(1,892)					(1,892)
Net cash used in investing activities	(75,664)	(1,892)	–	(77,556)					(438,056)

	The Group for the year ended 31 December 2008	The Modern Vision Group for the year ended 31 December 2008	Reform Base for the year ended 31 December 2008	Sub Total	Pro forma adjustments	Notes	Pro forma adjustments	Notes	The Enlarged Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOW FROM FINANCING ACTIVITIES									
Interest paid	(28,682)	–	–	(28,682)					(28,682)
Interests paid on convertible bond	–	–	–	–	(21,000)	9			(21,000)
Proceeds from issue of shares	176,976	–	–	176,976					176,976
Redemption of convertible notes	(216,000)	–	–	(216,000)					(216,000)
Repayment of bank loans	(77,474)	(45,700)	–	(123,174)					(123,174)
Share issuing expenses	(4,290)	–	–	(4,290)					(4,290)
Net cash used in financing activities	(149,470)	(45,700)	–	(195,170)					(216,170)
Decrease in cash and cash equivalents	(93,856)	–	–	(93,856)					(475,356)
Cash and cash equivalents at the beginning of the year	57,321	–	–	57,321					57,321
Effect of foreign exchange rate changes	(146)	–	–	(146)					(146)
Cash and cash equivalents at the end of the year									
Cash and cash equivalents	(36,681)	–	–	(36,681)					(418,181)
Analysis of the balances of cash and cash equivalents									
Cash and bank balances	138,145	–	–	138,145	(21,000)	9	(360,500)	*10*	(243,355)
Bank overdraft	(174,826)	–	–	(174,826)					(174,826)
	(36,681)	–	–	(36,681)					(418,181)

II. Notes to the unaudited pro forma consolidated cash flow statement

9. The pro forma adjustment of approximately HK$21,000,000 represents the cash payment on 6% coupon on the Convertible Bond for the year ended 31 December 2008.

10. The pro forma adjustment of approximately HK$360,500,000 represents the cash payment as part of the consideration of the Acquisition of HK$360,000,000 and transaction costs directly attributable to the Acquisition of approximately HK$500,000. Among the HK$360,000,000, HK$200,000,000 was paid for settling the First Deposit while HK$160,000,000 was paid for settling the Second Deposit.

The following is the text of the letter and valuation certificate received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Property interest based on the draft contract of amendment to the land grant to be acquired by the Group as at 31 May 2009 prepared for the purpose of incorporation in this circular.

DTZ 戴德梁行

16th Floor
Jardin House
1 Connaught Place
Central
Hong Kong

17 August 2009

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

Dear Sirs,

Re: Lote C7 do Plano de Urbanização da Baía da Praia Grande, located in the Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau. ("the Property")

We refer to your instructions for us to carry out a market valuation of the Property interest in which is to be acquired by China Star Entertainment Limited and/or its subsidiaries (together "the Group"). We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 May 2009 (the "date of valuation").

Our valuation of the Property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We have valued the Property by direct comparison approach by making reference to comparable sales transactions as available in the relevant market. We have valued the Property on the basis that it will be developed in accordance with the Group's proposal provided to us. It is assumed that all necessary consents and approvals for the development will be granted without any material conditions or delay which might affect value.

In the course of our valuation, we have assumed that the grantee of the Property has free and uninterrupted rights to use or to assign the Property and that any premium payable has already been fully settled.

In valuing the Property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information provided by the Group and the legal advisor of the Group, Leong Hon Man Law Office and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of property, proposed development scheme, floor plans, site and floor areas and all other relevant matters. Dimension, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry in Macau. However, we have not searched the original documents to verify ownership or to ascertain any amendments. We have also relied to a very considerable extent on the information given by the Group regarding the title of the Property. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the Property. However, we have not carried out investigations on site to determine the suitability of soil conditions and services for future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars. The exchange rate adopted in our valuation for the Property is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith our valuation certificate for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor
(General Practice Division)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has 25 years of experience in valuation of properties in Hong Kong and Macau.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2009
Lote C7 do Plano de Urbanização da Baía da Praia Grande, located in the Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau.	The Property comprises a site with a registered site area of 4,669 sq.m. (50,257 sq.ft.) situated in the western part of Macau Peninsula.	The property was vacant.	HK$1,200,000,000

The site is planned to be developed into two blocks of 32-storey residential buildings erected over a multi-storey commercial/car parking podium.

In accordance with the building plan prepared by Compania de Construcao e Investimento Predial Legstrong, Limitada and provided by the Group, the floor areas of the proposed development are approximately as follows:

	Approximate Floor Area	
	sq.m.	*sq.ft.*
Residential	59,242.00	637,681
Commercial	1,694.20	18,236
Private Car Parking	12,877.60	138,614
Public Car Parking	9,954.00	107,145
Total:	**83,767.80**	**901,676**

The Property is held under a Macau Government lease for the residue of a term of 25 years from 22 August 2001. In undertaking our valuation, we have assumed that the lease term will be successively renewed for terms of 10 years until 19 December 2049, in accordance with the relevant legislation and lease conditions. The Government rent of the Property is MOP140,040 per annum. After issuance of occupation permit, the Government rents will be computed as follows:

Residential/ car parking spaces/open area	:	MOP10 per sq.m. of gross floor area per annum
Commercial	:	MOP15 per sq.m. of gross floor area per annum

Notes:

(1) The Property is granted by the Government of Macau Special Administrative Region ("the Grantor") to Compania de Construcao e Investimento Predial Legstrong, Limitada ("the Grantee").

(2) Pursuant to Official Gazette No. 34 dated 22 August 2001 ("the Land Grant"), the property is subject to the following terms and conditions:

(i)	Uses	:	A multi-storey residential/commercial development with parking provisions.
(ii)	Gross Floor Area	:	Residential : 25,832 sq.m. Commercial : 215 sq.m. Car Parking : 3,930 sq.m.
(iii)	Building Covenant	:	60 months from 22 August 2001

However, the Grantee has submitted to the Government an application to modify the above terms and conditions. On 27 September 2006, the Government sent to the Grantee a draft of a contract of amendment to the Land Grant and the amended terms and conditions are as follows:

(i)	Uses	:	Two blocks of 32-storey residential towers erected upon a 7-storey (including podium level and 2 basements) common podium.
(ii)	Gross Floor Area	:	Residential : 59,160 sq.m. Commercial : 1,700 sq.m. Private Car Parking : 12,966 sq.m. Public Car Parking : 9,821 sq.m. Free area with equipments : 428 sq.m. Free area without equipments : 2,308 sq.m.
(iii)	Building Covenant	:	36 months commencing from the date which the contract of amendment to the Land Grant is gazette.

On 2 October 2006 the Grantee has sent a reply to the Macau Government accepting the draft contract of amendment to the Land Grant. The amendment to the Land Grant will be completed upon publication of the Gazette of the contract of amendment to the Land Grant.

However, as informed by the Group, the Macau Government rejected the above application as set out in the draft contract of amendment to the Land Grant in June 2009. As informed, a new application containing the proposed amended terms and conditions substantially the same as that in the draft contract of amendment to the Land Grant will be re-submitted to the Macau Government for approval.

(3) The Macau Government has not published the latest town planning/zoning use of the property to the public yet as at the date of valuation.

(4) In undertaking our valuation, we have based on the abovesaid development proposal and assumed that such development proposal is permissible in all aspects under relevant regulations, town planning/zoning use and land grant conditions. Besides, we have assumed that all necessary land premium and other site acquisition costs have been fully settled and that all units in the Property when completed can be freely disposed of in the market to any third parties.

The following is the text of the letter and valuation certificate received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Property interest based on present land grant to be acquired by the Group as at 31 May 2009 prepared for the purpose of incorporation in this circular.

16th Floor
Jardin House
1 Connaught Place
Central
Hong Kong

17 August 2009

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

Dear Sirs,

Re: Lote C7 do Plano de Urbanização da Baía da Praia Grande, located in the Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau. ("the Property")

We refer to your instructions for us to carry out a market valuation of the Property interest in which is to be acquired by China Star Entertainment Limited and/or its subsidiaries (together "the Group"), based on the terms and conditions in the present land grant of the Property. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as such basis as at 31 May 2009 (the "date of valuation").

Our valuation of the Property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We have valued the Property by direct comparison approach by making reference to comparable sales transactions as available in the relevant market. We have valued the Property on the basis that it will be developed in accordance with the Group's proposal provided to us. It is assumed that all necessary consents and approvals for the development will be granted without any material conditions or delay which might affect value.

In the course of our valuation, we have assumed that the grantee of the Property has free and uninterrupted rights to use or to assign the Property and that any premium payable has already been fully settled.

In valuing the Property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information provided by the Group and the legal advisor of the Group, Leong Hon Man Law Office and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of property, proposed development scheme, floor plans, site and floor areas and all other relevant matters. Dimension, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry in Macau. However, we have not searched the original documents to verify ownership or to ascertain any amendments. We have also relied to a very considerable extent on the information given by the Group regarding the title of the Property. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the Property. However, we have not carried out investigations on site to determine the suitability of soil conditions and services for future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars. The exchange rate adopted in our valuation for the Property is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith our valuation certificate for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor
(General Practice Division)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has 25 years of experience in valuation of properties in Hong Kong and Macau.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2009
Lote C7 do Plano de Urbanização da Baía da Praia Grande, located in the Nam Van Lakes Zone, Avenida Doutor Stanley Ho, Macau.	The Property comprises a site with a registered site area of 4,669 sq.m. (50,257 sq.ft.) situated in the western part of Macau Peninsula. The site is planned to be developed into a multi-storey residential/commercial development with parking provisions. In accordance with the Official Gazette No. 34 dated 22 August 2001 ("the Land Grant"), the maximum permissible floor areas of any development on the property are approximately as follows:	The property was vacant.	HK$480,000,000 (see Note (4))

	Approximate Floor Area	
	sq.m.	*sq.ft.*
Residential	25,832	278,056
Commercial	215	2,314
Car Parking	3,930	42,303
Total:	**29,977**	**322,673**

The Property is held under a Macau Government lease for the residue of a term of 25 years from 22 August 2001. In undertaking our valuation, we have assumed that the lease term will be successively renewed for terms of 10 years until 19 December 2049, in accordance with the relevant legislation and lease conditions. The Government rent of the Property is MOP140,040 per annum. After issuance of occupation permit, the Government rents will be computed as follows:

Residential/ car parking spaces/open area	:	MOP10 per sq.m. of gross floor area per annum
Commercial	:	MOP15 per sq.m. of gross floor area per annum

Notes:

(1) The Property is granted by the Government of Macau Special Administrative Region ("the Grantor") to Compania de Construcao e Investimento Predial Legstrong, Limitada ("the Grantee").

(2) Pursuant to the Land Grant, the property is subject to the following terms and conditions:

(i)	Uses	:	A multi-storey residential/commercial development with parking provisions.		
(ii)	Gross Floor Area	:	Residential	:	25,832 sq.m.
			Commercial	:	215 sq.m.
			Car Parking	:	3,930 sq.m.
(iii)	Building Covenant	:	60 months from 22 August 2001		

However, the Grantee has submitted to the Government an application to modify the above terms and conditions. On 27 September 2006, the Government sent to the Grantee a draft of a contract of amendment to the Land Grant revising the permissible floor areas.

On 2 October 2006 the Grantee sent a reply to the Macau Government accepting the draft contract of amendment to the Land Grant. However, as informed by the Group, the Macau Government rejected the above application as set out in the draft contract of amendment to the Land Grant in June 2009. As informed, a new application containing the proposed amended terms and conditions substantially the same as that in the draft contract of amendment to the Land Grant will be re-submitted to the Macau Government.

(3) The Macau Government has not published the latest town planning/zoning use of the property to the public yet as at the date of valuation.

(4) In undertaking our valuation, we have based on the abovesaid development conditions and terms stipulated in the Land Grant. Besides, we have assumed that all necessary land premium and other site acquisition costs have been fully settled and that all units in the Property when completed can be freely disposed of in the market to any third parties.

The following is the text of the letter and valuation certificate received from Grant Sherman Appraisal Limited in connection with its opinion of the market value of the Properties of the Group in Hong Kong as at 31 May 2009 prepared for the purpose of incorporation in this circular.

GRANT SHERMAN APPRAISAL LIMITED

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

17 August 2009

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

Dear Sir,

In accordance with your instructions to value the property interests held by China Star Entertainment Limited ("Company") or its subsidiaries (together referred as "Group") in Hong Kong, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 31 May 2009.

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

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

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

Our valuations have been made on the assumption that the owner sells the property interests on the market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the property values.

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

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

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

We enclose herewith the summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Peggy Y.Y. Lai
MRICS MHKIS RPS(GP)
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

	Property		Market Value as at 31 May 2009 *HK$*
Group I – Property interests held by the Group for investment purpose in Hong Kong			
1.	Flat B on the second and third floors together with the roof over Flat B and all that lift exclusively serving the Flat B and portions of the basement No. 160 Waterloo Road Kowloon Tong Hong Kong		47,580,000
2.	Ground floor of Blocks F, G and H Kimberley Mansion No. 15 Austin Avenue Tsim Sha Tsui Kowloon		9,050,000
		Sub-total	56,630,000
Group II – Property interests held by the Group for owner occupation in Hong Kong			
3.	Units 9 and 10 on 6th floor Leader Industrial Centre Nos. 57–59 Au Pui Wan Street Shatin New Territories		1,480,000
4.	Unit D on 11th Floor Unison Industrial Centre Nos. 27-31 Au Pui Wan Street Shatin New Territories		6,950,000
		Sub-total	8,430,000
		Grand Total	65,060,000

VALUATION CERTIFICATE

Group I – Property interests held by the Group for investment purpose in Hong Kong

	Property	Description and Tenure	Market Value as at 31 May, 2009 *HK$*
1.	Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement No.160 Waterloo Road Kowloon Tong Hong Kong 1/4th shares of and in New Kowloon Inland Lot No.4093	The property comprises a duplex residential flat on the second and third floors, the roof over it and a portion including two car-parking spaces on the basement level of a 3-storey(plus a car parking basement level) residential building completed in about 1998. The property has a total saleable floor area of about 3,900 sq ft and a roof area of about 1,500 sq ft. The property is currently vacant. The property is held under the government lease due to expiry on 30 June, 2047. The Government rent payable for New Kowloon Inland Lot No. 4093 is $2,520 per annum.	47,580,000

Notes:

i) The registered owner of the property is Newrich (H.K.) Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No.UB8575284 dated 17 December, 2001.

ii) The property is subject to a mortgage in favour of Hang Seng Bank Limited vide Memorial No.UB8575285 dated 17 December, 2001.

VALUATION CERTIFICATE

	Property	Description and Tenure	Market Value as at 31 May, 2009 *HK$*
2.	Ground Floor of Blocks F, G and H Kimberley Mansion No. 15 Austin Avenue Tsim Sha Tsui Kowloon 1/16th shares of and in Section E of Sub-Section 1 of Section A and Sub-Section 6 of Section B of Kowloon Inland Lot No. 6018. 1/16th shares of and in Section D of Sub-Section 1 of Section A and Sub-Section 4 of Section B of Kowloon Inland Lot No. 6018. 1/16th shares of and in Section F of Sub-Section 1 of Section A and Sub-Section 7 of Section B of Kowloon Inland Lot No. 6018.	The property comprises 3 non-domestic units on ground floor of Kimberley Mansion completed in about 1960. The property has a total saleable floor area of approximately 2,110 sq ft. The property is held under a government lease for a term of 150 years commencing on 24 June, 1888. The subject property was subject to a tenancy agreement for a term commencing from 1 August 2008 to 31 July 2011 at monthly rental of HK$38,000 inclusive of management fee, rates taxes with an option to renew for another term of three years at a monthly rental which shall be increase not more than 15%. The Government rent payable for Section D of Sub-Section 1 of Section A of Kowloon Inland Lot No. 6018 is $4 per annum. The Government rent payable for Sub-Section 4 of Section B of Kowloon Inland Lot No. 6018 is $16 per annum. The Government rent payable for Section E of Sub-Section 1 of Section A of Kowloon Inland Lot No. 6018 is $36 per annum. The Government rent payable for Sub-Section 6 of Section B of Kowloon Inland Lot No. 6018 is $2 per annum. The Government rent payable for Section F of Sub-Section 1 of Section A of Kowloon Inland Lot No. 6018 is $12 per annum. The Government rent payable for Sub-Section 7 of Section B of Kowloon Inland Lot No. 6018 is $22 per annum.	9,050,000

Notes:

i) The registered owner of the property is China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company, registered vide Memorial Nos. UB8324612, UB8324613 and UB8324614 all dated 5 February, 2001.

ii) According to the land search result from the Land Registry, the property is subject to Order Nos. D00526/K/07, D00527/K/07, D00528/K/07 issued by Building Authority under Section 26 of the Buildings Ordinance vide Memorial Nos. 08012902060294, 08012901510162, 08012901510170 all dated 21 December 2007.

VALUATION CERTIFICATE

Group II – Property interests held by the Group for owner occupation in Hong Kong

	Property	Description and Tenure	Market Value as at 31 May, 2009 *HK$*
3.	Units 9 and 10 on 6th Floor Leader Industrial Centre Nos.57-59 Au Pui Wan Street Shatin, New Territories Hong Kong 6/1637th shares of and in Sha Tin Town Lot No.175	The property comprises two contiguous workshops on the 6th floor of a 16-storey industrial building completed in 1987. The workshops has a total saleable floor area of approximately 1,060 sq ft. It is currently occupied by the Company for storage. The property is held under New Grant No. 11782 and due to expiry on 30 June, 2047. The Government rent payable for Sha Tin Town Lot No. 175 is $300 per annum.	1,480,000

Notes:

i) The registered owner of the property is China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No. 05080402100022 dated 7 July, 2005.

ii) According to the land search result from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

VALUATION CERTIFICATE

	Property	Description and Tenure	Market Value as at 31 May, 2009 *HK$*
4.	Unit D on 11th Floor Unison Industrial Centre Nos. 27–31 Au Pui Wan Street Shatin New Territories 14/920th shares of and in Sha Tin Town Lot No.67	The property comprises an industrial unit on the 11th floor of a 17-storey industrial building completed in about 1982. It is used by the Company. The workshop has a total saleable floor area of approximately 5,122 sq.ft. It is currently occupied by the Company as storage. The property is held under New Grant No. 11250 for a term of 99 years and statutorily extended to 30 June, 2047. The Government rent payable for Sha Tin Town Lot No. 67 is $300 per annum.	6,950,000

Notes:

i) The registered owner of the property is Star Laser Disc Limited (former name of China Star Laser Disc Company Limited), a wholly-owned subsidiary of the Company, registered vide Memorial No. ST689895 dated 15 March, 1993.

ii) According to the land search result from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

The following is the text of the letter and valuation certificate received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Properties of the Group in Macau as at 31 May 2009 prepared for the purpose of incorporation in this circular.

DTZ 戴德梁行

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

17 August 2009

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

Dear Sirs,

We refer to your instructions for us to carry out market valuations of the properties which are held by China Star Entertainment Limited and/or its subsidiaries (together the "Group") in Macau. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the properties as at 31 May 2009 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their value.

We have valued the properties on market value basis by making reference to comparable sales transactions as available in the relevant market and where appropriate by capitalising the rental income derived from the existing tenancies with due provision for any reversionary income potential of the properties.

In valuing the properties, we have complied with the requirement set out in Chapter 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of property, particulars of occupancy, floor areas, floor plans, trading accounts, number of guest rooms and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the properties but have caused searches to be made at the Land Registry in Macau. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties. However, no structural survey has been made and we are unable to report on their structural conditions. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong Dollars. The exchange rate adopted in our valuations for the properties is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited

K. B. Wong
Registered Professional Surveyor (GP)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has 25 years of experience in valuation of properties in Hong Kong and Macau.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 31 May 2009 *HK$*
	Properties held by the Group for owner occupation in Macau	
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	1,060,000,000
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	10,600,000
	Total:	**1,070,600,000**

VALUATION CERTIFICATE

Properties held by the Group for owner occupation in Macau

	Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 31 May 2009**
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	The property comprises an 18-storey hotel block plus a carport basement. The property was completed in about 1992. It was erected on a rectangular piece of land with a registered site area of approximately 4,504 sq.m. (48,481 sq.ft.). The accommodation of the subject hotel is as follows:- **Floor** / **Accommodation** Basement: 52 car parking spaces. Ground: Hotel entrance and commercial areas. 1st: Commercial areas. 2nd: Commercial areas. 3rd: Hotel reception lobby, front desk, restaurants, cafe and lounge. 4th: Kitchens and back of house. 5th: Hotel office and back of house. 6th to 16th: 200 hotel guest rooms. 17th: Commercial areas.	As at the date of valuation, the property was under renovation. Portion of the property with a total gross floor area of approximately 1,482 sq.m. (15,952 sq.ft.) was contracted to be let on various tenancies with the latest term due to expire in August 2018 at a total monthly rent of about HK$340,000.	HK$1,060,000,000

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2009
1.	(cont'd)	The total gross floor area of the building is approximately 25,299.7 sq.m. (272,326 sq.ft.) (inclusive of area of basement). The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 October 1989. In undertaking our valuation, we have assumed that after the expiry, the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.	–	–

Notes:

(1) The registered owner of the property is Hotel Kingsway, Limitada, a 50% owned subsidiary of China Star Entertainment Limited.

(2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Banco Seng Heng, S.A..

(3) According to the information provided by the Group, the total renovation cost is about MOP348,000,000 and the renovation cost expended up to the date of valuation is about MOP264,000,000. We have taken into account such amount in our valuation.

VALUATION CERTIFICATE

Properties held by the Group for owner occupation in Macau

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2009
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	The property comprises a total of 16 domestic units in two 15-storey residential buildings which are erected upon a 3-level commercial and car parking podium completed in about 1991. The total saleable area of the property is approximately 859.66 sq.m. (9,253 sq.ft.). The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 March 1986. In undertaking our valuation, we have assumed that after the expiry, the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.	As at the date of valuation, the property was occupied by the Group as staff quarters.	HK$10,600,000

Notes:

(1) The registered owner of the property is Hotel Kingsway, Limitada, a 50% owned subsidiary of China Star Entertainment Limited.

(2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Banco Seng Heng, S.A..

1. RESPONSIBILITY STATEMENT

This circular 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 this circular 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. 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 were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung	Beneficial owner/ interest of spouse/ interest of controlled corporation	70,403,099 *(Note a)*	700,052,734 *(Note b)*	770,455,833	59.42
The Vendor	Beneficial owner/ interest of spouse/ interest of controlled corporation	70,403,099 *(Note a)*	700,052,734 *(Note b)*	770,455,833	59.42
Ms. Li Yuk Sheung	Beneficial owner	–	10,483,702 *(Note c)*	10,483,702	1.00

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 23,176,653 Shares by Mr. Heung, as to 1,427,247 Shares by the Vendor (the spouse of Mr. Heung), as to 45,662,174 Shares by Porterstone Limited and as to 137,025 Shares by Dorest Company Limited.

(b) These underlying Shares comprised (i) outstanding options of the Company which are held as to 26,367 options by Mr. Heung and as to 26,367 options by the Vendor (the spouse of Mr. Heung). Therefore, Mr. Heung and the Vendor are deemed to be interested in the options of each other; and (ii) 700,000,000 Conversion Shares to be allotted and issued upon conversion of the Convertible Bond to be issued to the Vendor. Therefore, Mr. Heung is deemed to be interested in the Conversion Shares.

(c) These underlying Shares comprised outstanding options of the Company held by Ms. Li Yuk Sheung.

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

3. 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) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of Shares or underlying Shares held	Approximate % of interest held
China Star Investment Holdings Limited	Beneficial owner	1,000,000,000	96.20
Au Tsui Yee, Maggie	Beneficial owner	102,000,000	7.98
Chan Shuk King	Beneficial owner	102,000,000	7.98
So Chi Ming	Beneficial owner	79,485,000	6.22

All interests stated above represent long positions.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 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.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

5. LITIGATION

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

6. MATERIAL CONTRACTS

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

(i) the top-up placing agreement dated 24 July 2007 entered into between Classical Statue Limited ("CSL"), Kingston Securities Limited ("Kingston Securities") and China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) ("Riche") relating to the placing of 173,000,000 existing shares of Riche beneficially owned by CSL at a price of HK$0.83 per share of Riche which amounted to gross proceeds of approximately HK$143,590,000;

(ii) the sale and purchase agreement (the "Agreement for Sale and Purchase") dated 1 August 2007 entered into between the Company, Legend Rich Limited, a wholly-owned subsidiary of Riche, and Riche relating to the sale and purchase of the 1 ordinary share in issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, and a sale loan amounted to approximately HK$409,222,000 for an aggregate consideration of HK$447,000,000;

(iii) the acquisition agreement dated 16 August 2007 entered into among the Company, Mr. Ng Cheuk Fai, an independent third party and Lucky State Group Limited, a company wholly owned by Mr. Ng Cheuk Fai in respect of the acquisition of 51 ordinary shares of US$1.00 each in the issued share capital of Best Mind International Inc. at a total consideration of HK$538,000,000;

(iv) the underwriting agreement dated 17 August 2007 entered into between the Company and Kingston Securities relating to the issue of not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at HK$0.20 each on the basis of one rights Share for every two existing Shares held;

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

(vi) the conditional placing agreement dated 5 September 2007 entered into between the Company and Kingston Securities relating to the placing ("Placing I") of up to a maximum of 5,000,000,000 new Shares on a best effort basis to independent investors at a price of HK$0.21 per Share;

(vii) the sale and purchase agreement dated 5 October 2007 entered into among the Company, Mr. Ng Cheuk Fai, an independent third party and Lucky State Group Limited, a company wholly owned by Mr. Ng Cheuk Fai in respect of the acquisition of 49 ordinary shares of US$1.00 each in the issued share capital of Best Mind International Inc. at a total consideration of HK$516,900,000;

(viii) the undertaking dated 16 October 2007 entered into between CSL and Riche, pursuant to which CSL has agreed to subscribe for 138,175,500 offer shares of Riche to which it is entitled under the open offer of Riche as announced on 18 October 2007 and to submit an excess application for a maximum of 169,079,628 offer shares of Riche at a price of HK$0.30 each which amounted to gross proceeds of approximately HK$92,177,000;

(ix) a conditional loan agreement dated 23 October 2007 entered into between Kingsway Hotel Limited as lender and Most Famous Enterprises Limited as borrower in respect of the loan facility of up to HK$196,000,000 to be granted by Kingsway Hotel Limited to Most Famous Enterprises Limited;

(x) a deed of variation dated 11 December 2007 entered into between the Company and Kingston Securities relating to extend the longstop date for Placing I and to change the price in Placing I from HK$0.21 to HK$0.12;

(xi) the conditional placing agreement dated 11 December 2007 entered into between the Company and Kingston Securities relating to the placing of up to a maximum of 1,400,000,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.12 per Share;

(xii) the conditional sale and purchase agreement dated 13 May 2008 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Glenstone Investments Limited relating to the disposal of CSL at a total consideration of HK$330,567,000;

(xiii) the memorandum of agreement dated 3 December 2008 entered into between China Star Production Services Limited, a wholly-owned subsidiary of the Company and Hong Kong Movie City Company Limited relating to the disposal of numbers of system/unit owned by the Company at a total consideration of HK$11,200,000;

(xiv) the underwriting agreement dated 1 December 2008 (as supplemented by the supplemental agreement dated 8 December 2008) entered into between the Company and Kingston Securities in relation to an open offer of not less than 888,486,080 offer Shares and not more than 1,064,486,080 offer Shares on the basis of two offer Shares for every one existing Share held on the record date at a price of HK$0.05 per Share with bonus issue on the basis of three bonus Shares for every one offer Share take up;

(xv) the conditional placing agreement dated 1 December 2008 entered into between the Company and Kingston Securities in relation to a placing for 88,000,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.102 per Share;

(xvi) the subscription agreement dated 26 November 2008 entered into between the Company and Golife Concepts Holdings Limited in relation to a subscription and issue of the zero coupon convertible bonds in the principal amount of HK$60 million;

(xvii) the termination agreement dated 23 December 2008 entered into between the Company, Legend Rich Limited and Riche to terminate the Agreement for Sale and Purchase;

(xviii) the conditional placing agreement dated 12 May 2009 entered into between the Company and Kingston Securities relating to the placing of up to a maximum of 800,000,000 new Shares (by a maximum of eight tranches in which each tranche shall not be less than 100,000,000 new Shares, save for the last tranche) on a fully underwritten basis to independent investors at a price of HK$0.2 per Share;

(xix) the conditional sale and purchase agreement dated 8 June 2009 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Elite Plan Investments Limited relating to the disposal of the entire issued share capital of Bingo Chance Limited at a total consideration of HK$22,960,000;

(xx) the conditional sale and purchase agreement entered into between the Purchaser and the Vendor dated 29 April 2009 in respect of the Acquisition;

(xxi) the conditional placing agreement dated 16 July 2009 entered into between the Company and Kingston Securities in relation to a placing of 207,900,000 new Shares on a fully underwritten basis to professional investors at a price of HK$0.22 per Share;

(xxii) the conditional subscription agreement dated 23 July 2009 entered into between the Company and Riche in relation to the proposed subscription of a convertible bond in the principal amount of HK$200 million at an initial conversion price of HK$0.20 per conversion Share; and

(xxiii) the deed of variation dated 14 August 2009 entered into between the Purchaser and the Vendor in respect of the Acquisition.

7. MISCELLANEOUS

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

(ii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(iii) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the Listing Rules.

(v) The English text of this circular shall prevail over the Chinese text.

(vi) Save for the S&P Agreement and the Acquisition, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

(vii) Save for the S&P Agreement and the Acquisition, none of the Directors has or had any direct or indirect in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group are proposed to be acquired or disposed of by or leased to member of the Enlarged Group since 31st December, 2008, being the date to which the latest published audited accounts of the Group were made up.

(viii) Save for the S&P Agreement and the Acquisition, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Enlarged Group.

8. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
DTZ Debenham Tie Leung Limited	Independent Professional Valuer
Grant Sherman Appraisal Limited	Independent Professional Valuer

Each of HLB Hodgson Impey Cheng, DTZ Debenham Tie Leung Limited and Grant Sherman Appraisal Limited is not beneficially interested in the share capital of any member of the Enlarged Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of HLB Hodgson Impey Cheng, DTZ Debenham Tie Leung Limited and Grant Sherman Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, HLB Hodgson Impey Cheng, DTZ Debenham Tie Leung Limited and Grant Sherman Appraisal Limited were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up.

9. 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 3 September 2009:

(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 31 December 2006, 2007 and 2008;

(d) all circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/ or 14A of the Listing Rules which have been issued since 31 December 2008 (being the date to which the latest published audited consolidated financial statements of the Company was made up);

(e) the letter from the Independent Board Committee, the text of which is set out on pages 25 and 26 to this circular;

(f) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 27 to 42 to this circular; and

(g) the accountants' report on the Modern Vision Group, the text of which is set out in Appendix II to this circular;

(h) the accountants' report on Reform Base, the text of which is set out in Appendix III to this circular;

(i) the accountants' report on the Over Profit Group, the text of which is set out in Appendix IV to this circular;

(j) the accountants' report on Macau Co, the text of which is set out in Appendix V to this circular;

(k) the accountants' report on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix VIII to this circular;

(l) the valuation report on the Property based on the draft contract of amendment to the Land Grant, the text of which is set out in Appendix IX to this circular;

(m) the valuation report on the Property based on present Land Grant, the text of which is set out in Appendix X to this circular;

(n) the valuation report on the properties of the Group in Hong Kong, the text of which is set out in Appendix XI to this circular;

(o) the valuation report on the properties of the Group in Macau, the text of which is set out in Appendix XII to this circular;

(p) the written consents of the experts referred to in the section headed "Expert and Consent" in this appendix; and

(q) this circular.

中国星

CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Entertainment Limited (the "Company") will be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 September 2009 at 12:15 p.m. for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(i) the sale and purchase agreement dated 29 April 2009 and the deed of variation dated 14 August 2009 (the "S&P Agreement") entered into between Bestjump Holdings Limited and Ms. Chen Ming Yin, Tiffany (the "Vendor") relating to the sale and purchase of the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and a sale loan owned by Legstrong Construction and Investment Company Limited to the Vendor in the sum of HK$88,368,136 as at 29 April 2009 and a sale loan owned by Over Profit International Limited to the Vendor in the sum of HK$662,441,871 as at 29 April 2009 (the "Acquisition") for a total consideration of HK$900 million (subject to adjustment), a copy of which is tabled at the meeting and marked "A" and initially by the chairman of the meeting for identification purposes, be and is hereby approved, ratified and confirmed in all respects and that all transactions contemplated under the Acquisition be and are hereby approved and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem to be necessary, desirable or expedient to carry into effect or to give effect to the Acquisition."

(ii) the issue of a convertible bond (the "Convertible Bond") in the principal amount of HK$350 million by the Company in accordance with the terms and conditions of the S&P Agreement and the transactions contemplated thereunder be and is hereby approved and any one director of the Company be and are hereby authorised to issue the Convertible Bond and do all such acts and things as they consider necessary, desirable or expedient in connection with the issue of the Convertible Bond;

(iii) the issue of a principal amount up to HK$350 million promissory note (the "Promissory Note") to the Vendor as part consideration under the S&P Agreement upon completion of the Acquisition be and is hereby approved and any one director of the Company be and are hereby authorised to issue the Promissory Note and do all such acts and things as they consider necessary, desirable or expedient in connection with the issue of the Promissory Note; and

(iv) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the shares of HK$0.01 each (the "Shares") in the share capital of the Company to be allotted and issued upon conversion of the Convertible Bond, the directors of the Company be and are hereby authorised to allot and issue and aggregate of up to approximately 700,000,000 new Shares (the "Conversion Shares") in the authorised capital of the Company at HK$0.50 per Conversion Share and credited as fully paid upon conversion of the Convertible Bond and that the Conversion Shares shall, when allotted and issued, rank pari passu in all respects with all other Shares in issue on the date of such allotment and issue, and that any directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the allotment and issue of the Conversion Shares."

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

Hong Kong, 17 August 2009

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.