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If you have sold or transferred all your shares in China Star Entertainment Limited (the “Company”), 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.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE PROPERTY LEASEHOLD RIGHT AND NOTICE OF SPECIAL GENERAL MEETING

Financial advisers of the Company



Mansion House Securities (F.E.) Limited

Nuada Limited

Corporate Finance Advisory

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders



A letter from the board of directors of the Company is set out on pages 7 to 40 of this circular. A letter from an independent board committee of the Company in respect of the Acquisition (the “Independent Board Committee”) is set out on page 41 of this circular. A letter from Donvex Capital Limited to the Independent Board Committee and the independent shareholders of the Company, is set out on pages 42 to 49 of this circular.

A notice convening the special general meeting of the Company to be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 3:45 p.m., (or immediately after the conclusion or adjournment of the meeting of the Company) or any adjournments thereof, is set out on pages 122 and 123 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 17M 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.

20 May 2011

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND STATISTICS AND
INFORMATION RELATING TO THE ECONOMY AND THE INDUSTRY CONTAINED IN THIS CIRCULAR**

Forward-Looking Statements

All statements contained in this circular, statements made in press releases and oral statements that may be made by us or our directors, executive officers or employees acting on our behalf, that are not statements of historical fact, constitute 'forward-looking statements'. You can identify some of these statements by forward-looking terms such as 'expect', 'believe', 'plan', 'intend', 'estimate', 'anticipate', 'may', 'will', 'would', and 'could' or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to our revenue and profitability, cost measures, planned strategy and any other matters discussed in this circular regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this circular, we advise you not to place undue reliance on those statements. We are not warranting or representing to you that our actual future results, performance or achievements will be as discussed in those statements.

Reliability of certain statistics and information relating to the economy and the industry

Statistics, industry data and other information relating to the economy and the industry contained in this circular have been derived from various official government publications with information provided by different government agencies. Although the Board believes that the sources of the information and statistics are appropriate sources for such information and statistics and has taken reasonable care in extracting and reproducing such information and statistics, and has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, no guarantee can be made as to the accuracy or completeness of such information and statistics. None of the Company, or their respective directors, agents or advisers have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. Careful consideration should be given as to how much weight or importance should be attached or placed on such statistics, projected industry data and other information relating to the economy and the industry.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Property Leasehold Right by the Purchaser from the Vendor pursuant to the Agreement
“Agreement”	the conditional agreement dated 23 December 2010 entered into between the Purchaser, the Vendor, the Company and Mr. Heung relating to the sale and purchase of the Property Leasehold Right
“Announcement”	the announcement dated 7 January 2011 issued by the Company in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of the 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
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Agreement
“connected person”	has the meaning ascribed to it in the Listing Rules
“Consideration”	HK\$550 million, being the consideration payable by the Purchaser to the Vendor for the Property Leasehold Right under the Agreement
“Declaration of Undertaking”	the undertaking to be given by the Vendor in favor of the Purchaser for (i) not revoking the Power of Attorney without the Purchaser’s prior written consent; and (ii) maintaining all legal power of the Power of Attorney under the Agreement
“Directors”	the directors of the Company
“Dr. Ho”	Dr. Ho Hung Sun, Stanley, the chairman and a director of Lan Kwai Fong (Macau) and also a director and a shareholder of the Vendor
“Enlarged Group”	the Group following the Completion

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	The independent board committee comprising all independent non-executive Directors to advise the Independent Shareholders on the Acquisition
“Independent Financial Adviser”	Donvex Capital Limited, a licensed corporation registered under the SFO to carry on type 6 regulated activity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the Acquisition
“Independent Shareholders”	Shareholders other than Dr. Ho, the Vendor, Mr. Heung and their respective associates
“Lan Kwai Fong (Macau)”	Hotel Lan Kwai Fong (Macau) Limited, a company incorporated in Macau and a 50% owned subsidiary of the Company
“Latest Practicable Date”	18 May 2011, 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
“Long Stop Date”	30 June 2011 or such other date as the parties to the Agreement may agree
“Lot 6B”	an undeveloped parcel of land named as “Quarteirão 6 – Lote B”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,420 square meters, including walkways and other external areas, legally and validly granted to the Vendor under leasehold by Dispatch no. 27/SATOP/89, published in the Macau Official Gazette on 26 December 1989, and later reviewed by Dispatch no. 149/SATOP/97, published in the Official Gazette no. 49 of 3 December 1997, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22608 and currently bounded by Rua de Xiamen on the west and Rua de Luis Gonzaga Gomes on the north, is adjacent to Lot 6C to the east

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“Lot 6C”	an undeveloped parcel of land named as “Quarteirão 6 – Lote C”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to the Vendor under leasehold by Dispatch no. 148/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22618 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6B on the west and Lot 6D on the east
“Lot 6D”	an undeveloped parcel of land named as “Quarteirão 6 – Lote D”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to the Vendor under leasehold by Dispatch no. 149/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22619 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6C on the west and Lot 6E on the east
“Lot 6E”	an undeveloped parcel of land named as “Quarteirão 6 – Lote E”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters., including walkways and other external areas, legally and validly granted to the Vendor under leasehold by Dispatch no. 150/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Property Registered under no. 22620 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6D on the west
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Macau Government”	the Government of Macau
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director
“Power of Attorney”	the power of attorney to be granted by the Vendor in favor of the Purchaser or its nominee in the form set out in the Agreement upon Completion

DEFINITIONS

“Property Leasehold Right”	the set of rights and obligations currently held by the Vendor under the leasehold granted by the Macau Government over the Sites at the date of the Agreement
“Purchaser”	Triumph Top Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Rights Issue”	the proposed issue of the rights Shares by way of rights issue on the basis of three rights Shares for every one Share held at the record date at the subscription price of HK\$0.25 per rights Share, with bonus warrants on the basis of one bonus warrant for every five rights Shares taken up, details of which are set out in the announcement of the Company dated 18 April 2011.
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 3:45 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company from time to time
“Shareholder(s)”	the holder(s) of the issued Shares
“Sites”	Lot 6B, Lot 6C, Lot 6D and Lot 6E
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Undertaking”	the undertaking given by Mr. Heung in favor of the Purchaser and the Company on 23 December 2010
“Vendor”	Sociedade de Turismo e Diversões de Macau, S.A., a company incorporated in Macau
“Warrants”	an amount of HK\$111,525,643.67 warrants outstanding entitling the holders thereof to subscribe for new share of the Company at a subscription price of HK\$1.82 (subject to further adjustment) pursuant to the warrant instrument of the Company dated 15 June 2010
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“MOP” Macau Pataca, the lawful currency of Macau

“%” per cent.

LETTER FROM THE BOARD



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

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

20 May 2011

*To the Shareholders and for information only,
the holders of Warrants and options of the Company*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION IN RELATION TO THE
PROPOSED ACQUISITION OF THE PROPERTY LEASEHOLD RIGHT
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 7 January 2011, the Board announced that on 23 December 2010 (after trading hours of the Stock Exchange):

- (i) the Agreement was entered into between, inter alia, the Purchaser, the Vendor, the Company and Mr. Heung, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Property Leasehold Right (and

LETTER FROM THE BOARD

the inherent transfer to the Purchaser of the legal title to the Sites) at a consideration of HK\$550 million. Completion is subject to the fulfillment of all the conditions as set out in the Agreement on or before the Long Stop Date. In the event that the approval from the Shareholders (other than those who are required to abstain from voting, if any) for the Agreement and the transactions contemplated by the Agreement is not obtained by the Long Stop Date, Mr. Heung irrevocably and unconditionally undertakes and agrees to assume the obligations and liabilities of the Purchaser under the Agreement. The Consideration will be funded from/by internal resource of the Company, bank borrowings and/or equity financing; and

- (ii) Mr. Heung gave the Undertaking to the Purchaser and the Company, pursuant to which Mr. Heung undertakes to the Purchaser and the Company that in the event that the approval of Shareholders (other than those who are required to abstain from voting, if any) for the Acquisition is not obtained, Mr. Heung shall, within 14 days from written demand by the Purchaser and/or the Company fully and effectively pay the Purchaser and/or the Company the amount of HK\$55 million, being the deposit paid by the Purchaser to the Vendor pursuant to the Agreement.

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. As the Vendor is an associate of Dr. Ho, a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. In addition, as Mr. Heung is a cosigner to the Agreement, Mr. Heung is considered to have an interest in the Agreement. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM. Dr. Ho, the Vendor, Mr. Heung and their respective associates shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transaction contemplated thereunder. An 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 details 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 independent valuation report of the Sites and the financial information of the Group as enlarged by the Property Leasehold Right; 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.

LETTER FROM THE BOARD

THE AGREEMENT

Date

23 December 2010

Parties

Vendor: Sociedade de Turismo e Diversões de Macau, S.A., a company having diverse business interests predominantly based in Macau including entertainment, leisure, sports, tourism and realty

Purchaser: Triumph Top Limited, an indirect wholly-owned subsidiary of the Company

Guarantor: the Company

Cosigner: Mr. Heung, an executive Director

Dr. Ho is the chairman and a director of Lan Kwai Fong (Macau), a 50% owned subsidiary of the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Dr. Ho is a director of the Vendor, (ii) Dr. Ho directly and indirectly holds over 30% of the equity share capital of the Vendor, and (iii) Dr. Ho or the Vendor is not interested in any Shares or securities convertible into Shares as at the Latest Practicable Date. As such, the Vendor is an associate of Dr. Ho, a connected person of the Company under Chapter 14A of the Listing Rules.

Given the terms of the Acquisition offered to the Purchaser by the Vendor is on a "must buy" basis, Mr. Heung, as a cosigner, irrevocably and unconditionally undertakes to assume the obligations and liabilities of the Purchaser in the event that the approval from the Shareholders (other than those who are required to abstain from voting, if any) for the Acquisition is not obtained in order to facilitate the Acquisition by the Purchaser. As at the Latest Practicable Date, Mr. Heung and his associates hold in aggregate 24,685,202 Shares, representing approximately 5.03% of the issued share capital of the Company, and amount of approximately HK\$5,458,311 warrants entitling Mr. Heung and his associates to subscribe for 2,999,072 new Shares and 1,852 options of the Company exercisable into 1,852 new Shares.

In the preliminary negotiation, the Vendor has indicated that the terms of the Acquisition offered to the Purchaser is on a "must buy" basis, which means the Purchaser must acquire the Property Leasehold Right from the Vendor at the Consideration of HK\$550 million on or before the Long Stop Date. The Vendor understands that the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and the Acquisition has to be conditional upon the approval from the Shareholders (other than those who are required to abstain from voting, if any). Given Mr. Heung accredited by the Vendor, the Vendor has accepted Mr. Heung to act as a cosigner to the Agreement to assume the obligations and liabilities of the Purchaser under the Agreement in the event that the approval from the Shareholders (other than those who are required to abstain from voting, if any) is not obtained. Therefore, the conditions precedent of the Agreement are for the purpose of complying with the relevant requirements under the Listing Rules by the Company.

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In the event that the approval of Shareholders (other than those who are required to abstain from voting, if any) for the Agreement and the transactions contemplated thereunder is not obtained by the Long Stop Date, Mr. Heung shall assume the obligations and liabilities of the Purchaser under the Agreement and, within 14 days from the written demand by the Purchaser and/or the Company fully and effectively pay to the Purchaser and/or the Company the amount of HK\$55 million, being the deposit paid by the Purchaser to the Vendor pursuant to the Agreement. Other than the costs in preparing the announcements and circular relating to the Acquisition, the Purchaser and/or the Company have/has no other costs and liabilities incurred.

Assets to be acquired

The Property Leasehold Right represents the set of rights and obligations currently held by the Vendor under leasehold granted by the Macau Government over the Sites at the date of the Agreement (and the inherent transfer to the Purchaser of the legal title to the Sites).

As advised by the Company's Macau legal adviser,

- (i) according to the land concession contracts in respect of the Sites, the transfer of the legal title of the Sites before their completion of development as stipulated in the land concession contracts (the "**Pre-completion Transfer**") is subject to the prior approval of the Macau Government; and
- (ii) in the event that the Pre-completion Transfer is not permitted by the Macau Government, the Purchaser is entitled to, upon completion of the development of the Sites, transfer the legal titles of the properties which will be erected on the Sites to itself and/or the buyers of the properties pursuant to the Agreement and the laws of Macau.

Upon Completion, the Purchaser shall apply to the Macau Government for the Pre-completion Transfer.

As advised by the Company's Macau legal adviser,

- (i) the Purchaser can apply for the Pre-completion Transfer, which is subject to the prior approval of the Macau Government; or
- (ii) the Purchaser can transfer the legal title of the properties to be erected on the Sites upon completion of the development to itself, in which no approval of the Macau Government is required; or
- (iii) the Purchaser can transfer the legal title of the properties to be erected on the Sites upon completion of the development to the buyers, in which no approval of the Macau Government is required.

Upon completion of the development, the transfer of the legal title of the properties to be erected on the Sites is inclusive the legal title of the Sites under strata title in accordance with the laws of Macau.

LETTER FROM THE BOARD

According to the applicable laws and regulations of Macau,

- (i) the Pre-completion Transfer shall attract eventual premium resulting from the revision of the land lease concessions (i.e. the transfer of legal title of land lease concessions from the Vendor to the Purchaser), stamp duty and registration fee payable by the Purchaser to the Macau Government;
- (ii) the transfer of legal title of the properties to be erected on the Sites upon completion of the development to the Purchaser shall attract stamp duty, registration fee and notarization fee payable by the Purchaser to the Macau Government; and
- (iii) the transfer of legal title of the properties to be erected on the Sites upon completion of the development to the buyers shall attract stamp duty, registration fee and notarization fee payable by the buyers to the Macau Government.

According to the Company's Macau legal adviser, the eventual premium payable for the Pre-completion Transfer shall be determined by the Macau Government based on the gross constructional floor area, location and usage of the Sites.

As advised by the Company's Macau legal adviser, the amount of such eventual premium cannot be estimated as the laws and regulations of Macau do not stipulate its calculation and there is no precedent for transferring the legal title of land lease concession before completion of its development. Given the eventual premium cannot be estimated, the Group has not taken it into account in calculating the cost of construction/development for the Sites. In the event that the eventual premium arising from the Pre-completion Transfer is high-priced, the Group shall not proceed with the Pre-completion Transfer.

The stamp duty, registration fee and notarization fee for the transfer of the legal title are calculated as follow:

- (i) according to the Stamp Duty General Table published by the Macau Government, stamp duty is calculated as 1.05% to 3.15% progressively by the the amount of consideration of the properties transferred;
- (ii) according to the Real Estate Registration Handling Fee Table published by the Macau Government, registration fee is calculated as 0.4% to 0.2% progressively by the amount of consideration of the properties transferred; and
- (iii) according to the Notarization Handling Fee Table published by the Macau Government, notarization fee is calculated as 0.5% to 0.1% progressively by the amount of consideration of the properties transferred.

As advised by the Company's Macau legal adviser, other than eventual premium, stamp duty, registration fee and notarization fee, no Macau tax is payable for the Pre-completion Transfer and the transfer the legal title of the properties to be erected on the Sites upon completion of the development to the Purchaser and/or the buyers.

LETTER FROM THE BOARD

Although the Purchaser acquires the Leasehold Property Right from the Vendor upon Completion, the legal title of the Sites remains with the Vendor. It is expected that the Vendor shall have to involve in all the governmental procedures and legal aspects in respect of the development of the Sites and the sale of properties to be erected on the Sites. There is an understanding that the Pre-completion Transfer is most desirable to the Purchaser and the Vendor as it not only provides a high degree of flexibility to the Purchaser, but also discharges the Vendor's involvement in developing the Sites and selling the properties to be erected on the Sites.

Pursuant to the Agreement, no additional consideration is payable to the Vendor for the Pre-completion Transfer and the transfer of legal title of the properties to be erected on the Sites upon completion of the development to the Purchaser and/or the buyers.

Information on the Sites

Details of the Sites are as follows:

(i) Lot 6B

Lot 6B was leased to the Vendor for a term of 25 years commencing on 26 December 1989 (i.e. until 25 December 2014), renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of renewal.

Under the lease conditions, Lot 6B shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for office, commerce and parking, with the following constructional floor areas: (a) office – 14,994 square meters; (b) commerce – 1,996 square meters; and (c) parking – 4,320 square meters.

Under the lease conditions, the development should have been completed within 60 months commencing from 26 December 1989 (i.e. until 25 December 1994). Notwithstanding the non development of Lot 6B in the contracted period mentioned above, the Macau Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013).

(ii) Lot 6C

Lot 6C was leased to the Vendor for a term of 25 years commencing on 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of renewal.

LETTER FROM THE BOARD

Under the lease conditions, Lot 6C shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following constructional floor areas: (a) residence – 14,860 square meters; (b) commerce – 1,824 square meters; and (c) parking – 2,584 square meters.

Under the lease conditions, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of Lot 6C in the contracted period mentioned above, the Macau Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013).

(iii) Lot 6D

Lot 6D was leased to the Vendor for a term of 25 years commencing on 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of renewal.

Under the lease conditions, Lot 6D shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following constructional floor areas: (a) residence – 14,860 square meters; (b) commerce – 1,824 square meters; and (c) parking – 2,584 square meters.

Under the lease conditions, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of Lot 6D in the contracted period mentioned above, the Macau Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013).

(iv) Lot 6E

Lot 6E was leased to the Vendor for a term of 25 years commencing on 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the lease and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of renewal.

Under the lease conditions, Lot 6E shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following constructional floor areas: (a) residence – 14,860 square meters; (b) commerce – 1,824 square meters; and (c) parking – 2,584 square meters.

LETTER FROM THE BOARD

Under the lease conditions, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of Lot 6E in the contracted period mentioned above, the Macau Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013).

The development at the Sites is regulated by the Despatch of the Macau Executive Chief no. 83/2008 as the Sites are part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction of Macau. Therefore, the final approved constructional floor areas of the Sites will differ from those disclosed above.

Under the land lease concessions, the rights and obligations of each of Lot 6B, Lot 6C, Lot 6D and Lot 6E are summarised as follows:

- (i) Lot 6B
 - (a) To use Lot 6B with the period of 25 years commencing from 26 December 1989, which is renewable with conditions for periods of 10 years until 19 December 2049;
 - (b) To develop Lot 6B and construct one building all with triple-deck cave and sixteen floors, for office, commerce and parking, with the following floor areas (in square meters): (i) office - 14,994; (ii) commerce – 1,996; and (iii) parking – 4,320;
 - (c) To complete the aforementioned development of Lot 6B on or before the development period (i.e. until 14 April 2013);
 - (d) To pay the yearly land rental of Lot 6B with the amount of MOP298,050 during the development period and the amount calculated as follows (by square meter of gross floor area): (i) MOP15 for office areas; MOP15 for commerce areas and MOP10 for parking areas after the completion of the development; and
 - (e) To obtain the prior permission from the Macau Government if intends to transfer the right over Lot 6B before the completion of the development.
- (ii) Lot 6C
 - (a) To use Lot 6C with the period of 25 years commencing from 21 December 1994, which is renewable with conditions for periods of 10 years until 19 December 2049;
 - (b) To develop Lot 6C and construct one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (in square meters): (i) residence - 14,860; (ii) commerce – 1,824; and (iii) parking – 2,584;

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- (c) To complete the aforementioned development of Lot 6C on or before the development period (i.e. until 14 April 2013);
 - (d) To pay the yearly land rental of Lot 6C with the amount of MOP201,800 during the development period and the amount calculated as follows (by square meter of gross floor area): (i) MOP10 for residence areas; MOP15 for commerce areas and MOP10 for parking areas after the completion of the development; and
 - (e) To obtain the prior permission from the Macau Government if intends to transfer the right over Lot 6C before the completion of the development.
- (iii) Lot 6D
- (a) To use Lot 6D with the period of 25 years commencing from 21 December 1994, which is renewable with conditions for periods of 10 years until 19 December 2049;
 - (b) To develop Lot 6D and construct one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (in square meters): (i) residence - 14,860; (ii) commerce - 1,824; and (iii) parking - 2,584;
 - (c) To complete the aforementioned development of Lot 6D on or before the development period (i.e. until 14 April 2013);
 - (d) To pay the yearly land rental of Lot 6D with the amount of MOP201,800 during the development period and the amount calculated as follows (by square meter of gross floor area): (i) MOP10 for residence areas; MOP15 for commerce areas and MOP10 for parking areas after the completion of the development; and
 - (e) To obtain the prior permission from the Macau Government if intends to transfer the right over Lot 6D before the completion of the development.
- (iv) Lot 6E
- (a) To use Lot 6E with the period of 25 years commencing from 21 December 1994, which is renewable with conditions for periods of 10 years until 19 December 2049;
 - (b) To develop Lot 6E and construct one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (in square meters): (i) residence - 14,860; (ii) commerce - 1,824; and (iii) parking - 2,584;
 - (c) To complete the aforementioned development of Lot 6E on or before the development period (i.e. until 14 April 2013);

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- (d) To pay the yearly land rental of Lot 6E with the amount of MOP201,800 during the development period and the amount calculated as follows (by square meter of gross floor area): (i) MOP10 for residence areas; MOP15 for commerce areas and MOP10 for parking areas after the completion of the development; and
- (e) To obtain the prior permission from the Macau Government if intends to transfer the right over Lot 6E before the completion of the development.

Save for the rights and obligations in respect of the land lease concessions of the Sites, the Purchaser does not assume any other rights and obligations.

According to the land lease concessions in respect of the Sites, no land premium is required to be paid by lessee to the Macau Government.

According to the Vendor, in return for certain infrastructures constructed by the Vendor in Macau, the Macau Government granted the land lease concessions in respect of the Sites to the Vendor at no additional cash consideration. The Vendor has paid a penalty of MOP3.60 million for extending the development period of the Sites from 25 December 1994 to 14 April 2013.

According to the applicable laws and regulations of Macau, the land lease concessions in respect of the Sites are subject to the following payments to the Macau Government:

- (i) prior to the completion of development of the Sites, an annual rental, in respect of Lot 6B, Lot 6C, Lot 6D and Lot 6E are MOP298,050, MOP201,800, MOP201,800 and MOP201,800 respectively;
- (ii) after the completion of development of the Sites, an annual rental, which is based on the gross constructional floor area and calculated according to annual rental in square meters as announced by the Macau Government under the Land Act of Macau, which are currently (a) MOP15 for office areas; (b) MOP15 for commerce areas; (c) MOP10 for residence areas; and (d) MOP10 for parking areas; and
- (iii) after the completion of the development of the Sites and on renewal the land lease concessions for a period of ten years, a lump sum special contribution of the properties erected on the Sites, which is calculated based on the annual rental at the time of the renewal multiplies by ten and payable on the expiry of the land lease concession (i.e. 25 December 2014 or 20 December 2019, as the case may be) and every ten years thereafter until 19 December 2049.

As advised by the Company's Macau legal adviser,

- (i) upon Completion, the annual rental in respect of the Sites shall be responsible by the Purchaser, regardless whether the Pre-completion Transfer is taken place or not;
- (ii) if the legal title of the properties to be erected on the Sites upon completion of the development is transferred to the Purchaser, the annual rental and the special contribution for renewing the land lease concessions in respect of the Sites are responsible by the Purchaser; and

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- (iii) if the legal title of the properties to be erected on the Sites upon completion of the development is transferred to the buyers, the annual rental and the special contribution for renewing the land lease concessions in respect of the Sites are responsible by the buyers according to their strata title.

According to the current laws of Macau regulating the annual rental of land lease concessions, the annual rental in respect of Lot 6B, Lot 6C, Lot 6D and Lot 6E are MOP298,050, MOP201,800, MOP201,800 and MOP201,800 respectively. The special contribution for renewing the land lease concessions in respect of Lot 6B, Lot 6C, Lot 6D and Lot 6E are MOP2,980,500, MOP2,018,000, MOP2,018,000 and MOP2,018,000 respectively.

In negotiating the Consideration with the Vendor, the Purchaser has taken the annual rental and the special contribution for renewing the land lease concessions in respect of the Sites into account.

Consideration

The Consideration for the Property Leasehold Right is HK\$550 million, which has been and shall be satisfied by the Purchaser in cash in the following manner:

- (1) a 10% deposit of HK\$55 million has been paid to the Vendor upon the signing of the Agreement; and
- (2) the balance of HK\$495 million shall be paid to the Vendor upon Completion.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser. The Consideration will be funded from/by internal resources of the Company, external borrowings and/or equity financing.

According to the valuation report on the Sites as disclosed in Appendix V to this circular, the Sites has market value of approximately HK\$1,091 million as at 31 March 2011. When preparing the valuation report on the Sites, the valuer of the Company has considered the relevant regulations issued by Land, Public Works and Transport Bureau of the Macau Government. The Board considers the presumptions that mentioned in the valuation report are reasonable in assessing the market values of the Sites. The Consideration represents a 49.59% discount to the estimated market value of the Sites as at 31 March 2011.

Conditions precedent

Completion of the Agreement is conditional upon the Shareholders (other than those who are required to abstain from voting, if any) approving the Agreement and the transactions contemplated by the Agreement and all filings with any relevant governmental or regulatory authorities in Hong Kong, Bermuda or elsewhere which are required or appropriate for the entering into and the implementation of the Agreement having been obtained, given or made.

In the event that the approval from the Shareholders (other than those who are required to abstain from voting, if any) for the Agreement and the transactions contemplated by the Agreement is not obtained by the Long Stop Date, Mr. Heung irrevocably and unconditionally undertakes and agrees to assume the obligations and liabilities of the Purchaser under the Agreement.

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Completion

Upon Completion, the Vendor shall sign the Power of Attorney and the Declaration of Undertaking to the Purchaser or its nominee and hand over the Sites being unoccupied and free from any encumbrances, debts, promissory sale and leases (other than those subsisting and are known to the Purchaser) to the Purchaser or its nominee.

The Power of Attorney

Pursuant to the Agreement, the Vendor irrevocably warrants, guarantees and undertakes to the Purchaser, the Company and Mr. Heung that the Power of Attorney shall not be revoked. Upon Completion, the Vendor shall give an undertaking to the Purchaser that (i) the Vendor shall not revoke the Power of Attorney without the Purchaser's prior written consent and (ii) the Vendor shall maintain all legal power of the Power of the Attorney under the Agreement by signing the Declaration of Undertaking.

The principal terms of the Power of Attorney are as follows:

- (i) to represent the Vendor before any public or private entities, particularly the Macau Public Works Department, the Macau Properties Registry, the Macau Tax Department, the Macau Civic and Municipal Matters Institute, the Macau Fire Department and the Macau Police, in everything that relates to the Sites namely its combination in on sole plot for development under development, as also any information on construction indices and for any type of licenses whatsoever howsoever, including licenses for foundations and construction;
- (ii) to submit construction projects, as also any technical submissions required thereon or requested by the Macau Public Works Department or any other public entity or private entities or agency;
- (iii) to negotiate with the Macau Government to review the concession contract by lease, taking any decisions in that regard, including on the contractual clauses relating to the term, development and purposes, premiums and other charges and require the renewal of the permanent or temporary concession at the end of their term;
- (iv) to apply for a revised land concession contract from the relevant government authorities in Macau and to accept assignment of any interest relating directly to the Sites as the Purchaser may think fit and to make all payments and enter into all covenants execute all such deeds and do all things which may be necessary for obtaining the review of land concession contract of the Sites, for redevelopment conditions to be included as also the transfer of its ownership to the Purchaser or such other person as it may think fit;
- (v) to request the transmission of the right resulting from the land concession, irrespective of being temporary or permanent, receive the deposit, following deposits and its price, and provide for their discharge;
- (vi) to accept the terms and conditions of such transmission;

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- (vii) to administer and manage the constructions, namely by signing agreements with developers and contractors and practicing all such acts and executing all such agreements with the purpose of developing the Sites fully and completely;
- (viii) to rent, renew, terminate, or in any way to terminate the lease of the property or the buildings erected on it, receive rents, even those deposited, deposit of rents and other payments; and
- (ix) in general, do all such acts that the attorney considers necessary, useful or convenient for the full compliance with this mandate, intended to carry out the duty of developing the Sites only.

In general, according to the Company's Macau legal adviser, the transfer of the leasehold rights of the Sites before the completion of their development is subject to the approval from the Macau Government. The legal title, namely the property registration title of the Sites upon execution of the Power of Attorney would be nominally held in the name of the Vendor. However, upon the execution of the Power of Attorney under the terms and conditions of the Agreement, the rights and obligations of the Vendor shall uniquely be the nominal registered leaseholder and the Purchaser shall have the right to develop the Sites, all the rights specified in the Power of Attorney and the Agreement especially including the rights to:

- (a) request the transmission of the right resulting from the land concession;
- (b) administer and manage the construction of the Sites;
- (c) rent the lease of the property or the building erected on the Sites;
- (d) do all such acts to carry out the duty of developing the Sites; and
- (e) receive any amounts, considerations, deposits and prices in its name.

Based on the above, the Vendor shall uniquely be the nominal registered leaseholder of the Sites and shall not revoke the Power of Attorney pursuant to the Declaration of Undertaking and the Company shall exercise the rights over the Sites pursuant to the Power of Attorney and the Agreement. The ownership of economic benefit arising from the Sites shall be obtained by the Purchaser pursuant to the Power of Attorney and the Agreement.

According to the Company's Macau legal adviser, the "legal power" is construed as "contractual obligation" under the laws of Macau.

The Purchaser has obtained a Macau legal opinion confirming (i) the Agreement and the current arrangements, comprising the Power of Attorney and the Declaration of Undertaking, are legal and enforceable under the laws and regulations of Macau; and (ii) subject to the approval of the Macau Government, the Vendor can transfer the rights and obligations of the land lease concessions in respect of the Sites to the Purchaser.

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Other than the Macau legal opinion, the Purchaser did not obtain a confirmation from other appropriate and competent authorities from the Macau Government regarding the legality of the arrangement under the Agreement as no authority from the Macau Government issues such confirmation.

According to the Company's Macau legal adviser, despite the Vendor retaining the legal title of the Sites and being the grantor of the Power of Attorney, the Purchaser shall have the complete and exclusive control over the Sites pursuant to the Agreement under the laws and regulations of Macau as the Agreement, including the Power of Attorney and the Declaration of Undertaking are legal and enforceable contracts under the laws of Macau.

In the event there is a dispute arising out of or in connection with the Agreement, including the Power of Attorney and the Declaration of Undertaking, the dispute shall be brought in the Courts of Macau for settlement.

As advised by the Company's Macau legal adviser, in the event that the Vendor does not perform any of its obligations under the Agreement, including but not limited to revoking the Power of Attorney and non-compliance with the Declaration of Undertaking, the Vendor is deemed as having committed a breach of the Agreement under the laws of Macau. The Purchaser is entitled to take legal actions against the Vendor for breach of the Agreement and, according to the Civil Code of the laws of Macau, the Purchaser is entitled to the refund of the Consideration of HK\$550 million paid to the Vendor under the Agreement and a compensation of an amount equal to the Consideration of HK\$550 million plus any costs and expenses incurred under the Agreement.

Legal and regulatory requirements

As advised by the Company's Macau legal adviser, the development of the Sites are subject to applicable laws and regulations. These are:

- (a) the transfer of legal title of the land lease concessions in respect of the Sites prior to the completion of development of the Sites is subject to prior approval of the Macau Government. Such transfer of the legal title, which involves a change of leasee, will be regarded as a revision of the land lease concessions and shall be regulated by the provisions stated in the land lease concessions and the Law no. 6/80M (Land Act) of Macau. An eventual premium determined by the Macau Government based on the gross constructional floor area, location and usage of the Sites shall be paid by the transferee;
- (b) as stated in the land lease concessions in respect of the site, the Sites are leased to the Vendor by the Macau Government for a specified term, and it is renewable for periods of 10 years until 19 December 2049. The renewal is subject to the completion of the development stated by the land lease concessions and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the land lease concessions at the time of the renewal; and

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- (c) as regulated and approved by the Despatch of the Executive Chief no. 83/2008, the Sites are parts of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction.

In addition, there are various approvals, licenses or permits will be required from the Macau Government for the construction and development of the Sites, the usual Government's approvals, licenses or permits which are normally required for property development in Macau under the laws of Macau. These are:

- I. Plans to be approved by the Macau Land and Public Works Department, such as:
 - (i) plans relating to foundation and structures;
 - (ii) plans relating to construction works;
 - (iii) plans relating to water supply system;
 - (iv) plans relating to drainage system;
 - (v) plans relating to electricity supply system;
 - (vi) plans relating to fire prevention system; and
 - (vii) plans relating to other facilities system.
- II. Licenses or permits, such as:
 - (i) "License for Construction Works" issued by the Macau Land and Public Works Department;
 - (ii) "Request for starting the Construction Works" issued by the Macau Land and Public Works Department within 15 days after the "License for Works" is issued (no construction works can be commenced without such Request);
 - (iii) "License for Fencing" issued by the Civic and Municipality Institute of Macau; and
 - (iv) "Use Permit" issued by the Macau Land and Public Works Department after all relevant Government departments/authorities have inspected the development concerned and satisfied that the same is completed and free from defects which may hinder the issuance of such permit.

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The aforementioned licenses and permits, especially the “License for Construction Works”, are required to be obtained before the commencement of the construction works of the development and the issuance of the said license shall be comply with the conditions under its land lease concession contract and the relevant laws and regulations and it is subject to the Macau Government approval and review. If any of the aforementioned licenses and permits cannot be obtained by the Purchaser, the construction of the Sites cannot be completed.

Under the laws of Macau, only the lessee (or its attorney) could apply for such licenses and permits. Under the Power of Attorney, the Purchaser is granted the right to submit construction projects, as also any technical submissions required thereon or requested by Macau Government and perform repair and construction works and require the related licenses. After all the plans of the Sites have been approved by the Authorities of Macau and all the requirements and conditions have been complied with, the time necessary for applying the following licenses and permits are as below:

- (i) “License for Construction Works” – 15 working days.
- (ii) “Request for starting the Construction Works” –10 working days.
- (iii) “License for Fencing” – 15 working days.
- (iv) “Use Permit” – after all relevant government authorities have inspected the development concerned and satisfied that the same is completed.

As at the Latest Practicable Date, the Directors are not aware of any difficulty to obtain the above licenses and permits for the development of the Sites and no applications for those licenses and permits have been made.

Indemnity given to the Vendor

Under the Agreement, the Purchaser shall on demand indemnify, defend and hold harmless the Vendor against all damages, loss, costs, charges, claims, levies, penalties, taxes or expenses, including legal fees on a full indemnity basis and out-of-pocket expenses (the “**Liabilities**”), which the Vendor may incur as a result of any liabilities or matters arising in relation or in connection to the Sites after the Completion, including but without limitation to the following any Liabilities arising as a result of or in connection with:

- (i) a breach by the Purchaser or any of its obligations under the Agreement. All acts or omission by the Purchaser, its officers, directors, appointees, assignees, guests and invitees shall be deemed to be an act or omission by the Purchaser;
- (ii) the submissions made by the Purchaser after the Completion and made pursuant to the Agreement;

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- (iii) the issuing of the Power of Attorney and the Declaration of the Undertaking by the Vendor in favour of the Purchaser or its nominee and the granting to the Purchaser or its nominee the powers thereunder contained and made pursuant to the Agreement (including any amendment, extension or waiver thereon) and all acts by the Purchaser or its nominee exercised under the Power of Attorney;
- (iv) the Purchaser selling, disposing, charging or in any way deal with the Sites or the Property Leasehold Right or any part thereof;
- (v) any occupier's liabilities arising as a result of the Vendor remaining as the registered owner of the Sites;
- (vi) contracts, agreements, promises, compromises made by the Purchaser in respect of the Sites and/or the Property Leasehold Right or any part thereof; and
- (vii) all costs in connection with the protection, enforcement or prosecution of any of the Vendor's rights under the Agreement (including the Power of Attorney) or for actions taken by third parties, including but without limitation to the Macau Government.

UNDERTAKING GIVEN BY MR. HEUNG TO THE PURCHASER AND THE COMPANY

As the Purchaser has paid the deposit of HK\$55 million to the Vendor pursuant to the Agreement and Mr. Heung irrevocably and unconditionally undertakes and agrees to assume the obligations and liabilities of the Purchaser under the Agreement in the event that the approval of Shareholders (other than those who are required to abstain from voting, if any) for the Acquisition is not obtained by the Long Stop Date, Mr. Heung, on 23 December 2010 (after trading hours of the Stock Exchange), gave the Undertaking to the Purchaser and the Company in order to avoid a provision of financial assistant by the Group under the Listing Rules.

Pursuant to the Undertaking, Mr. Heung undertakes to the Purchaser and the Company that in the event the approval of Shareholders (other than those who are required to abstain from voting, if any) for the Acquisition is not obtained, Mr. Heung shall, within 14 days from written demand by the Purchaser and/or the Company fully and effectively pay to the Purchaser and/or the Company the amount of HK\$55 million, being the deposit paid by the Purchaser to the Vendor pursuant to the Agreement.

REASONS FOR THE ACQUISITION

Upon Completion, the Group intends to develop the Sites into office units and residential apartments for sale.

With a rise of 27.1% year on year in real terms for the third quarter of Macau's GDP in 2010, the Directors are confident in Macau's economy as well as its property market in coming years. The Directors expect the outlook for Macau's property market to be positive, which is supported by the following:

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- (i) Macau's 2008 real interest rates of 3.80% according to The World Bank, being a worldwide financial institution, will likely remain in the negative regime for coming years, which provides a favourable environment for property investment;
- (ii) a low jobless rate of 2.9% in the third quarter of 2010 and further down to 2.7% in the fourth quarter of 2010 as disclosed in principal statistical indicators of Macau of 3rd Quarter 2010 infers a better job security, which may fuel demand from local end-users;
- (iii) the reactivation of construction projects of new Casinos, such as Galaxy Macau operated by Galaxy Entertainment Group and Cotai Strip development projects (parcels 5 and 6) operated by Las Vegas Sands Corp., on the Cotai Strip will further strengthen the local labour market, which leads a stronger local consumption and property investment demand in Macau; and
- (iv) the PRC Central Government's policy strategy for developing Macau into an important platform for economic co-operation and trade between Mainland China and Portuguese-speaking countries according to the Ministry of Commerce of the People's Republic of China.

There continue to be positive signs for Macau's tourism as the total visitor arrivals rose by 18% year-on-year to 16,749,204 in the first eight months until August 2010 and rose by 14.8% year-on-year to 24,965,411 for the whole year of 2010 according to Macao Government. In addition, there is the advantage of the superb location of the Sites which is adjacent to Lan Kwai Fong (Macau), Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Wharf and Sands Casino. The Sites are undeveloped land but are temporarily occupied by Lan Kwai Fong (Macau) as parking lot. The Sites are surrounded by residential, commercial properties and hotels. The Sites is lying on Rua de Luis Gonzaga Gomes located in the heart of Macau Peninsula and are approximately 20 minutes walk from Macau Ferry Terminal and Heliport which is a part of the transportation network to Hong Kong as well as China. The Group also intends to develop the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding area of Lan Kwai Fong (Macau).

Macau Economy

Benefit from the tourism industry, Macau has recorded a tremendous growth from 16.67 million visitors in 2004 to 21.75 million visitors in 2009 (representing approximately a 30.47% increase in five years) according to the Yearbook of Statistics 2009 of Macao. The city has also seen large sums of foreign capital being invested into the rapidly expanding gaming and leisure industries, drawing substantial attention from the rest of the world (MOP52,085 million in year 2006 to MOP88,430 million in year 2008) according to the Yearbook of Statistics 2009 of Macao. Despite the fact that the global economy was swamped caused by the financial tsunami in September 2009, Macau's economy has generally been recovered with a help of government's stimulus policies and expansionary monetary policies of China, Macau's dynamic transformation into a regional entertainment and business destination and its growth of the overall economy has resulted in a substantial growth in the gross domestic product from MOP82,234 million in 2004 to MOP169,343 million in 2009 and unemployment rate has dropped from 4.9% in 2004 to 3.6% in 2009.

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According to Macao Economic Bulletin (3rd Quarter 2010), a joint publication of the Macao Economic Services, the statistics and Census Service and the Monetary Authority of Macao, the economy of Macao rose by 27.1% year-on-year in real terms in the third quarter of 2010. Economic growth in the third quarter was mainly spurred by the impetus of the gaming and tourism sector, in which gross gaming revenue (excluding gratuities) rose substantially and total visitor spending (excluding gaming expenses) increased for three straight quarters, supporting favourable growth in exports of services; on the contrary, decrease in merchandise exports widened further. As regards domestic demand and private consumption expenditure continued to increase upon rising employment earnings and low unemployment rate. As a result, the Board are optimistic about the future prospects of property investment in Macau.

The following highlights year-on-year comparisons of major segments of the local economy in the third quarter 2010:

1. Decrease in total value of merchandise exports widened to 11.6% in the third quarter of 2010 on account of shrinking demand of Europe, the US and some major Asian markets such as Mainland China and Hong Kong; consequently, exports of garment dropped by 20.3%. Analyzed by destination, exports to Taiwan, China increased by 5.5%, but exports to the US, the EU, Hong Kong and Mainland China decreased by 18.5%, 22.9%, 20.0% and 1.9% respectively. Total value of merchandise imports rose by 18.3%, except a slight decrease in fuels & lubricants, imports of consumer goods, capital goods and raw materials & semi-manufactures rose by 30.4%, 11.9% and 0.2% respectively. A visible trade deficit of MOP 9.83 billion was recorded in the third quarter.
2. Gross gaming revenue surged by 49.0% in the third quarter; visitor arrivals increased by 15.4% to 6,359,133; number of hotel guests rose by 14.1%, and per-capita spending of visitors (excluding gaming expenses) went up by 1.7%, driving exports of services to rise by 41.6% in real terms; imports of services also increased by 33.6%.
3. Unemployment rate stood at 2.9% in the third quarter, up by 0.1 percentage point quarter-to-quarter but down by 0.8 percentage point year-on-year; median monthly employment earnings rose by 5.9% year-on-year to MOP 9,000; the Composite Consumer Price Index (Composite CPI) increased by 3.1%; private consumption expenditure expanded by 7.5% in real terms, and government final consumption expenditure went up by 9.2%.
4. Overall investment decreased by 11.6% in real terms in the third quarter, tapering off notably from the 38.4% drop in the second quarter 2010. Total equipment investment rose by 9.3%, in which those of the private and public sectors increased by 9.8% and 1.7% respectively. Total construction investment decreased by 16.7%, with construction by the private sector shrinking by 26.3% while that by the public sector rising by 41.0%. Furthermore, number of new incorporations and value of registered capital went up by 20.1% and 176.4% respectively in the third quarter 2010.
5. Total government revenue rose by 34.1% to MOP 20.30 billion in the third quarter, with gaming tax revenue rising by 56.2% to MOP 17.36 billion. Total expenditure soared by 112.7% to MOP 15.04 billion, with current expenditure amounting to MOP 13.32 billion. Fiscal surplus for the third quarter 2010 stood at MOP 5.27 billion.

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As analysed by Macau Government and disclosed in Macao Economic Bulletin (3rd Quarter 2010), the economy of Macau has been able to sustain the growth momentum since resumption of positive growth in the third quarter of 2009; consequently, the economy expanded by 27.1% in real terms in the third quarter of 2010, which was led by exports of tourism and gaming services. In terms of domestic demand, construction of several major tourism and gaming facilities has recommenced and government investment keeps rising, the unemployment rate is anticipated to remain low. Private consumption expenditure is expected to see marginal increase as consumer sentiment maybe affected by devaluation of US dollar and high commodity and fuel prices. As regards external demand, decline in merchandise exports is likely to continue. Exports of tourism and gaming services are expected to register favourable increase as visitor arrivals in October and November rose by 7.0% year-on-year when gross gaming revenue increased by 45.6%. Considering these factors, and a high large comparison base in the fourth quarter of 2009, the rate of economic growth for the fourth quarter 2010 is projected to be lower. However, for the whole year of 2010, the economy of Macau is likely to register double-digit increase in real terms.

Supply on Real Estate of Macau

According to the Yearbook of Statistics of Macao 2009, the following table shows (i) the completion of buildings (comprising of residential and commercial, commercial, office, industrial and others) in the private sector; (ii) the construction of new buildings (comprising of residential and commercial, commercial, office, industrial and others) in the private sector; and (iii) the construction of buildings (comprising of residential and commercial, commercial, office, industrial and others) approved in the private sector as at the year of 2009.

As at the year of 2009	Completion of buildings in the private sector	Construction of new buildings in the private sector	Construction of buildings approved in the private sector
<i>Total number of buildings</i>			
(in number of buildings)	52	45	53
Residential; residential and commercial	32	25	26
Commercial	5	7	10
Office	1	1	1
Industrial	2	2	1
Others	12	10	15
<i>Total gross floor area</i>			
(in square meters)	1,406,242	228,874	543,998
Residential; residential and commercial	483,631	131,594	74,428
Commercial	29,185	9,646	43,388
Office	25,876	449	449
Industrial	17,808	25,579	9,950
Others	849,742	61,605	415,784

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As at the year of 2009	Completion of buildings in the private sector	Construction of new buildings in the private sector	Construction of buildings approved in the private sector
<i>Total number of units</i>			
(in number of units)	3,251	1,547	710
Residential; residential and commercial	3,096	1,429	589
Commercial	127	64	62
Office	2	5	5
Industrial	2	37	36
Others	24	12	18

Source: Yearbook of statistics of Macau 2009

Demand on Real Estate of Macau

A total of 5,838 building units (comprising the residential and commercial properties) were purchased and sold in the third quarter of 2010 and a total of 5,357 building units were purchased and sold for the two months ended 30 November 2010. The total value building units were purchased and sold in the third quarter of 2010 amounted to MOP10.57 billion and recorded over MOP12.00 billion for the two months ended 30 November 2010.

As stated in the Macao Economic Bulletin (3rd Quarter 2010), transaction of residential units totalled 3,649 in the third quarter of 2010 and the total value amounted to MOP8.22 billion, accounting for 62.5% and 77.8% of the respective total. As regards status of the buyers, 7,449 buyers (94.3% of total) were Macau residents, with the total value of transaction amounting to MOP9.15 billion (86.5% of total); 454 buyers were non-residents, with the total value amounting to MOP1.42 billion. Since the fourth quarter of 2008, real estate and value of transactions were predominated with resident buyers, indicating that the local residents were the principal buyers of Macau's property market.

Analyzed by Vigers, an International Property Consultants, the average capital value of residential property in Macau was MOP1,155 per square feet during the first quarter of year 2007. The average capital value of residential property in Macau has been increased to approximately MOP3,000 per square feet during the third quarter of year 2010.

LETTER FROM THE BOARD

Although the growth of Macau's economy is subject to numbers of uncertainty or risks which is disclosed in section "Risk Factors" in this circular, the Board considered that, taking into account future prospect of Macau's economic and all statistics information published by Macau Government, the Directors (excluding the independent non-executive Directors whose views are included under letter from Independent Board Committee in this circular) 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 and consider that the Acquisition is in the interest of the Company and the Shareholders as a whole. As the Consideration represents a 49.59% discount to the estimated market value of the Sites as at 31 March 2011, the Directors (excluding the independent non-executive Directors whose views are included under letter from Independent Board Committee in this circular) are of the view that the terms of the Agreement are fair and reasonable. As at the Latest Practicable Date, the Board has no agreement, arrangement, undertaking, intention or negotiation (concluded or otherwise) about any disposal, termination or scaling-down of its existing business as result of the Acquisition.

INFORMATION ON THE DEVELOPMENT OF THE SITES

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

To meet the development periods of the Sites, the Group has engaged an architect to prepare the master development plan for the development of the Sites for submission to the relevant departments of the Macau Government for approval. To expedite the process, the Vendor has agreed to submit the master development plan, on the Purchaser's behalf, to the Macau Government for approval in the event that they are ready for submission before the Completion. The Directors expect that the master development plan shall be finished in May 2011 and they shall be submitted to the Macau Government for approval in June 2011. The Board anticipated that the estimated time for the development of the Sites would be approximately 24 months. However, the actual development period will be depended on the contractors to be appointed by the Group. Upon the approval of the master development plan by the Macau Government, the development of the Sites shall be commenced as soon as possible.

As advised by the Company's Macau legal adviser, if part (but not whole) of the properties to be erected on the Sites is completed on 14 April 2013, being the expiry of development periods of the Sites, there are two possible consequences:

- (i) the Macau Government may declare a revocation of the land lease concessions in respect of the Sites; or
- (ii) the Purchaser may apply for an extension for the development periods with the Macau Government.

As advised by the Company's Macau legal adviser, the Purchaser is able to apply for an extension for the development periods of the Sites from the Macau Government. Based on the general practice in Macau, the Macau Government will grant an extension to the development period on the condition that:

- (i) the development plan of the Sites is approved by the Macau Government;
- (ii) the development of the Sites is commenced;

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- (iii) the Purchaser submits an application for an extension for the development period of the Sites to the Macau Government; and
- (iv) the Purchaser pays a premium/penalty in respect of the extension for the development period of the Sites as required by the Macau Government.

As estimated by a qualified architect, the length of construction period is approximately 24 months, in which 6 months for the piling of the Sites and 18 months for the construction of super structure and internal renovation. It is estimated that construction works shall be commenced in 3 months, upon the approval of the master development plan by the Macau Government.

According to the land lease concessions of each of Lot 6B, Lot 6C, Lot 6D and Lot 6E, the penalty for non-development on the expiry of development period is calculated as follows:

- (i) Lot 6B: MOP1,000 per day of the first 60 days delay; after these 60 days the penalty will be doubled (i.e. MOP2,000 per day) until the maximum of 120 days in total.
- (ii) Lot 6C: MOP5,000 per day of the first 60 days delay; after these 60 days the penalty will be doubled (i.e. MOP10,000 per day) until the maximum of 120 days in total.
- (iii) Lot 6D: MOP5,000 per day of the first 60 days delay; after these 60 days the penalty will be doubled (i.e. MOP10,000 per day) until the maximum of 120 days in total.
- (iv) Lot 6E: MOP5,000 per day of the first 60 days delay; after these 60 days the penalty will be doubled (i.e. MOP10,000 per day) until the maximum of 120 days in total.

As advised by the Company's Macau legal adviser, the premium/penalty for extending the development period of the Sites cannot be estimated at this stage as the Macau Government takes various factors/circumstances into account in determining such premium/penalty. However, the Vendor has paid a penalty of MOP3.60 million for extending the development period of the Sites from 25 December 1994 to 14 April 2013. As such, the Directors believe that the premium/penalty for extending the development period of the Sites would not be material.

The Purchaser has taken the penalty of MOP2.88 million calculated based on the above for non-development on the expiry of the development into account in calculating the cost of construction/development of the Sites. Given the premium for extending the development period of the Sites cannot be estimated, the Purchaser has not taken it into account in calculating the cost of construction/development of the Sites.

Given the Directors believe that the premium for extending the development period of the Sites would not be material, the Directors believe that the Group has sufficient funding to pay for such premium.

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As advised by the Company's legal adviser, a revocation of non-developed land lease concession is an executive measure by the Macau Government to ensure a stable supply of housing to and a creation of employment opportunities for Macauese residences. Accordingly, the chance for the Macau Government to declare a revocation of the land lease concessions in respect of the Sites is unlikely provided that the development plan of the Sites is approved by the Macau Government and the development of the Sites is commenced and progressed continually under the conditions as stated in the approved development plan of the Sites. The Company's Macau legal adviser also advises that there is no precedent for declaring a revocation of land lease concession, which is in "development-in-progress" in Macau.

The Purchaser shall apply for an extension for the development period of the Sites to the Macau Government, upon submission of the master development plan of the Sites to the Macau Government for approval.

Given the Acquisition representing the acquisition of the set of rights and obligations currently held by the Vendor under the leasehold granted by the Macau Government over the Sites as at the date of the Agreement, the Purchaser shall be responsible for the entire development cost of the Sites and retain the future economic benefits associated with the Sites.

Based on the gross constructional floor area of each of the land lease concessions of the Sites, the Directors estimate that the development costs for the Sites is approximately HK\$1,534.60 million, which shall be financed by the internal resources of the Group, borrowings, equity financing and proceeds from pre-sale of the properties to be erected on the Sites.

If the Pre-completion Transfer does not approve by the Macau Government, the Vendor will retain the legal titles to the properties to be erected on the Sites upon completion of the development of the Sites. In such event, the legal titles of the properties to be erected on the Sites upon completion of the development shall be transferred to the Purchaser or the buyers and no approval from the Macau is required. The Directors consider that the risk of the arrangement under the Agreement is minimal due to:

- (i) the power of attorney arrangement for sale and purchase of an undeveloped land in Macau, which is same as the arrangement under the Agreement comprising the Power of Attorney and the Declaration of Undertaking, is a normal business transaction in Macau and certain Hong Kong listed companies have engaged in the similar transactions, i.e. Shun Tak Holdings Limited (stock code: 242);
- (ii) Macau legal opinion confirming the transactions contemplated the Agreement comprising the Power of Attorney and the Declaration of Undertaking are legal and enforceable under the laws of Macau; and
- (iii) the Vendor is a well-established company with diverse business interests and has a history of over 45 years in Macau and its shareholders are respectable business entities and business tycoons in Hong Kong and Macau.

LETTER FROM THE BOARD

After the entering into of the Agreement, the Company raised approximately HK\$39.93 million by way of placing of new Shares under general mandate (the “Placing”) on 27 January 2011. On 9 February 2011 the Board announced that the Company entered into a conditional subscription agreement with Eternity Investment Limited (“Eternity”), a substantial Shareholder, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for the convertible bonds in a maximum principal of HK\$650 million (the “Convertible Bonds”) in two tranches at their fair value. As disclosed in the announcement of the Company dated 18 April 2011, the Board proposed to raise not less than HK\$363.53 million and not more than HK\$414.86 million by the Rights Issue. The proposed issue of the Convertible Bonds is conditional on the Independent Shareholders’ approval of the Acquisition. The Placing and the Rights Issue are not conditional on the Independent Shareholders’ approval of the Acquisition.

The net proceeds from the Placing of HK\$39.93 million will be applied as part of the Consideration. For the issue of the Convertible Bonds to Eternity, the proceeds from the first tranche of HK\$350 million and the proceeds from the second tranche of HK\$300 million will be applied for the development of the Sites.

As disclosed in the Company’s circular dated 31 March 2011, the issue of the Convertible Bonds is subject to the Shareholders (other than Eternity, Mr. Heung, Ms. Chen and their respective associates) having approved the Acquisition. Given no Shareholder has given any indication for voting on the issue of Convertible Bonds to Eternity, there is a risk that the proposed issue of the Convertible Bonds to Eternity may not be approved by the Shareholders (other than Eternity, Mr. Heung, Ms. Chen and their respective associates).

As stated in the section headed “Consideration” on page 17 of this circular, a 10% deposit of HK\$55 million has been paid to the Vendor upon the signing of the Agreement. The remaining balance of the Consideration of HK\$495 million shall be paid to the Vendor upon Completion. It is expected that the remaining balance of HK\$495 million shall be paid to the Vendor on or before 30 June 2011.

As stated on page 30 of this circular, the estimated development costs for the Sites is HK\$1,534.60 million. The expected capital investment for the development of the Sites is same as the estimated development costs of HK\$1,534.60 million.

As at 31 December 2010, the Group had a cash and bank balance of HK\$625.83 million. For the year ended 31 December 2010, the Group’s gaming promotion business generated a net cash income of HK\$136.60 million.

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Taking into account the internal resources of the Group and the proposed fund raising exercises, the financing plan for the whole project are as follows:

(i) *Consideration*

As the 10% deposit of HK\$55 million has been paid to the Vendor, the remaining Consideration of HK\$495 million will be satisfied by the internal cash available of the Group as at 31 December 2010.

(ii) *Development costs of the Sites*

The estimated development costs of the Sites of HK\$1,534.60 million will be satisfied in the following manner:

- (a) HK\$650 million will be satisfied by the net proceeds from the issue of Convertible Bonds;
- (b) approximately HK\$363.53 million will be satisfied by the net proceeds from the Rights Issue; and
- (c) the remaining balance of approximately HK\$521.07 million shall be satisfied by the internal cash available of the Group, recurring net cash income generated from the Group's gaming promotion business and the proceeds from pre-sale of the properties to be erected on the Sites.

It is expected that pre-sale of the properties to be erected on the Sites will be commenced in 9 months immediately after the commencement of the development of the Sites. Given the selling of real estate properties is subject to various factors, the Purchaser is not able to estimate how much proceeds could be generated from the pre-sale. However, the Directors expect that the Acquisition and the development of the Sites shall generate income and positive cashflow to the Group upon completion of the development of the Sites and commencing of sale of the properties to be erected on the Sites to the buyers.

Save for the proposed issue of the Convertible Bonds in a maximum principal amount of HK\$650 million to Eternity announced on 9 February 2010 and the Rights Issue for raising not less than HK\$363.53 million and not more than HK\$414.86 million, the Company is not in negotiation of any other fund raising exercises and has no plan for any future possible fund raising exercises. The Company considers that its disclosed and future possible fund raising plan and the possible dilution of shareholding under equity fund raising are material factors for the Shareholders' consideration of the Acquisition.

Having considered the size of the funding requirement for developing the Sites, the Directors consider that there is a risk if the Company may not be able to obtain sufficient fund for developing the Sites. Given the proposed issue of the Convertible Bonds and the Rights Issue are subject to satisfaction of the conditions precedent as set out in the respective agreements, Mr. Heung has agreed to make an

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interest-free and unsecured loan to the Group for financing the development of the Sites in the event that the proposed issue of the Convertible Bonds to Eternity and/or the Rights Issue do/does not proceed. The maximum amount of loan which will be extended by Mr. Heung is HK\$1,015 million. As such, the Directors are of the view that the Group has sufficient financial resources for funding the Acquisition and the development of the Sites and sufficient working capital.

As none of the Directors currently has the specific experience and expertise in the field of property construction and development, the Group will outsource the development of the Sites to a third-party contractor responsible for the design and construction of the Sites. Despite the Board having no specific experience and expertise in the field of property construction and development, the Board had actively participated in the design and renovation work of its hotel “Hotel Lan Kwai Fong Macau” when it was acquired by the Company in 2007 and has been renovated and re-launched in August 2009. The Board intends to take part in the design work of the Sites with the contractor. At this stage, no specific third-party contractor has been appointed by the Company for the development of the Sites. To cope with the development of the Sites, the Group will outsource the design, construction and development of the Sites to a third-party contractor whose qualifications are acceptable to Macau Public Works Department or Macau Government and its standard of quality and construction timeline to carry out the development of the Sites are acceptable to the Group.

Save for the due diligence exercise, such as review the legal titles and the existing ownerships of the Site, the Group has not conducted feasibility study for the development project. Given the Group is in the progress of preparing the master development plan of the Sites for submission to the Macau Government for approval, the Group will not perform a feasibility study before the Completion. Prior to the entering into the Agreement, the Group had discussions with various major property agents in Macau relating to the prospects of property market in Macau and the trend of prices. The Group has also carried out a thorough profit and cost analysis on the development project. Given the Consideration representing a 49.59% discount to the estimated market value of the Sites as at 31 March 2011, the development project shall be at breakeven in the event that the selling price represents a 50% discount to the average selling price of the newly built properties with similar quality in Macau Peninsula. Such analysis forms the basis for the Board’s recommendation of the Acquisition.

FINANCIAL EFFECTS OF THE ACQUISITION

According to Hong Kong Financial Reporting Standards, the Property Leasehold Right to be acquired by the Purchaser shall be recognised as properties under development in the property, plant and equipment in the consolidated statement of financial position of the Group upon the Completion given (i) it is probable that future economic benefits associated with the Property Leasehold Right will flow to the Purchaser; and (ii) the cost of the Property Leasehold Right can be measured reliably.

Assets

As at 31 December 2010, the audited consolidated total assets of the Group amounted to approximately HK\$3,345.09 million.

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Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group would have no effect as a result of the Acquisition.

Liabilities

As at 31 December 2010, the audited consolidated total liabilities of the Group amounted to HK\$765.14 million.

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have no effect as a result of the Acquisition.

Earnings

According to the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix IV to this circular, the financial results of the Enlarged Group would have no effect as a result of the Acquisition.

The Acquisition should have no effect to the earnings of the Company as enlarged by the Acquisition.

Gearing ratio

As at 31 December 2010, the total borrowings of the Group was HK\$500.00 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 21.71%.

The Acquisition would have no effect on the gearing ratio of the Enlarged Group.

PROSPECTS OF THE ENLARGED 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.

In August 2009, the Group successfully diversified its business into the Macau hotel business and broadened the Group's revenue sources and provided stable cash income to the Group. Save for the film production, distribution of film and television drama series, investing in operations which receive the profit streams from the gaming promotion business and the profit stream generated from the hotel business represents a substantial part of the business of the Group. Through the Acquisition, the Group will be able to develop a notable street with premiere dining and entertainment features which is dedicated to attract expatriates and tourists in Macau.

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The Board believes that the hotel business and gaming service operations continue to provide stable revenue and cash income to the Group. Meanwhile, the Acquisition will strengthen the Group's business portfolios and confidence in the prospect and development in Macau. Based on the above reasons, the Acquisition represents an opportunity with good potential of revenue growth and a positive impact on the Group's business in the long run.

RISK FACTORS

In light of the change of the Company's risk profile, the followings risk factors associated with Acquisition may be encountered by the Company and the management of the Company has taken/or will take appropriate steps to manage such risks:

(i) *Heavily reliance of the expertise to develop the Sites*

As disclosed under "Information on the development of the Sites" in this letter above, the Company has no experience in the field of property construction and development which leads to the management of the Company heavily reliant third party expertise for the development and construction work of the Sites. If the contractors cannot complete the development of the project on the Sites on time or deliver satisfactory services due to financial or other difficulties, the Company might incur additional costs and suffer adverse effect on its business, financial condition and results of operations.

The Company will outsource the design, construction and development of the Sites to a third-party contractor whose qualifications are acceptable to Macau Public Works Department or Macau Government and its standard of quality and construction timeline to carry out the development of the Sites are acceptable to the Company.

(ii) *Cash flow and the availability of funds for pre-sales and delivery of property projects*

Since the Group does not have any exposure to or experience in the new business, it is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it certain to control the operational risks that could lead to a loss during the development stage of the Sites. In addition, the financial requirement for the development of the Sites is primarily dependant on costs of raw material and construction costs and they may subject to change from time to time. Any substantial increase in such costs may have significant financial impact to the financial position.

To minimize the financial impact to the existing financial position of the Group, the Company has entered into a subscription agreement dated 21 January 2011 with Eternity, pursuant to the subscription agreement, the Company proposed to issue Convertible Bonds, subject to conditions precedent under the subscription agreement, to Eternity at an aggregate principal amount of HK\$650 million. All proceeds from the issue of Convertible Bonds is intended to be used for the Acquisition. After entered into the Subscription Agreement, the Company currently has no intention to finance the construction cost of the Sites by external borrowing.

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(iii) Work safety issue and environmental protection liability

The development of the Sites is subject to various environmental laws and regulations of Macau, including but not limited to regulations on noise emissions and waste discharge. Any failure to comply with all applicable regulations could lead to substantial penalties, including penalties and administrative orders such as an order to cease operation or to terminate the construction work. Any failure of the Company to control matters involved in complying with these laws and regulations could have a material adverse effect on the Company's business, financial condition and results of operations.

To cope with the risks associated with the work safety issue and environmental protection liability, the management of the Company will closely communicate with the Company's Macau legal adviser and contractor for the Sites' development to ensure the construction works carried out by the contractor adopt and implement sufficient measures to ensure compliance with the stringent regulatory requirements.

(iv) Fails to obtain the relevant approval or license from the Macau Government

As mentioned under "Assets to be acquired" in the letter from the Board, the transfer of legal title of the properties to be erected on the sites is subject to the prior approval from Macau Government. In the event that the Pre-completion Transfer cannot be obtained by the Purchaser from Macau Government, the Purchaser can transfer the legal title of the properties to be erected on the Sites upon completion of the development to itself, in which no approval of the Macau Government is required; or transfer the legal title of the properties to be erected on the Sites upon completion of the development to the buyers, in which no approval of the Macau Government is required.

In addition, as mentioned under legal and regulatory requirements in this letter, the property development to the Sites are subject to applicable laws and regulations. As at the Latest Practicable Date, the Board are not aware of any difficulty to obtain the relevant licenses and permits for the development of the Sites. However, the Board cannot assure you that the Company will not encounter major problems in obtaining the permits, licenses, certificates or approvals as required, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to the granting of the approvals. In addition, there may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. In the event that the Group fails to obtain such permits, licences, certificates or approvals in accordance with the planned schedule or at all, the development of the Sites may be adversely disrupted or even, in the worst scenario, may not be completed at all.

(v) Recovery of the global economy

Affected by the financial tsunami in late 2009, the continual and overall recovery of the global economy is still subject to many difficulties, and uncertainties exist for its recovery. Development of the real estate businesses of the Group and future prospect on the Sites is largely dependent upon the basic foundation of the macroeconomic performance of the whole world. The fluctuation of the macroeconomic situation could have effect on the market value and related cost of investments of the property to be erected on the Sites, which would in turn affect the Company's plan for and the investment return of the Sites.

LETTER FROM THE BOARD

(vi) Uncertainty regarding property demands and prices in Macau

The demand for housing in Macau is subject to numerous factors which are beyond the control of the Group, including but not limited to, Macau's economic conditions and global economic conditions, which in turn affect the pricing of the property. Any significant and sustained adverse movement of the global economic conditions may shrink the overall economy of Macau as well as the demands for housing in Macau. Distortion of Macau's economic conditions may decrease the demands for the property. It may lead to a material deterioration in the profitability of the project on the Site.

(vii) Competitions from other commercial and residential property developers in Macau for contractors and labours

The property market in Macau is increasingly competitive. The potential competitors include local private developers in Macau or Hong Kong as well as developers from elsewhere in the world. A number of our potential competitors have greater marketing, financial and technical resources, greater economies of scale, broader name recognition, and more established track records and relationships in certain markets. The intense competition among property developers may result in increased construction costs and difficulty in obtaining high quality contractors. It may also result in an oversupply of properties, a decrease in property prices or a slowdown in the rate at which new property developments will be approved or reviewed by the relevant government authorities in Macau, any of which may adversely affect business and financial position of the Group. Generally, the property market can be changed dramatically. If the Company cannot respond to changes in market conditions swiftly or effectively than other competitors, the business, results of operations and financial condition of the Group could be adversely affected.

The development of Property also faces other competitions including shortages or delays in the supply of labour and materials and equipment with other commercial and residential property developers in Macau. In light of these risks, the construction of the Property may not be completed as scheduled and cash flow projections of the Property may be subject to unforeseeable changes. Given the above risks are beyond the control of the Group, the Board will communicate with the contractor to be appointed by the Group relating to the development of the project and closely monitor the development of the Property to ensure the completion of the development of the Sites can be carried out as planned and scheduled.

(viii) Change of government policies relating to real estate business in Macau

There is no assurance that (i) there will be no change in government policy in relation to conduct of business relating to real estate business in Macau; and (ii) such change will not have a negative impact on the Group. In the event of the implementation of any unfavourable government policy to real estate business, which may result in (i) increase in operation cost; and (ii) the obligation to comply with more onerous requirements in relation to the conduct of the real estate business in Macau, the profitability of the project may be adversely affected.

LETTER FROM THE BOARD

(ix) Complexity of legal and regulatory arrangement and procedures in the development of the Sites

The application procedures in the development of the Sites may be subject to new legal and regulatory arrangement of Guia Lighthouse height restrictions after the Guia Lighthouse has become the World Heritage Site granted by United Nations Educational, Scientific and Cultural Organization or factors other than maximum altitude permitted for building Lighthouse and the calculation of the shadow area established under article no. 88 of the General Regulation of Urban Construction of Macau. The new application procedure may affect the timing of the completion on the Site or development of the construction as planned. There is possible change in policy, laws and regulations, which may give rise to uncertainties in their interpretation, application and enforcement. Depending on what the change is, such change may also affect the business community's interest in conducting real estate businesses in Macau, which in turn may affect the acquisition or development of the Sites. The valuation of the Sites as at 31 March 2011, prepared by the independent valuer, is contained in Appendix V to this circular. The valuation is based upon certain assumptions, which by its nature, is fair and reasonable as the valuer has taken into account the regulations and ordinances subject by the property. A list of the relevant assumptions is included in Appendix V. Shareholders should hence note that the value of the Sites may differ from its estimated valuation as at 31 March 2011 upon different dates.

(x) Uncertainty relating to the financing cost

The financing cost of the construction will be largely affected by the interest rate at the relevant time. Although the interest rate has maintained in relatively low in the past few years, great pressure on the rise of the interest rate exists. In the event that external financing, such as bank borrowing, is required by the Company to cope with the development of the Sites, the rise in interest rate may increase the financing cost of the construction project on the Sites which in turn may affect the financing cost of the Group.

(xi) The development of the Sites is capital intensive, and failure to maintain sufficient capital may have an adverse impact to the financial position of the Group

The development of the Sites is capital intensive as it requires a large sum of capital contribution at early stage, including construction cost of Sites. The property development business is capital intensive. It typically requires substantial capital outlays for land acquisition and property development and may take months or years before a cash inflow can be generated by the sale of a completed property development. If the Group fails to maintain sufficient capital for the development of the Sites, it may not be completed and the business of the Group may be adversely affected. The Company will consider obtaining the advance from Mr. Heung in the event that the Board considered the risk of external financing increase.

(xii) The Company may not be able to complete the development project on schedule

Construction delays or the failure to complete the construction of a project according to its planned specifications, schedule or budget may result in loss of or delay in recognising revenues and lower returns. In addition, further regulatory changes, competition, and inability to procure governmental approvals or required changes in project development practice could occur at any stage of the planning and development process. The Company may not be able to complete the development project on schedule.

LETTER FROM THE BOARD

(xiii) The business and financial conditions of the Company may adversely affect by increases in the cost of construction

Construction materials constitute a key driver of the construction costs of the property projects. In general, the construction materials costs are included in the contract fee payable to the contractors, who are generally responsible for procuring the required construction materials. Nonetheless, the Company may be required to bear certain of the increased costs when the prices of the construction materials exceed a certain threshold. Due to the rapid growth in the property development industry in recent years in Macau, construction materials have substantially increased in price. Such price adjustment terms are not uncommon in the property construction agreements. Most likely, the Company may be required to enter into contracts with similar pricing terms with the third party contractor(s), which will, in part, be affected by market practices which may be beyond the Board's control. Furthermore, there can be no assurance that the contractor(s) will actually complete their contract performance without any fee adjustment, or at all, or that we can find replacement contractor(s) at the same fee if construction materials cost continue to increase. Should the contractor(s) fail to perform under the fixed price contracts as a result of increases in cost of construction materials or otherwise, the Company may incur significant litigation costs and replacement costs, which would adversely affect the results of operations of the development.

(xiv) The Company is entering into large-scale property investment in new business sector and may pose significant challenges to the Group

The Company is entering into large-scale property development which the Company has not previously had exposure to or experience in. The new business, coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Board does not have exposure to or experience in property investment business, it is not in a position to assure the timing and amount of any return that may be generated from the new businesses, nor is it in a position to control the operational risks that could lead to a loss of the Group in future. In such respect, as a risk mitigating measure and an integral part of the Acquisition, the Board will closely monitor the development of the Sites so as to ensure the development plan of the Sites can be carried out properly as planned.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. As the Vendor is, so far as the Directors are aware, an associate of Dr. Ho, a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. In addition, as Mr. Heung is a cosigner to the Agreement, Mr. Heung is considered to have an interest in the Agreement. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM. Dr. Ho, the Vendor, Mr. Heung and their respective associates shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transaction contemplated thereunder. To the best of Directors' knowledge, information and belief, Dr. Ho, the Vendor and their respective associates do not hold Shares that is required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND THE 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 Agreement and the Acquisition. Donvex Capital 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 at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 3:45 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) is set out on pages 122 and 123 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 17M 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 (excluding the independent non-executive Directors whose view will be included under letter from Independent Board Committee in this circular) 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 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 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

20 May 2011

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION IN RELATION TO THE
PROPOSED ACQUISITION OF THE PROPERTY LEASEHOLD RIGHT**

We refer to the circular dated 20 May 2011 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. Donvex Capital 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 42 to 49 of the Circular.

Having considered the terms of the 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 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 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

20 May 2011

*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 PROPERTY LEASEHOLD RIGHT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board contained in the circular of the Company dated 20 May 2011 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 23 December 2010, the Company announced that the Agreement was entered into between, inter alia, the Purchaser, the Vendor, the Company and Mr. Heung, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Property Leasehold Right (and the inherent transfer to the Purchaser of the legal title to the Sites) at a consideration of HK\$550 million. Completion is subject to the fulfillment of all the conditions as set out in the Agreement on or before the Long Stop Date. In the event that the approval from the Shareholders (other than those who are required to abstain from voting, if any) for the Agreement and the transactions contemplated by the Agreement is not obtained by the Long Stop Date, Mr. Heung irrevocably and unconditionally undertakes and agrees that in the event that the approval of Shareholders for the Acquisition is not obtained, Mr. Heung shall, within 14 days from written demand by the Purchaser and/or the Company fully and effectively pay the Purchaser and/or the Company the amount of HK\$55 million, being the deposit paid by the Purchaser to the Vendor pursuant to the Agreement. The Consideration will be funded from/by internal resource of the Company, bank borrowings and/or equity financing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. As the Vendor is an associate of Dr. Ho, a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. In addition, as Mr. Heung is a cosigner to the Agreement, Mr. Heung is considered to have an interest in the Agreement. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM. Dr. Ho, the Vendor, Mr. Heung and their respective associates shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transaction contemplated thereunder.

The Independent Board Committee, comprising, 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 Acquisition 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 and recommendations, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular. The Directors also confirmed that, having made all reasonable enquiries and 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 material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of Acquisition, we have considered the following principal factors and reasons:

1. Background to and reasons for 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon Completion, the Group intends to develop the Sites into office units and residential apartments for sale. In accordance with the article of the “Quarterly Gross Domestic Product” issued by the Government of Macao Special Administrative Region Statistics and Census Service, a rise of 27.1% year on year in real terms for the third quarter of Macau’s GDP in 2010, the Directors are confident in Macau’s economy as well as its property market in coming years. The Directors expect the outlook for Macau’s property market to be positive, which is supported by the following:

1. Macau’s real interest rates will likely remain in the negative regime for coming years, which provides a favourable environment for property investment;
2. A low jobless rate of 2.9 % in third quarter of 2010 infers a better job security, which may fuel demand from local end-users
3. The reactivation of construction projects on the Cotai Strip will further strengthen the local labour market, which leads a stronger local consumption and property investment demand in Macau; and
4. The PRC Central Government’s policy strategy for developing Macau into an important platform for economic co-operation and trade between Mainland China and Portuguese-speaking countries.

Given positive signs for Macau’s tourism continue, as the total visitor arrivals increased by more than 14% year on year in the year to 24,965,411 for 2010 and the superb location of the Sites which is adjacent to Lan Kwai Fong (Macau), Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is couple blocks away from Macau Fisherman’s Wharf and Sands Casino, the Group also intends to develop the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding area of Lan Kwai Fong (Macau).

Based on the above, the 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 and consider that the Acquisition is in the interest of the Company and the Shareholders as a whole.

In addition, the Directors consider that there is the advantage of the superb location of the Sites which is adjacent to Lan Kwai Fong (Macau), Macao Polytechnic Institute, Forum de Macau and Golden Lotus Square and is a couple blocks away from Macau Fisherman’s Wharf and Sands Casino. The Sites are undeveloped land but are temporarily occupied by Lan KWai Fong (Macau) as parking lot. The Sites are surrounded by residential, commercial properties and Hotels. The Sites is lying on Rua de Luis Gonzaga Gomes located in the heart of Macau Peninsula and are approximately 20 minutes walk from Macau Ferry Terminal and Heliport which is part of the transportation network to Hong Kong as well as China. The Group also intends to develop the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding area of Lan Kwai Fong (Macau).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Overall, based on (i) the Group's policy to diversify the investment portfolio in Macau and broaden its revenue base; (ii) the Acquisition is in line with the Group's business strategy; (iii) the article of the "Quarterly Gross Domestic Product" issued by the Government of Macao Special Administrative Region Statistics and Census Service; (iv) article which has overviewed the Macau economy and stated that strong growth in the city's gaming and tourism sectors with low unemployment rate and visitor numbers increasing were factors contributing to the prospect of Macau economy. In such article, it also included that the positive momentum in the first half of 2010 is expected to continue into the second half of the year albeit at a more moderate pace; and (v) article from Macau News stated that the Macau economy is expected to see real expansion in 2012 and continuous strong growth in the city's gaming and tourism sectors in the next few years is the drive to the rising price of the property in Macau, 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 of the Acquisition

(i) Basis of the Consideration

As stated in the Letter from the Board, the Consideration is paid in the following manner:

- A 10% deposit of HK\$55 million has been paid to the Vendor upon the signing of the Agreement; and
- The balance of HK\$495 million shall be paid to the Vendor upon Completion.

The Consideration, which was determined after arm's length negotiations between the Vendor and the Purchaser, represents a 49.59% discount to the estimated market value of the Sites as at 31 March 2011.

Although the determination of the Consideration is based on the "must buy" 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 Sites (the "Valuation Report") conducted by Grant Sherman Appraisal Limited (the "Valuer"), an Independent Third Party as stated in Appendix VIII of 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 Leasehold Right" below. Compared to the value of the Sites which is of approximately HK\$1,091 million accordingly to the Valuation Report, the Consideration is 49.59% discount to the value of the Sites. We are of the view that the consideration for the Acquisition is fair to the Group as it is discounted to the value of the Sites as stated in the Valuation Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Funding of the Consideration

As stated in the Letter from the Board, the Consideration will be funded from/by internal resources of the Company, bank borrowings and/or equity financing. Notwithstanding the above, the Acquisition represents a significant commitment in the near future for the Group as the Sites have been identified by the Group as one of its key investment in its business development. Given the funding requirements for the development of the Sites 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 Sites. Independent Shareholders should take into consideration that if the Acquisition is approved, the development of the Sites 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 of the Sites

The estimated development costs of the Sites of HK\$1,534.60 million will be satisfied in the following manner:

- (a) HK\$650 million will be satisfied by the net proceeds from the issue of Convertible Bonds;
- (b) HK\$363.53 million will be satisfied by the net proceeds from the Rights Issue; and
- (c) The remaining balance of HK\$521.07 million shall be satisfied by the internal cash available of the Group and the proceeds from pre-sale of the properties to be erected on the Sites.

Based on (i) the positive research and analysis in the Macau property markets as a result of the continuous growth of the gaming and tourism sectors in Macau; (ii) the shortage of land supply in Macau as stated in the article of Macau Daily Times; and (iii) the concrete arrangement of the payment of the estimated development costs of the Sites, we are of the view that the Acquisition is in the interest of the Company and its Shareholders.

3. Valuation of the Property Leasehold Right

As set out in the Letter, the Consideration is determined based on the "must buy" basis between the Purchaser and the Vendor, and with reference to the market value of the Sites.

Although the determination of the Consideration is based on the "must buy" 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(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, including the followings:

1. The Sites will be developed in accordance with the development covenants, regulations and ordinances and that the Sites will be developed immediately after the completion of negotiation with the government or obtaining approval of development proposals or building plans;
2. The Company has free and uninterrupted rights to use the Sites;
3. The Company is entitled to transfer the Sites without payment of any further premium to government authorities or any third parties;
4. All consents, approvals and licenses from relevant government authorities for the Sites have been granted or can be obtained and renewed without onerous conditions or undue time delay which might affect its value; and
5. Maximum altitude restriction will influence the Building Floor Areas of the Site and as a result the Site could not be constructed and achieved the Building Floor Area. The Sites shall comply with the maximum altitude permitted for building light house and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no 88 of the General Regulation of Urban Construction, and the Building Floor Areas of the Sites will be influenced.

An interview has been conducted with the management of the Company for the following issues:

- (i) the management of the Company confirmed that the Sites will be developed immediately upon the completion of negotiation with the government or obtaining approval of development of the Sites;
- (ii) the management of the Company undertakes to obtain all consents, approvals and license from relevant government authorities for the Sites and could not foresees any difficulties in obtaining such license for the development of the Sites. As such, they are of the view that all consents, approvals and license from relevant government authorities for the development of the Sites could be obtained within a reasonable time which should not have impact on the value of the Sites; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the land lease concessions which lay down the requirement of the annual rental and the development outline of the Sites. As such no uncertainty relating to the development restriction of the Sites is foreseeable by the Company.

We understand that the land lease concessions in respect of the Sites has laid down the requirement of the development details of the Sites and the relevant payment as stated in the Letter from the Board. According to the discussion with the Valuer, it is based on the figure of the information of the land lease concession, therefore, the Valuation Report is reasonably prepared. Based on the above, we are of the view that the Valuation Report is reasonably prepared.

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

4. Risks associated with the Property Leasehold Right

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

- (i) the commercial marketability of the construction of the Sites as the constructed property of the Sites may or may not sale well in the market and the time as to when the Company can and will launch the constructed property of the Sites 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 of the Sites if the property market in Macau turn down when the Company plan to launch the constructed property of the Sites 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 Sites 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 is not higher than the valuation of the Sites; (ii) the positive research and analysis in the Macau property markets as a result of the continuous growth of the gaming and tourism sectors in Macau; (iii) the shortage of land supply in Macau as stated in the article of Macau Daily Times; and (iv) the concrete arrangement of the payment of the estimated development costs of the Sites, the Acquisition is justifiable and in the interests of the Company and its Shareholders.

5. Financial effects of the Acquisition on the Group

(a) Total asset

As at 31 December 2010, the consolidated total assets of the Group were approximately HK\$3,345 million. Based on the unaudited pro forma financial information of the Enlarged Group as contained in Appendix IV to the Circular ("Pro Forma Financial Information"), there will be no impact on the Group's consolidated total assets, assuming the Acquisition was completed on 31 December 2010.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Total liabilities*

As at 31 December 2010, the consolidated total liabilities of the Group were approximately HK\$765 million. Based on Pro Forma Financial Information, there will be no impact on the Group's consolidated total liabilities, assuming the Acquisition was completed on 31 December 2010.

(c) *Cash*

According to the Pro Forma Financial Information, the pro forma cash and bank balance of the Group as at 31 December 2010 would be reduced from approximately HK\$625.83 million to HK\$73 million. The change is mainly due to the cash payment of HK\$550 million on acquisition of Property Leasehold Right classified as Properties under development and the estimated transaction cost in the amount of approximately HK\$3 million capitalized into Properties under development.

(d) *Net Profit*

For the year ended 31 December 2010, the profit of the Group was approximately HK\$25 million. Upon completion of the Acquisition, there is no impact on the profitability of the Group.

RECOMMENDATION

Having considered the above principal factors, in particular, (i) Reasons and benefits of the Acquisition; (ii) Consideration and funding for the Acquisition; (iii) Valuation of the Sites; (iv) Risks associated with the Sites; and (v) 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.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
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 Group for each of the three financial years ended 31 December 2010, 2009 and 2008:

(i) *For the year ended 31 December 2010*

Financial Review

For the year ended 31 December 2010, the Group's turnover increased by 59% to approximately HK\$864,261,000 (2009: HK\$543,429,000).

Profit from operations and profit for the year amounted to approximately HK\$41,033,000 and HK\$24,827,000 respectively as compared to HK\$251,153,000 and HK\$164,395,000 respectively for last year. The substantial decrease was mainly attributable to an aggregate impairment losses of HK\$206,948,000 recognised in respect of intangible assets of HK\$197,973,000 and goodwill of HK\$8,975,000 during the interim review of the Group as at 30 June 2010 with regard to the decrease in sharing of profit streams from investments in gaming promotion business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming promoters at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. As at 31 December 2010, the Group did not identify further impairment losses. Taking out the effect of the impairment losses recognised, the Group's profit from operations and profit for the year would amount to approximately HK\$247,981,000 and HK\$231,775,000 respectively.

The loss attributable to owners of the Company for the year ended 31 December 2010 was HK\$8,083,000, representing a 104% decrease over profit of HK\$204,388,000 in the last year.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: nil).

Business Review

Of the total turnover amount for the year, HK\$725,130,000 or 84% was generated from hotel and gaming service operations, HK\$137,814,000 or 16% was generated from gaming promotion operations and HK\$1,317,000 or 0% was generated from film distribution operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau (“Lan Kwai Fong”) which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”) and services provided to the casino situated in Lan Kwai Fong (the “Casino LKF”) which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited (“Classic”). Lan Kwai Fong presents a total of 200 guest rooms, casino situated in the 1st and 18th floors, restaurants, flower shop, retail shop and a spa.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31 December 2010, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 128 slot machines.

Revenue in the hotel and gaming service operations mainly comprised of hotel room sales of HK\$52,426,000 (2009: HK\$18,611,000), food and beverage of HK\$12,931,000 (2009: HK\$3,972,000) and services income of HK\$653,696,000 (2009: HK\$197,027,000) and HK\$6,077,000 (2009: HK\$2,433,000) received from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment profit of HK\$64,333,000 (2009: loss of HK\$76,635,000). In year 2009, Lan Kwai Fong had operations for only around 5 months. This year, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK\$60,428,000 which represented increase of 36% from approximately HK\$44,409,000 in 2009, mainly reflecting 38% increase in monthly service income from table gaming to approximately HK\$54,475,000 in 2010 from approximately HK\$39,405,000 in 2009.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK\$137,814,000 (2009: HK\$294,806,000) and HK\$70,349,000 (2009: profit of HK\$292,710,000) from the gaming promotion business, a decrease of 53% and 124% respectively.

Although Macau's casino gaming industry earned record revenue in year 2010, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10 August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also decrease the expected cash inflow from this operation and thus recognised an aggregate impairment losses of HK\$206,948,000 in respect of intangible assets of HK\$197,973,000 and goodwill of HK\$8,975,000 during the interim review as at 30 June 2010. As at 31 December 2010, the Group did not identify further impairment losses. Although the Group had to recognise an impairment for this investment this year, the Group considered the investment was fair as the accumulated revenue received from this investment amounted to approximately HK\$635,948,000 which is far exceeding the impairment losses recognised. Besides, it can provide strong cash flow to the Group with comparatively small costs.

Film Distribution Operations

Film distribution operations includes production and distribution of motion pictures and television drama series and provision of other film related services. The Group had distributed only 1 new film during the year.

In year 2010, turnover for film distribution division amounted to HK\$1,317,000 (2009: HK\$26,580,000) and its segment loss amounted to HK\$520,000 (2009: HK\$11,738,000) which included impairment loss recognised in respect of film rights and goodwill of HK\$1,339,000 (2009: nil) and nil (2009: HK\$15,416,000) respectively.

Geographical segments

For the geographical segments, as revenue from hotel and gaming service operations and gaming promotion operations are all sourced in Macau, almost 100% turnover of the Group during this year were come from Macau.

Administrative Expenses

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

Liquidity and Financial Resources

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

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

On 4 January 2010, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. 540,000,000 new shares was issued on 11 February 2010 under the specific mandate granted to the directors of the Company at the special general meeting of the Company held on 8 February 2010. The net proceeds of approximately HK\$75,400,000 were used for the Group’s investment projects in Macau and general working capital of the Group.

On 8 December 2008, the Company announced that it proposed to subscribe zero coupon convertible bonds in principal amount of HK\$60,000,000 to be issued by KH Investment Holdings Limited (formerly known as China Star Film Group Limited) (“KH Investment”) in five tranches of HK\$12,000,000 each due on the tenth anniversary of the date of issue for such tranche. HK\$60,000,000 convertible bonds were issued by KH Investment to the Company on 29 January 2009 and were fully redeemed by KH Investment on 26 May 2010.

On 26 April 2010, the Company announced that it proposed to issue bonus warrants at the initial subscription price of HK\$0.193 per new share of HK\$0.01 each (subject to adjustment) on the basis of one bonus warrant for every five shares held on 8 June 2010. The warrants of the Company were issued on 15 June 2010. As at 31 December 2010, the Company had approximately HK\$111,526,000 warrants outstanding which are convertible into approximately 602,841,000 shares of the Company at an adjusted subscription price of HK\$0.185 per share. On 27 January 2011, the subscription price of the warrants was further adjusted to HK\$0.182 per share upon completion of the placement of 577,855,000 new shares of the Company.

On 8 July 2010, the Company announced that it proposed to raise approximately HK\$144,464,000 before expenses by way of rights issue of 1,444,643,184 rights shares at a subscription price of HK\$0.1 each on the basis of one rights shares for every two shares held on 20 July 2010. The estimated net proceeds were approximately HK\$141,460,000, of which approximately HK\$100,460,000 were intended to be used for reducing the Group's bank borrowings and approximately HK\$41,000,000 was intended to be used for financing hotel operation of the Group or general working capital of the Group. The rights shares were issued on 11 August 2010. On 9 February 2011, the Company announced that the Company and the bank had agreed to restructure the Group's bank borrowings with better terms and longer repayment period. In view of the Acquisition (as defined herein), the Company intend to change the use of proceeds of the rights issue and to apply the net proceeds of approximately HK\$100,460,000 to satisfy part of the total consideration for the Acquisition. HK\$41,000,000 were used for financing hotel operation of the Group and general working capital of the Group as intended. Subsequent to the completion of rights issue, the minority shareholders of Hotel Lan Kwai Fong (Macau) Limited, a 50% owned subsidiary of the Group, and the bank had agreed to restructure the outstanding bank borrowing and bank overdraft owing to the bank. As a result, the outstanding bank borrowing and bank overdraft were repaid and substituted with a new bank loan with better terms and longer repayment period. In view of the Acquisition, the Directors intend to apply the net proceeds of approximately HK\$100 million from the rights issue to satisfy part of the Consideration.

During the year ended 31 December 2010, certain option holders exercised their option rights to subscribe for an aggregate of 52,790,000 shares of HK\$0.01 each at exercise price of HK\$0.18 per share. The net proceeds from the exercise of option rights amounted to HK\$9,502,200.

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

On 9 February 2011, the board of directors of the Company announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation ("Capital Reorganisation") of the Company comprising (a) share consolidation that every 10 issued and unissued existing shares of HK\$0.01 each be consolidated into 1 consolidated share of HK\$0.10 each of the Company ("Consolidated Shares"); (b) capital reduction that (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; (ii) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each; and (iii) the credit arising from the reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (c) capital increase

that the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 new shares of HK\$0.01 each. The Capital Reorganisation was not yet completed up to the reporting date.

On 21 January 2011, the Company and Eternity Investment Limited (“Eternity”) entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK\$650,000,000 in two tranches at their face value. The convertible bonds will be unsecured, interest bearing at 8% per annum and carry the right to convert into shares of the Company at an initial conversion price of HK\$0.08 per share (subject to adjustment) and will mature on the 5th anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK\$649,500,000 will be used for financing the Acquisition, the development of the Sites (as defined herein) to be acquired in the Acquisition and/or the general working capital of the Group.

Material Acquisitions

On 29 April 2009, Bestjump Holdings Limited (“Bestjump”), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), an executive director and a substantial shareholder of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the “Targeted Companies”) and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the “Macau Co”), indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named “Lote C7 do Plano de 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 “Macau Land”). Details of the transaction were set out in the Company’s circular dated 17 August 2009 (“the Circular”). The transaction has been approved in a special general meeting of the Company held on 3 September 2009. The longstop date of the agreement had extended to 31 December 2010 and further extended to 31 December 2011. As set out in the Circular, one of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the “C” area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14 August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city’s infrastructures as a whole. It is anticipated that the Macau Government will need further time for its consideration and deliberations of the conceptual planning proposals to finalise the plan. As the conditions have not been satisfied or waived by Bestjump, the transaction has not yet completed up to the reporting date.

On 8 December 2010, China Star Entertainment (BVI) Limited (“CSBVI”), a wholly owned subsidiary of the Company, KH Investment and China Star Film Group Limited (the “JV Company”) entered into a joint venture agreement (the JV Agreement”) relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, the JV Company agreed to issue and allot 30 shares and 29 shares of the JV Company at a price of HK1,000,000 per share to CSBVI and KH Investment respectively. CSBVI and KH Investment will beneficially interested in 50% each of the JV Company after the completion of the JV Agreement. The 59 shares of the JV Company were issued and allotted on 7 January 2011.

On 23 December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company (the “Purchaser”), the Company, Sociedade de Turismo e Diversões de Macau, S.A. (the “Vender”) and Mr. Heung Wah Keung, a director of the Company entered into a conditional agreement pursuant to which the Vender has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the property leasehold right held by the Vender under the leasehold granted by the Macau Government over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the “Sites”) (and the inherent transfer to the Purchaser of the legal title to the Sites) at a consideration of HK\$550,000,000 (the “Acquisition”). The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and thus is subject to the approval of the independent shareholders of the Company in a special general meeting to be convened by the Company.

Employees

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

Prospect

As majority of the Group’s revenues are contributed by operations in Macau, Macau’s economy will have significant impact on the future performance of the Group. The Group considers that the prospect of Macau over the near to medium term are excellent given its infrastructural development become more mature and this can be supported by the strong growth of Macau’s gaming industry in 2010.

In March 2010, the Macau government announced that the total number of gaming tables in Macau would be capped at 5,500 in the next three years. The Group expects that this policy would limit the competition among the gaming industry in Macau and thus enhance the future development of the operations in Lan Kwai Fong and the gaming promotion business.

Despite Hong Kong movie market situation remained unfavourable, the development of China movie market created new opportunities for the industry. Although the film productions of the Group are substantially decreased in these few years, the Group will continue on utilising its well established network and solid experience in the market to produce and distribute high quality films. By investing in the newly formed joint venture company, China Star Film Group Limited which is engaged in production and distribution of films, with KH Investment, the Group can reduce the working capital tied up in the film production and distribution business and spread out the business risks involved.

(ii) *For the year ended 31 December 2009*

Financial review

For the year ended 31st December 2009, the Group's turnover increased by 139% to approximately HK\$543,429,000 (2008: HK\$227,747,000).

Profit from operations and profit for the year amounted to approximately HK\$251,153,000 and HK\$164,395,000 respectively as compared to HK\$121,695,000 and HK\$65,590,000 respectively for last year.

The profit attributable to owners of the Company for the year ended 31st December 2009 was HK\$204,388,000, representing a 126% improvement over HK\$90,604,000 in the last year.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 31st December 2009. The directors recommended a final dividend of HK\$0.02 per share for the year ended 31st December 2008.

Business review

This year, as Hotel Lan Kwai Fong Macau ("Lan Kwai Fong", formally known as Hotel Kingsway), a major investment of the Group had its grand opening in August 2009, it started to contribute revenue to the Group during the year. Lan Kwai Fong presents 200 rooms and suites with 112 deluxe rooms, 82 grand suites, 4 exclusive suites and 2 luxuriously appointed LKF apartments. Casino located in Lan Kwai Fong (the "Casino LKF") situates in the first and 18th floor. Located on 18th floor is the sky casino with red carpet suite features eight VIP rooms with unique decoration. Lan Kwai Fong also operates dining restaurants, a flower shop, retail shops and a spa.

Of the total turnover for the year, HK\$222,043,000 or 41% was generated from hotel and gaming service operations, HK\$294,806,000 or 54% was generated from gaming promotion operations and HK\$26,580,000 or 5% was generated from film distribution operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Lan Kwai Fong which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”) and services provided to the casino situated in Lan Kwai Fong which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited (“Classic”).

Revenue in hotel and gaming service operations mainly comprised of hotel room sales of HK\$18,611,000, food and beverage sales of HK\$3,972,000 and service income of HK\$197,027,000 and HK\$2,433,000 from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment loss of approximately HK\$76,635,000. For the year ended 31st December 2009, Lan Kwai Fong had operations for only around 5 months but had to expense for the whole year’s administrative expenses, the grand opening expenses and pre-operating expenses, it then attributed a segment loss for the year.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31 December 2009, Casino LKF operated a total of 87 tables, targeting both for the VIP market and the mass market. It also operated a total of 104 slot machines.

Gaming Promotion Operations

The Group’s investment in Best Mind International Inc. (“Best Mind”) has continued to share strong profit 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 Group had shared revenue and segment profit of approximately HK\$294,806,000 (2008: HK\$203,327,000) and HK\$292,710,000 (2008: HK\$201,604,000) from the gaming promotion business.

Film Distribution Operations

Film distribution operations includes production and distribution of motion pictures and television drama series and provision of other film related services. The Group had released only 3 new films in the market in response to the weak market condition of the entertainment industry in these years. In year 2009, turnover for film distribution operations amounted to HK\$26,580,000 (2008: HK\$24,420,000) and its segment loss amounted to HK\$11,738,000 (2008: HK\$19,128,000) respectively. In response to the weak market condition, the Group had impaired the goodwill of HK\$15,416,000 (2008: HK\$13,646,000) for the cash generating unit of film distribution business as at 31st December 2009.

Administrative Expenses

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

Liquidity and financial resources

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

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

On 8 December 2008, the Company announced that it proposed to subscribe zero coupon convertible notes in principal amount of HK\$60,000,000 to be issued by China Star Film Group Limited (formerly known as Golife Concepts Holdings Limited) (“CS Film Group”) in five tranches of HK\$12,000,000 each due on the tenth anniversary of the date of issue for such tranche (“Subscription”). HK\$60,000,000 convertible notes were issued by CS Film Group to the Company on 29 January 2009.

At the same date, the Company also announced that 1,064,486,080 offer shares of the Company 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 shares taken up under the open offer of the Company. The estimated net proceeds of not less than approximately HK\$42,000,000 were intended to be used for the Subscription. The offer shares and the bonus shares were allotted and issued on 26th February 2009.

On 29 January 2009, 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 26th February 2009, the Board announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation (“Capital Reorganisation”) of the Company comprising (i) share consolidation that every 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 Shares”); (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 Shares such that the nominal value of each issued Consolidated Shares 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 each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into 100 new shares of HK\$0.01 each. The Capital Reorganisation was completed on 4th May 2009.

On 11th March 2009, the Company entered into a loan agreement with China Star Investment Holdings Limited (“China Star Investment”) pursuant to which China Star Investment agreed to grant an unsecured loan facility of up to HK\$200,000,000 to the Company. HK\$200,000,000 (the “Loan Advance”) was drawn on 29 April 2009. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are the common executive directors and have beneficial interests in the Company and China Star Investment as at the date of the agreement.

On 12th May 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 800,000,000 new shares of the Company to independent investors at a price of HK\$0.20 per share. 800,000,000 new shares were allotted and issued on 11th June 2009 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 5th June 2009. The net proceeds of approximately HK\$158,000,000 were used to finance the hotel operations and for general working capital of the Group.

On 16th July 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 207,900,000 new shares of the Company to independent investors at a price of HK\$0.22 per share. 207,900,000 new shares were allotted and issued on 29th July 2009 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2009. The net proceeds of approximately HK\$45,238,000 were used for the general working capital of the Group.

On 23rd July 2009, the Company entered into a subscription agreement with China Star Investment pursuant to which the Company has agreed to issue and China Star Investment has agreed to subscribe for the convertible notes (the “China Star Investment Convertible Notes”) in the principal amount of HK\$200,000,000 to be issued by the Company. The subscription price should be satisfied by setting off against the Loan Advance. The China Star Investment Convertible Notes were unsecured, interest bearing at prime rate of The Hong Kong and Shanghai Banking Corporation Limited and carry the right to convert into shares of the Company at an initial conversion price of HK\$0.20 per share (subject to adjustment) during the conversion period from the date of issue to the third anniversary from date of issue. The China Star Investment Convertible Notes were subscribed by China Star Investment on 21st September 2009. During the year ended 31st December 2009, the China Star Investment Convertible Notes were fully converted into 1,000,000,000 shares of the Company at the conversion price of HK\$0.20 per share. China Star Investment become a substantial shareholder of the Company.

During the year ended 31st December 2009, certain option holders exercised their option rights to subscribe for an aggregate of 49,087,000 shares of the Company at an exercise price of HK\$0.268 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$13,155,000. Subsequent to the balance sheet date, a total of 52,790,000 options were exercised at an exercise price of HK\$0.180 per share to convert into 52,790,000 shares of the Company on 8th January 2010 with net proceeds of HK\$9,502,000.

Subsequent to the balance sheet date, the Company entered into a placing agreement on 4 January 2010 with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of the Company to independent investors at a price of HK\$0.14 per share. 540,000,000 new shares were allotted and issued on 11 February 2010 under the specific mandate granted to the directors of the Company at the special general meeting of the Company held on 8 February 2010. The net proceeds of approximately HK\$75,400,000 were intended to be used for the Group’s investment projects in Macau and general working capital of the Group.

On 26 April 2010, the directors of the Company proposed, subject to the satisfaction of certain conditions, to make the proposed bonus issue of warrants (“Warrants”) by the Company to subscribe for new shares of the Company at an initial subscription price of HK\$0.193 per new share (subject to adjustment) to the qualifying shareholders whose names appear on the register of members on the basis of one Warrant for every five shares held on the record date as announced by the Company.

Material acquisition

On 29 April 2009, Bestjump Holdings Limited (“Bestjump”), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), an executive director of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the “Targeted Companies”) and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the “Macau Land”). Details of the transaction were set out in the Company’s circular dated 17 August 2009. The transaction has been approved in a special general meeting of the Company held on 3 September 2009. The acquisition has not yet completed up to the reporting date.

As set out in the announcement of the Company dated 31 December 2010, one of the conditions to the completion of the acquisition of the Target Company is the publication by the Macau Government of a master zoning guideline for the “C” area of Nam Van Lakes Zone and the results of a new amendment to the Land Grant to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city’s infrastructures as a whole. It is anticipated that the Macau Government will need further time for its consideration and deliberations of the conceptual planning proposals to finalise the plan. As the conditions have not been satisfied or waived by Bestjump as at the Latest Practicable Date, Bestjump and Ms. Chen entered into a supplemental agreement dated 31 December 2010 pursuant to which, inter alia, the parties mutually agreed to further extend the long stop date from 31 December 2010 to 31 December 2011 or such other date as Bestjump and Ms. Chen may agree in

Material disposals*Disposal of equipments of China Star Production Services Limited*

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. These assets were classified as assets held for sale as at 31st December 2008 and the disposal was then completed on 30th April 2009.

Disposal of Bingo Chance Limited

On 8th June 2009, the Group entered into a sale and purchase agreement to dispose 100% equity interest in Bingo Chance Limited at a consideration of HK\$22,960,000. The major assets in Bingo Chance Limited were its investment in 700,000,000 shares in Daido Group Limited which were classified as available-for-sale financial assets by the Group. The Group recorded a loss on disposal of approximately HK\$29,602,000.

Employees

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

Prospect

During the year, the gaming promotion business continues its dominant contribution and provides stable cash income to the Group. The Group believes that the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. One of our major investments, Lan Kwai Fong had its grand opening on 2nd August 2009 which has attracted wide attention of the hotel and casino market. It has successfully established the boutique hotel image which was enhanced and proven by being awarded as winner of "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China". The performance of Lan Kwai Fong is encouraging and shows trend of improvement. The Group believes that Lan Kwai Fong can continue to provide stable revenue and cash income to the Group. The performance of our businesses in Macau encouraged and strengthened the Group's confidence in the prospect and development in Macau. On 29 April 2009, the Group has entered into a sale and purchase agreement to purchase the Macau Land. It is intended that luxury residential apartments be developed on the Macau Land for sale. The development costs of the Macau Land are intended to be financed by proceeds from pre-sale of the apartments and bank borrowings.

In the past few years, the Group had succeeded in deploying diversified business strategy and hence improved both the earning ability and financial position of the Group. Looking ahead, the Group will continue to streamline its business operations which can enables the Group to operate in a much cost effective manner 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.

(iii) *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 8 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 29 January 2009, Golife demanded subscription of HK\$60 million convertible notes and the Company subscribed 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 29 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.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

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

Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Financial Position

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

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

2. FINANCIAL INFORMATION

Details of the financial information of the Group for the three financial years ended 31 December 2008, 31 December 2009 and 31 December 2010 respectively have been set out in the Company's annual reports for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010. All of these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.chinastar.com.hk.

INDEBTEDNESS OF THE ENLARGED GROUP**Indebtedness**

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

Contingent liabilities

As at 31 March 2011, the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK\$265,500,000, the 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 31 March 2011, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

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 and the net proceeds upon completion of placing of 577,855,000 Shares on 27 January 2011, 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 2010, being the date of which the latest published audited financial statements of the Company were made up.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

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.



Chartered Accountants
Certified Public Accountants

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

20 May 2011

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

Dear Sirs,

We report on the unaudited pro forma financial statements of China Star Entertainment Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), including acquisition of the the set of rights and obligations currently held by Sociedade de Turismo e Diversoes de Macau, S.A (the “Vendor”) under leasehold granted by the Macau Special Administrative Region of the People’s Republic of China (“Macau”) over Lot 6B, Lot 6C, Lot 6D and Lot 6E at the agreement dated 23 December 2010 (the “Property Leasehold Right”) (together with the Group hereinafter referred to as the “Enlarged Group”) set out on pages 80 to 86 under the headings of “Unaudited Pro Forma Financial Information of the Enlarged Group” (the “Unaudited Pro Forma Financial Information”) in Appendix IV of the Company’s circular dated 20 May 2011 (the “Circular”) in connection with the proposed acquisition of the Property Leasehold Right, pursuant to an agreement for the sale and purchase of Property Leasehold Right dated 23 December 2010 entered into between Triumph Top Limited (the “Purchaser”), which is a wholly owned subsidiary of the Company and Sociedade de Turismo e Diversoes de Macau, S.A. (the “Vendor”), a company incorporated in Macau (the “Acquisition”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the Acquisition might have affected the relevant financial information presented, for inclusion in Appendix IV of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 80 of this Circular.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain all 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 purpose only, based on the judgements 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 at 31 December 2010 or any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2010 or any future periods

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP**

The following is the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of financial position and unaudited pro forma consolidated statement of cash flows of the Enlarged Group as if the Acquisition was completed on 31 December 2010 for the unaudited pro forma consolidated statement of financial position and on 1 January 2010 for the unaudited pro forma consolidated income statement and statement of cash flows. The accompanying Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Acquisition.

The accompanying Unaudited Pro Forma Financial Information is based on certain assumptions, 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 does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information should be read in conjunctions with the historical financial information of the Group as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**A. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE
ENLARGED GROUP**

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2010. The unaudited pro forma consolidated income statement of the Enlarged Group is based on the audited financial statements of the Group for the year ended 31 December 2010 (as extracted from the Company's annual report for the year ended 31 December 2010) after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

As the unaudited pro forma consolidated income statement of 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 results of the Enlarged Group as the date to which it is made up to or at any future date.

	The Group for the year ended 31 December 2010 <i>HK\$'000</i> <i>(Audited)</i>	The Enlarged Group for the year ended 31 December 2010 <i>HK\$'000</i>
	Pro forma adjustment <i>(Note)</i> <i>HK\$'000</i>	
Turnover	864,261	864,261
Cost of sales	<u>(239,153)</u>	<u>(239,153)</u>
Gross Profit	625,108	625,108
Other revenue	25,293	25,293
Other income	27,802	27,802
Administrative expenses	(455,812)	(455,812)
Marketing and distribution expenses	(5,810)	(5,810)
Share-based payment expenses	(8,238)	(8,238)
Gain arising on change in fair value of financial assets classified as held for trading	28,707	28,707
Gain arising on change in fair value of investment properties	12,270	12,270
Impairment loss recognised in respect of goodwill	(8,975)	(8,975)
Impairment loss recognised in respect of film rights	(1,339)	(1,339)
Impairment loss recognised in respect of intangible assets	<u>(197,973)</u>	<u>(197,973)</u>
Profit from operations	41,033	41,033
Finance costs	(15,695)	(15,695)
Share of losses of associates	(1)	(1)
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	<u>882</u>	<u>882</u>
Profit before taxation	26,219	26,219
Taxation charge	<u>(1,392)</u>	<u>(1,392)</u>
Profit for the year	<u><u>24,827</u></u>	<u><u>24,827</u></u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OF THE ENLARGED GROUP**

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2010. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on the audited financial statements of the Group for the year ended 31 December 2010 (as extracted from the Company's annual report for the year ended 31 December 2010) after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

As the unaudited pro forma consolidated statement of financial position of 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.

	The Group at 31 December 2010 HK\$'000 (Audited)	Pro forma adjustment (Note) HK\$'000	The Enlarged Group at 31 December 2010 HK\$'000
Non-current assets			
Property, plant and equipment	721,381		721,381
Interests in leasehold land	464,731		464,731
Properties under development	–	553,000 ⁽¹⁾	553,000
Investment properties	73,580		73,580
Intangible assets	791,232		791,232
Interests in associates	7,985		7,985
	2,058,909		2,611,909
Current assets			
Inventories	1,657		1,657
Film rights	21,321		21,321
Films in progress	19,038		19,038
Trade receivables	69,337		69,337
Deposits, prepayments and other receivables	441,059	(55,000) ⁽¹⁾	386,059
Held for trading investments	94,050		94,050
Amounts due from associates	13,714		13,714
Prepaid tax	180		180
Cash and bank balances	625,827	(498,000) ⁽¹⁾	127,827
	1,286,183		733,183
Total assets	3,345,092		3,345,092

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group at 31 December 2010 HK\$'000 (Audited)	Pro forma adjustment (Note) HK\$'000	The Enlarged Group at 31 December 2010 HK\$'000
Capital & reserves			
Share capital	43,340		43,340
Reserves	2,259,435		2,259,435
Equity attributable to owners of the Company	2,302,775		2,302,775
Non-controlling interests	277,181		277,181
Total equity	2,579,956		2,579,956
Non-current liabilities			
Bank borrowings- due after one year	450,000		450,000
Obligation under finance lease	201		201
Deferred tax liabilities	88,063		88,063
	538,264		538,264
Current liabilities			
Bank borrowings- due within one year	50,000		50,000
Obligation under finance lease	96		96
Trade payables	25,038		25,038
Deposits received, accruals and other payables	60,470		60,470
Amount due to an associate	25,766		25,766
Amounts due to non-controlling interests	65,502		65,502
	226,872		226,872
Total liabilities	765,136		765,136
Total equity and liabilities	3,345,092		3,345,092
Net current assets	1,059,311		506,311
Total assets less current liabilities	3,118,220		3,118,220

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE
ENLARGED GROUP**

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2010. The unaudited pro forma consolidated statement of cash flows of the Enlarged Group is based on the audited financial statements of the Group for the year ended 31 December 2010 (as extracted from the Company's annual report for the year ended 31 December 2010) after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

As the unaudited pro forma consolidated statement of cash flows of 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 of the Enlarged Group as the date to which it is made up to or at any future date.

	The Group for the year ended 31 December 2010 HK\$'000	Pro forma adjustment (Note) HK\$'000	The Enlarged Group for the year ended 31 December 2010 HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	26,219		26,219
Adjustments for:			
Interest expenses	15,695		15,695
Interest income	(3,177)		(3,177)
Depreciation and amortisation of property, plant and equipment and leasehold land	108,264		108,264
Gain arising on change in fair value of financial assets classified as held for trading	(28,707)		(28,707)
Gain arising on change in fair value of investment properties	(12,270)		(12,270)
Gain on early redemption of convertible notes receivable	(26,983)		(26,983)
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	(882)		(882)
Impairment loss recognised in respect of goodwill	8,975		8,975
Impairment loss recognised in respect of film rights	1,339		1,339
Impairment loss recognised in respect of intangible assets	197,973		197,973
Loss on disposal of property, plant and equipment	713		713
Reversal of impairment loss on trade and other receivables	(14)		(14)
Share of losses of associates	1		1
Share-based payment expenses	8,238		8,238

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2010 HK\$'000	Pro forma adjustment (Note) HK\$'000	The Enlarged Group for the year ended 31 December 2010 HK\$'000
Operating cash flows before movements in working capital	295,384		295,384
Increase in inventories	(566)		(566)
Decrease in film rights	254		254
Decrease in films in progress	200		200
Decrease in trade receivables	36,091		36,091
Decrease in deposits, prepayments and other receivables	10,923		10,923
Decrease in amounts due from associates	2,721		2,721
Increase in trade payables	3,612		3,612
Decrease in deposits received, accruals and other payables	(71,731)		(71,731)
Increase in amount due to an associate	25,766		25,766
Increase in amounts due to non-controlling interests	25,000		25,000
	<hr/>		<hr/>
Cash generated from operations	327,654		327,654
Tax refund	909		909
	<hr/>		<hr/>
Net cash generated from operating activities	328,563		328,563
	<hr/>		<hr/>
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received	1,965		1,965
Acquisition of interests in associates	(1)		(1)
Advance to associates	(7,985)		(7,985)
Deposits paid for investment	(55,000)	55,000 ⁽¹⁾	–
Net proceeds from disposal of assets classified as held for sale	8,272		8,272
Proceeds from disposal of financial assets classified as held for trading	44,085		44,085
Proceeds from disposal of property, plant and equipment	804		804
Purchase of financial assets classified as held for trading	(11,787)		(11,787)
Purchases of property, plant and equipment and leasehold land	(38,306)		(38,306)
Redemption of convertible notes receivable	60,000		60,000
Acquisition of property leasehold rights	–	(553,000) ⁽¹⁾	(553,000)
	<hr/>		<hr/>
Net cash generated from investing activities	2,047		(495,953)
	<hr/>		<hr/>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2010 HK\$'000	Pro forma adjustment (Note) HK\$'000	The Enlarged Group for the year ended 31 December 2010 HK\$'000
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid	(15,695)		(15,695)
New bank loan raised	500,000		500,000
Proceeds from issue of shares	144,464		144,464
Proceeds from exercise of listed warrants	2		2
Proceeds from placing of shares	75,600		75,600
Proceeds from exercise of options	9,502		9,502
Repayment of obligation under finance lease	(104)		(104)
Repayment of bank loans	(410,906)		(410,906)
Share issuing expenses	(1,899)		(1,899)
	<hr/>		<hr/>
Net cash generated from financing activities	300,964		300,964
	<hr/>		<hr/>
Increase in cash and cash equivalents	631,574		133,574
	<hr/>		<hr/>
Cash and cash equivalents at the beginning of the year	(5,576)		(5,576)
	<hr/>		<hr/>
Effect of foreign exchange rate changes	(171)		(171)
	<hr/>		<hr/>
Cash and cash equivalents at the end of the year			
Cash and cash equivalents	625,827		127,827
	<hr/> <hr/>		<hr/> <hr/>

Notes:

1. The adjustment represents the deposit paid of HK\$55,000,000 and balance of cash payment of HK\$495,000,000 on acquisition of Property Leasehold Right classified as properties under development of HK\$550,000,000. The estimated transaction cost of the Acquisition which represents the professional fee for the Acquisition is approximately HK\$3,000,000 capitalised into properties under development.

The following is the text of the letter and valuation certificates received from Grant Sherman Appraisal Limited in connection with its opinion of the market value of the Sites interest to be acquired by the Group as at 31 March 2011 prepared for the purpose of incorporation in this circular.



GRANT SHERMAN APPRAISAL LIMITED

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

20 May 2011

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

Dear Sirs,

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

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

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

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

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

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

We have assumed that the property will be developed in accordance with the development covenants, regulations and ordinances given to us, and that the property will be developed immediately after, completion of negotiation with the government or obtaining approval of development proposals or building plans.

We have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term as granted and is entitled to transfer the properties with the residual term without payment of any further premium to the government authorities or any third parties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted or can be obtained and renewed without any onerous conditions or undue time delay which might affect its value.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as property title, statutory notices, easements, tenure, occupancy, site area, progress on works, settlement of land acquisition costs and in the identification of the appraised property. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have relied on the Company's confirmation that no material fact has been omitted from the information so supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have been provided with copies of title documents extracts of the properties and have caused searches to be made at the Land Registry in Macau. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. In the preparation of our valuation report regarding the properties, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser Leong Hon Man Law Office on the Macau laws regarding the titles, regulations and ordinances of the properties in Macau.

We have inspected the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, we must point out that we have not carried out site investigation to determine the suitability of the ground conditions or the services for any property development to be erected thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. Moreover, it is assumed that the utilization of the land and improvements will be within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exists, unless noted in the report.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars.

We enclose herewith the summary of valuation and the valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai
MRICS MHKIS RPS(GP)
Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Property interests to be acquired by the Group for future development in Macau

Property	Market Value as at 31 March 2011 (HK\$)
1. A parcel of land named as “Quarteirão 6 – Lote B”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22608.	HK\$186,700,000
2. A parcel of land named as “Quarteirão 6 – Lote C”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22618.	HK\$301,560,000
3. A parcel of land named as “Quarteirão 6 – Lote D”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22619.	HK\$301,560,000
4. A parcel of land named as “Quarteirão 6 – Lote E”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22620.	HK\$301,560,000
Grand Total	<hr/> HK\$1,091,380,000 <hr/>

VALUATION CERTIFICATE

Property interests to be acquired by the Group in Macau for future development

Property	Description and tenure	Particular of occupancy	Market Value as at 31 March 2011
1. A parcel of land named as “Quarteirão 6 – Lote B”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22608.	<p>The property comprises a parcel of land with a site area of approximately 1,420 sq.m. in a trapezium shape.</p> <p>Multi-storey office/commercial development with parking provisions are allowed to be erected thereon.</p> <p>In accordance with the Dispatch no. 27/SATOP/89 dated 26 December 1989 which was later reviewed by Dispatch No. 149/SATOP/97 (“Leases”), published in the Official Gazettes, the maximum permissible floor areas of the development on the property are approximately as follows:</p>	The property was vacant.	HK\$186,700,000 (see note (2))
		Approximate floor area (sq.m.)	
	Office Commercial Carparking	14,994 1,996 4,320	
	Total:	21,310	

Property	Description and tenure				
	<p>The property is held under a Macau Government lease for the residue of a term of 25 years from 26 December 1989. In undertaking of 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 MOP298,050 per annum. After issuance of occupation permit, the Government rents will be computed as follows:</p>				
	<table border="0"> <tr> <td style="padding-right: 20px;">Office/commercial</td> <td>MOP15 per sq.m. of the gross floor area per annum</td> </tr> <tr> <td>Carparking:</td> <td>MOP10 per sq.m. of the gross floor area per annum</td> </tr> </table>	Office/commercial	MOP15 per sq.m. of the gross floor area per annum	Carparking:	MOP10 per sq.m. of the gross floor area per annum
Office/commercial	MOP15 per sq.m. of the gross floor area per annum				
Carparking:	MOP10 per sq.m. of the gross floor area per annum				

Notes:

- (1) As advised by the Company, the development of the subject property is regulated by the Despach of the Macau Executive Chief no. 83/2008 as the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction of Macau. Therefore, the final approved constructional floor areas of the property will differ from those mentioned above.
- (2) In course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Dispatch no. 27/SATOP/89 dated 26 December 1989 which was later reviewed by Dispatch No. 149/SATOP/97, published in the Official Gazette No. 49 of 3 December 1997 and the development constraints mentioned in note (1).
- (3) We have been provided with a legal opinion regarding the property interests by the Company's Macau legal advisor, Leong Hon Man, which contains, inter alia, the following:
 - (i) The property is a lot of Macau SAR Government land in Macau, with the area of 1,420 sq.m., located in the Zona de Aterros do Porto Exterior (ZAPE)s/n, registered with the Registry under no. 22608;
 - (ii) According to the Leases, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM") by the Macau Government ("the Grantor"). for a term of 25 years commencing from 26 December 1989 (i.e. until 25 December 2014), renewable for periods of 10 years until 19 December, 2049. The renewal is subject to the completion of the development stated by the Leases and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;
 - (iii) STDM is the sole legal and registered owner of the property and has good and marketable title and are not subject to any Charge or Encumbrance or pending litigation;

- (iv) Under the Leases conditions, the property shall be developed with the construction of one building all with triple-deck cave and sixteen floors, for office, commerce and parking, with the following floor areas (“Building Floor Areas”) (a) office – 14,994 sq.m. (b) commerce – 1,996 sq.m. (c) parking – 4,320 sq.m.
- (v) As regulated and approved by the Despatch of the Executive Chief no. 83/2008, the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building Light house and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction. Therefore, it would influence the Building Floor Areas of the property and as a result the property could not be constructed and achieved the Building Floor Areas.
- (vi) During the development period the yearly land rental for the property is MOP298,050 and after completion of the construction the rental to be paid to the Macau SAR Government shall be calculated as follows (by sq.m. of gross floor area): (a) MOP15 for office areas; (b) MOP15 for commerce areas and (c) MOP10 for parking areas;
- (vii) The transfer of the interest over the property before its full development is subject to the prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Leases;
- (viii) Under the Leases conditions, the development should have been completed within 60 months commencing from 26 December 1989 (i.e. until 25 December 1994). Notwithstanding the non development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013);
- (ix) Under 1980 Land Act (as amended), STDM has the legal rights to develop the property in accordance with the provisions of the Leases, and to dispose of the individual units upon completion of the development;
- (x) The non development of the property in the contracted period mentioned by note (viii) may be regarded as a default of STDM under the provisions of the Leases and a revocation of the Leases can be declared by the Macau SAR Government under the clause 12 of the Leases;
- (xi) All land premium and land rental payments in respect of the property due under the Leases have been paid by STDM;
- (xii) STDM is permitted under the Leases to charge the property, specially through mortgages given in favour of local banks, provided that such charge is destined to secure financing for the development of the property; and
- (xiii) Upon obtaining the necessary construction licenses as well as the approval of the provisional strata title for the building to be erected, STDM can register provisionally the strata title with the Registry. Further to the issuance of the occupation permit for the building, the definitive registration of the strata title can be requested from the Registry, submitting a set of the necessary documentation to that effect.

VALUATION CERTIFICATE

Property interests to be acquired by the Group in Macau for future development

Property	Description and tenure	Particular of occupancy	Market Value as at 31 March 2011
2. A parcel of land named as "Quarteirão 6 – Lote C", located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22618.	<p>The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in a rectangular shape.</p> <p>Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon.</p> <p>In accordance with the Dispatch no. 148/SATOP/94 dated 21 December 1994 ("Leases"), the maximum permissible floor areas of the development on the property are approximately as follows:</p>	The property was vacant.	HK\$301,560,000 (see note (2))
		Approximate floor area (sq.m.)	
	Residential	14,860	
	Commercial	1,824	
	Carparking	2,584	
	Total:	19,268	

Property	Description and tenure				
	<p>The property is held under a Macau Government lease for the residue of a term of 25 years from 21 December 1994. In undertaking of 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 MOP201,800 per annum. After issuance of occupation permit, the Government rents will be computed as follows:</p>				
	<table border="0"> <tr> <td style="padding-right: 20px;">Residential/ car parking</td> <td>MOP10 per sq.m. of the gross floor area per annum</td> </tr> <tr> <td>Commercial:</td> <td>MOP15 per sq.m. of the gross floor area per annum</td> </tr> </table>	Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum	Commercial:	MOP15 per sq.m. of the gross floor area per annum
Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum				
Commercial:	MOP15 per sq.m. of the gross floor area per annum				

Notes:

- (1) As advised by the Company, the development of the subject property is regulated by the Despach of the Macau Executive Chief no. 83/2008 as the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction of Macau. Therefore, the final approved constructional floor areas of the property will differ from those mentioned above.
- (2) In course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Dispatch no. 148/SATOP/94 dated 21 December 1994 and the development constraints mentioned in note (1).
- (3) We have been provided with a legal opinion regarding the property interests by the Company's Macau legal advisor, Leong Hon Man, which contains, inter alia, the following:
 - (i) The property is a lot of Macau SAR Government land in Macau, with the area of 1,292 sq.m., located in the Zona de Aterros do Porto Exterior (ZAPE)s/n, registered with the Registry under no. 22618;
 - (ii) According to the Leases, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM"), by the Macau Government ("the Grantor") for a term of 25 years commencing from 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December, 2049. The renewal is subject to the completion of the development stated by the Leases and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;
 - (iii) STDM is the sole legal and registered owner of the property and has good and marketable title and are not subject to any Charge or Encumbrance or pending litigation;

- (iv) Under the Lease conditions, the property shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (“Building Floor Areas”) (a) residence- 14,860 sq.m. (b) commerce – 1,824 sq.m. (c) parking – 2,584 sq.m.
- (v) As regulated and approved by the Despatch of the Executive Chief no. 83/2008, the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building Light house and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction. Therefore, it would influence the Building Floor Areas of the property and as a result the property could not be constructed and achieved the Building Floor Areas.
- (vi) During the development period the yearly land rental for the property is MOP201,800 and after completion of the construction the rental to be paid to the Macau SAR Government shall be calculated as follows (by sq.m. of gross floor area): (a) MOP10 for residence areas; (b) MOP15 for commerce areas and (c) MOP10 for parking areas;
- (vii) The transfer of the interest over the property before its full development is subject to the prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Leases;
- (viii) Under the Lease conditions, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013);
- (ix) Under 1980 Land Act (as amended), STDM has the legal rights to develop the property in accordance with the provisions of the Leases, and to dispose of the individual units upon completion of the development;
- (x) The non development of the property in the contracted period mentioned by note (viii) may be regarded as a default of STDM under the provisions of the Leases and a revocation of the Leases can be declared by the Macau SAR Government under the clause 12 of the Leases;
- (xi) All land premium and land rental payments in respect of the property due under the Leases have been paid by STDM;
- (xii) STDM is permitted under the Lease to charge the property, specially through mortgages given in favour of local banks, provided that such charge is destined to secure financing for the development of the property; and
- (xiii) Upon obtaining the necessary construction licenses as well as the approval of the provisional strata title for the building to be erected, STDM can register provisionally the strata title with the Registry. Further to the issuance of the occupation permit for the building, the definitive registration of the strata title can be requested from the Registry, submitting a set of the necessary documentation to that effect.

VALUATION CERTIFICATE

Property interests to be acquired by the Group in Macau for future development

Property	Description and tenure	Particular of occupancy	Market Value as at 31 March 2011
3. A parcel of land named as “Quarteirão 6 – Lote D”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22619.	<p>The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in a rectangular shape.</p> <p>Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon.</p> <p>In accordance with the Dispatch no. 149/SATOP/94 dated 21 December 1994 (“Leases”), the maximum permissible floor areas of the development on the property are approximately as follows:</p>	The property was vacant.	HK\$301,560,000 (see note (2))
		Approximate floor area (sq.m.)	
	Residential	14,860	
	Commercial	1,824	
	Carparking	2,584	
	Total:	19,268	

Property	Description and tenure				
	<p>The property is held under a Macau Government lease for the residue of a term of 25 years from 21 December 1994. In undertaking of 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 MOP201,800 per annum. After issuance of occupation permit, the Government rents will be computed as follows:</p>				
	<table border="0"> <tr> <td style="padding-right: 20px;">Residential/ car parking</td> <td>MOP10 per sq.m. of the gross floor area per annum</td> </tr> <tr> <td>Commercial:</td> <td>MOP15 per sq.m. of the gross floor area per annum</td> </tr> </table>	Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum	Commercial:	MOP15 per sq.m. of the gross floor area per annum
Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum				
Commercial:	MOP15 per sq.m. of the gross floor area per annum				

Notes:

- (1) As advised by the Company, the development of the subject property is regulated by the Despatch of the Macau Executive Chief no. 83/2008 as the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction of Macau. Therefore, the final approved constructional floor areas of the property will differ from those mentioned above.
- (2) In course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Dispatch no. 149/SATOP/94 dated 21 December 1994 and the development constraints mentioned in note (1).
- (3) We have been provided with a legal opinion regarding the property interests by the Company's Macau legal advisor, Leong Hon Man, which contains, inter alia, the following:
 - (i) The property is a lot of Macau SAR Government land in Macau, with the area of 1,292 sq.m., located in the Zona de Aterros do Porto Exterior (ZAPE)s/n, registered with the Registry under no. 22619;
 - (ii) According to the Lease, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM"), by the Macau Government ("the Grantor") for a term of 25 years commencing from 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December, 2049. The renewal is subject to the completion of the development stated by the Leases and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;
 - (iii) STDM is the sole legal and registered owner of the property and has good and marketable title and are not subject to any Charge or Encumbrance or pending litigation;

- (iv) Under the Lease conditions, the property shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (“Building Floor Areas”) (a) residence- 14,860 sq.m. (b) commerce – 1,824 sq.m. (c) parking – 2,584 sq.m.
- (v) As regulated and approved by the Despatch of the Executive Chief no. 83/2008, the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building Light house and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction. Therefore, it would influence the Building Floor Areas of the property and as a result the property could not be constructed and achieved the Building Floor Areas.
- (vi) During the development period the yearly land rental for the property is MOP201,800 and after completion of the construction the rental to be paid to the Macau SAR Government shall be calculated as follows (by sq.m. of gross floor area): (a) MOP10 for residence areas; (b) MOP15 for commerce areas and (c) MOP10 for parking areas;
- (vii) The transfer of the interest over the property before its full development is subject to the prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Leases;
- (viii) Under the Lease, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013);
- (ix) Under 1980 Land Act (as amended), STDM has the legal rights to develop the property in accordance with the provisions of the Leases, and to dispose of the individual units upon completion of the development;
- (x) The non development of the property in the contracted period mentioned by note (viii) may be regarded as a default of STDM under the provisions of the Leases and a revocation of the Leases can be declared by the Macau SAR Government under the clause 12 of the Leases;
- (xi) All land premium and land rental payments in respect of the property due under the Leases have been paid by STDM;
- (xii) STDM is permitted under the Lease to charge the property, specially through mortgages given in favour of local banks, provided that such charge is destined to secure financing for the development of the property; and
- (xiii) Upon obtaining the necessary construction licenses as well as the approval of the provisional strata title for the building to be erected, STDM can register provisionally the strata title with the Registry. Further to the issuance of the occupation permit for the building, the definitive registration of the strata title can be requested from the Registry, submitting a set of the necessary documentation to that effect.

VALUATION CERTIFICATE

Property interests to be acquired by the Group in Macau for future development

Property	Description and tenure	Particular of occupancy	Market Value as at 31 March 2011
4. A parcel of land named as “Quarteirão 6 – Lote E”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), which is registered in the Macau Properties Registry under no. 22620.	<p>The property comprises a parcel of land with a site area of approximately 1,292 sq.m. in a rectangular shape.</p> <p>Multi-storey residential/commercial development with parking provisions are allowed to be erected thereon..</p> <p>In accordance with the Dispatch no. 150/SATOP/94 dated 21 December 1994 (“Leases”), the maximum permissible floor areas of the development on the property are approximately as follows:</p>	The property was vacant.	HK\$301,560,000 (see note (2))
		Approximate floor area (sq.m.)	
	Residential	14,860	
	Commercial	1,824	
	Carparking	2,584	
	Total:	19,268	

Property	Description and tenure				
	<p>The property is held under a Macau Government lease for the residue of a term of 25 years from 21 December 1994. In undertaking of 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 MOP201,800 per annum. After issuance of occupation permit, the Government rents will be computed as follows:</p>				
	<table border="0"> <tr> <td style="padding-right: 20px;">Residential/ car parking</td> <td>MOP10 per sq.m. of the gross floor area per annum</td> </tr> <tr> <td>Commercial:</td> <td>MOP15 per sq.m. of the gross floor area per annum</td> </tr> </table>	Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum	Commercial:	MOP15 per sq.m. of the gross floor area per annum
Residential/ car parking	MOP10 per sq.m. of the gross floor area per annum				
Commercial:	MOP15 per sq.m. of the gross floor area per annum				

Notes:

- (1) As advised by the Company, the development of the subject property is regulated by the Despatch of the Macau Executive Chief no. 83/2008 as the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction of Macau. Therefore, the final approved constructional floor areas of the property will differ from those mentioned above.
- (2) In course of our valuation, we have taken into consideration of the development conditions and terms stipulated in Dispatch no. 150/SATOP/94 dated 21 December 1994 and the development constraints mentioned in note (1).
- (3) We have been provided with a legal opinion regarding the property interests by the Company's Macau legal advisor, Leong Hon Man, which contains, inter alia, the following:
 - (i) The property is a lot of Macau SAR Government land in Macau, with the area of 1,292 sq.m., located in the Zona de Aterros do Porto Exterior (ZAPE)s/n, registered with the Registry under no. 22620;
 - (ii) According to the Lease, the property was leased to Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM"), by the Macau Government ("the Grantor") for a term of 25 years commencing from 21 December 1994 (i.e. until 20 December 2019), renewable for periods of 10 years until 19 December, 2049. The renewal is subject to the completion of the development stated by the Leases and the payment of a lump sum special contribution which corresponds to 10 years of updated rent. The updated rent should be calculated according to the law which regulates the rent of the lands lease concession at the time of the renewal;
 - (iii) STDM is the sole legal and registered owner of the property and has good and marketable title and are not subject to any Charge or Encumbrance or pending litigation;

- (iv) Under the Lease conditions, the property shall be developed with the construction of one building all with double-deck cave, triple-deck platform and sixteen floors, for residence, commerce and parking, with the following floor areas (“Building Floor Areas”) (a) residence- 14,860 sq.m. (b) commerce – 1,824 sq.m. (c) parking – 2,584 sq.m.
- (v) As regulated and approved by the Despatch of the Executive Chief no. 83/2008, the property is part of the area surrounding the Guia Lighthouse and shall comply with the maximum altitude permitted for building Light house and shall comply with the maximum altitude permitted for building construction and the calculation of the shadow area established under the article no. 88 of the General Regulation of Urban Construction. Therefore, it would influence the Building Floor Areas of the property and as a result the property could not be constructed and achieved the Building Floor Areas.
- (vi) During the development period the yearly land rental for the property is MOP201,800 and after completion of the construction the rental to be paid to the Macau SAR Government shall be calculated as follows (by sq.m. of gross floor area): (a) MOP10 for residence areas; (b) MOP15 for commerce areas and (c) MOP10 for parking areas;
- (vii) The transfer of the interest over the property before its full development is subject to the prior approval of the Macau SAR Government and will attract the amendment of the terms and conditions of the Leases;
- (viii) Under the Lease, the development should have been completed within 30 months commencing from 21 December 1994 (i.e. until 20 June 1997). Notwithstanding the non development of the property in the contracted period mentioned herein, the Macau SAR Government has approved to postpone the development period within 36 months commencing from 15 April 2010 (i.e. until 14 April 2013);
- (ix) Under 1980 Land Act (as amended), STDM has the legal rights to develop the property in accordance with the provisions of the Leases, and to dispose of the individual units upon completion of the development;
- (x) The non development of the property in the contracted period mentioned by note (viii) may be regarded as a default of STDM under the provisions of the Leases and a revocation of the Leases can be declared by the Macau SAR Government under the clause 12 of the Leases;
- (xi) All land premium and land rental payments in respect of the property due under the Leases have been paid by STDM;
- (xii) STDM is permitted under the Lease to charge the property, specially through mortgages given in favour of local banks, provided that such charge is destined to secure financing for the development of the property; and
- (xiii) Upon obtaining the necessary construction licenses as well as the approval of the provisional strata title for the building to be erected, STDM can register provisionally the strata title with the Registry. Further to the issuance of the occupation permit for the building, the definitive registration of the strata title can be requested from the Registry, submitting a set of the necessary documentation to that effect.

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

**GRANT SHERMAN APPRAISAL LIMITED**

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

20 May 2011

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

Dear Sirs,

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

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

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

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

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

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

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

We have inspected the exterior and, where possible, the interiors of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. No 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)
Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Property interests held by the Group for owner occupation in Hong Kong

Property	Market Value as at 31 March 2011 (HK\$)
1. Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement No.160 Waterloo Road Kowloon Tong Hong Kong	HK\$76,850,000
2. Units 9 and 10 on 6th Floor Leader Industrial Centre Nos. 57-59 Au Pui Wan Street Shatin New Territories	HK\$1,980,000
3. Unit D on 11th Floor Unison Industrial Centre Nos. 27-31 Au Pui Wan Street Shatin New Territories	HK\$8,479,000
Total	<hr/> HK\$87,309,000 <hr/> <hr/>

VALUATION CERTIFICATE

Property	Description and Tenure	Market value as at 31 March 2011
1. Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement No.160 Waterloo Road Kowloon Tong Hong Kong	The property comprises a duplex residential flat on the second and third floors, the roof over it and a portion including two car-parking spaces on the basement level of a 3-storey(plus a car parking basement level) residential building completed in about 1998. The property has a total saleable floor area of about 3,900 sq ft and a roof area of about 1,500 sq ft. The property is currently occupied by the Company for staff quarter.	HK\$76,850,000
1/4th shares of and in New Kowloon Inland Lot No.4093	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.	

Notes:

- (i) The registered owner of the property is Newrich (H.K.) Limited, a wholly-owned subsidiary of the Company registered vide Memorial No.UB8575284 dated 17 December, 2001.
- (ii) The property is subject to a mortgage in favour of Hang Seng Bank Limited vide Memorial No.UB8575285 dated 17 December, 2001.

VALUATION CERTIFICATE

Property	Description and Tenure	Market value as at 31 March 2011
2. Units 9 and 10 on 6th Floor Leader Industrial Centre Nos.57-59 Au Pui Wan Street Shatin, New Territories 6/1637th shares of and in Sha Tin Town Lot No.175	<p>The property comprises two contiguous workshops on the 6th floor of a 16-storey industrial building completed in 1987.</p> <p>The workshops have a total saleable floor area of approximately 1,060 sq ft. It is currently occupied by the Company for storage.</p> <p>The property is held under New Grant No. 11782 and due to expiry on 30 June, 2047.</p> <p>The Government rent payable for Sha Tin Town Lot No. 175 is \$300 per annum.</p>	HK\$1,980,000

Notes:

- (i) The registered owner of the property is China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No. 05080402100022 dated 7 July, 2005.
- (ii) According to the land search record from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

VALUATION CERTIFICATE

Property	Description and Tenure	Market value as at 31 March 2011
3. Unit D on 11th Floor Unison Industrial Centre Nos. 27-31 Au Pui Wan Street Shatin New Territories 14/920th shares of and in Sha Tin Town Lot No.67	<p>The property comprises an industrial unit on the 11th floor of a 17-storey industrial building completed in about 1982.</p> <p>The workshop has a total saleable floor area of approximately 5,122 sq.ft. It is currently occupied by the Company for storage.</p> <p>The property is held under New Grant No. 11250 for a term of 99 years and statutorily extended to 30 June, 2047.</p> <p>The Government rent payable for Sha Tin Town Lot No. 67 is \$300 per annum.</p>	HK\$8,479,000

Notes:

- (i) The registered owner of the property is Star Laser Disc Limited (former name of China Star Laser Disc Company Limited), a wholly-owned subsidiary of the Company, registered vide Memorial No.689895 dated 15 March, 1993.
- (ii) According to the land search record from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

The following is the text of the letter and valuation certificates received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Properties of the Group in Macau as at 31 March 2011 prepared for the purpose of incorporation in this circular.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

20 May 2011

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

Dear Sirs,

We refer to your instructions for us to carry out market valuations of the properties which are held by China Star Entertainment Limited and/or its subsidiaries (together the “Group”) in Macau. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the properties as at 31 March 2011 (the “date of valuation”).

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their value.

We have valued the properties on market value basis by making reference to comparable sales transactions as available in the relevant market and where appropriate by capitalising the rental income derived from the existing tenancies with due provision for any reversionary income potential of the properties.

In valuing the properties, we have complied with the requirement set out in Chapter 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited 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 over 25 years of experience in valuation of properties in Hong Kong and Macau.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31 March 2011 HK\$
1. “Hotel Lan Kwai Fong, Macau”, Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	1,200,000,000
2. Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	20,000,000
Total:	<hr/> <u>1,220,000,000</u>

VALUATION CERTIFICATE

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011																				
1. "Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	The property comprises an 18-storey hotel block plus a basement. The property was completed in about 1992 and was renovated in August 2009. It was erected on a rectangular piece of land with a registered site area of approximately 4,504 sq.m. (48,481 sq.ft.).	As at the date of valuation, the property was operated as a hotel.	HK\$1,200,000,000																				
	The accommodation of the subject hotel is as follows:	Portion of the property with a total floor area of approximately 1,503.34 sq.m. (16,182 sq.ft.) was let on various tenancies with the latest term due to expire in August 2018 at a total monthly rent of about HK\$420,000.																					
	<table border="1"> <thead> <tr> <th data-bbox="507 853 568 874">Floor</th> <th data-bbox="659 853 839 874">Accommodation</th> </tr> </thead> <tbody> <tr> <td data-bbox="507 917 608 938">Basement</td> <td data-bbox="659 917 890 1002">34 car parking spaces and back of house facilities.</td> </tr> <tr> <td data-bbox="507 1044 584 1066">Ground</td> <td data-bbox="659 1044 855 1098">Hotel entrance and commercial areas.</td> </tr> <tr> <td data-bbox="507 1140 536 1161">1st</td> <td data-bbox="659 1140 855 1161">Commercial areas.</td> </tr> <tr> <td data-bbox="507 1204 536 1225">2nd</td> <td data-bbox="659 1204 855 1225">Commercial areas.</td> </tr> <tr> <td data-bbox="507 1268 536 1289">3rd</td> <td data-bbox="659 1268 895 1353">Hotel reception lobby, front desk, restaurants, cafe and lounge.</td> </tr> <tr> <td data-bbox="507 1395 536 1417">4th</td> <td data-bbox="659 1395 911 1417">Restaurant and kitchens.</td> </tr> <tr> <td data-bbox="507 1459 536 1481">5th</td> <td data-bbox="659 1459 911 1513">Hotel office and back of house facilities.</td> </tr> <tr> <td data-bbox="507 1555 624 1576">6th to 16th</td> <td data-bbox="659 1555 895 1576">209 hotel guest rooms.</td> </tr> <tr> <td data-bbox="507 1619 552 1640">17th</td> <td data-bbox="659 1619 855 1640">Commercial areas.</td> </tr> </tbody> </table>	Floor	Accommodation	Basement	34 car parking spaces and back of house facilities.	Ground	Hotel entrance and commercial areas.	1st	Commercial areas.	2nd	Commercial areas.	3rd	Hotel reception lobby, front desk, restaurants, cafe and lounge.	4th	Restaurant and kitchens.	5th	Hotel office and back of house facilities.	6th to 16th	209 hotel guest rooms.	17th	Commercial areas.		
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	The total gross floor area of the property is approximately 25,299.7 sq.m. (272,326 sq.ft.) (inclusive of area of basement).																						

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011
	The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 October 1989. In undertaking our valuation, we have assumed that after the expiry, the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.		

Notes:

- (1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada.
- (2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Industrial and Commercial Bank of China (Macau) Limited.

VALUATION CERTIFICATE

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2011
2. Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kin Wa, Avenida do Almirante Magalhaes Correia No: 156-252, Rua do Canal Novo No: 23-121, Rua Nova da Areia Preta No: 112-206 and Estrada Marginal da Areia Preta No: 24-124, Macau.	<p>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.</p> <p>The total saleable area of the property is approximately 859.66 sq.m. (9,253 sq.ft.).</p> <p>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.</p>	<p>As at the date of valuation, the property was occupied by the Group as staff quarters.</p>	<p>HK\$20,000,000</p>

Notes:

- (1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada.
- (2) The property is subject to a Legal Mortgage and an Assignment of Rentals and Receivables both in favour of Industrial and Commercial Bank of China (Macau) Limited.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

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

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 (Note a)	247,803,824 (Note b)	1,146,503,526	233.41
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 (Note a)	247,803,824 (Note b)	1,146,503,526	233.41
Ms. Li Yuk Sheung	Beneficial owner	–	9,268	9,268	0.00

All interests stated above represent long positions.

Notes:

- (a) These Shares are held as to 898,686,000 Shares (including 24,671,500 Shares and 874,014,500 Shares undertaken and underwritten under the arrangement of the Rights Issue) by Heung Wah Keung Family Endowment Limited which is owned as to 50% by Ms. Chen and as to 50% by Mr. Heung and as to 13,702 Shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

- (b) These underlying Shares comprised (i) outstanding options of the Company which are held as to 926 options by Mr. Heung and as to 923 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the options of each other; and (ii) HK\$5,453,022 Warrants convertible into 2,996,166 Shares at an adjusted subscription price of HK\$1.82 per Share and approximately HK\$5,289 Warrants convertible into 2,906 Shares at an adjusted subscription price of HK\$1.82 per Share held by Heung Wah Keung Family Endowment Limited and Dorest Company Limited respectively; and (iii) HK\$350,000,000 conversion bonds to be issued to Ms. Chen and convertible into 70,000,000 Shares at an initial conversion price of HK\$5.0 per Share (subject to adjustments) and (iv) 174,802,900 bonus warrants to be issued to Heung Wah Keung Family Endowment Limited which entitled the holders rights to subscribe for 174,802,900 Shares under the Rights Issue.

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

(b) Directors' interests in assets of the Company

As disclosed in the Company's circular dated 17 August 2009, the Group entered into a sale and purchase agreement on 29 April 2009 with Ms. Chen whereby Ms. Chen had agreed to sell and the Group had agreed to purchase companies which have beneficial interest in a property located in Macau at a total consideration of HK\$900 million (the "Acquisition I"). As at the Latest Practicable Date, the Acquisition I has not yet been completed.

Save as disclosed above and the interest of Mr. Heung in the Agreement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

Save for Ms. Chen, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

Save as disclosed above and the interest of Mr. Heung in the Agreement, 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.

(c) Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

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
Eternity	Beneficial owner/ Interests of controlled corporation	1,134,921,978	50.54
Riche (BVI) Limited	Interests of controlled corporation	322,421,978	14.36
Simple View Investment Limited	Beneficial owner	322,421,978	14.36
Heung Wah Keung Family Endowment Limited	Beneficial owner	1,076,485,066	219.16

All interests stated above represent long positions.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

4. 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.

5. 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 conditional placing agreement dated 12 May 2009 entered into between the Company and Kingston Securities Limited relating to the placing of up to a maximum of 800,000,000 new 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;
- (ii) 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;
- (iii) the conditional sale and purchase agreement dated 29 April 2009 entered into between Bestjump Holdings Limited (“Bestjump”), a wholly owned subsidiary of the Company and Ms. Chen pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell interests in a lot of land located in Macau;
- (iv) the conditional placing agreement dated 16 July 2009 entered into between the Company and Kingston Securities Limited in relation to a placing of 207,900,000 new Shares on a fully underwritten basis to professional investors at a price of HK\$0.22 per Share;
- (v) the conditional subscription agreement dated 23 July 2009 entered into between the Company and Eternity 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;
- (vi) the subscription agreement dated 4 January 2010 entered into between the Company and Skylight Property Ltd. in relation to the subscription of 540,000,000 new Shares at a subscription price of HK\$0.14 per Share;
- (vii) the warrant instrument dated 15 June 2010 signed by the Company relating to the issue of warrant on the basis of one warrant for every five Shares held at 8 June 2010 at an initial subscription price of HK\$0.193 per Share;
- (viii) the underwriting agreement dated 8 July 2010 entered into between the Company and Kingston Securities Limited relating to the issue of not less than 1,444,643,184 rights Shares and not more than 1,925,410,126 rights Shares at a subscription price of HK\$0.10 each on the basis of one rights Share for every two existing Shares held on 20 July 2010;

- (ix) a joint venture agreement dated 8 December 2010 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited (formerly known as Zhou Zhou Company Limited) relating to formation of a joint venture company which is engaged in production and distribution of films at a total capital contribution of HK\$60 million;
- (x) the Agreement;
- (xi) the conditional placing agreement dated 14 January 2011 entered into between the Company and Kingston Securities Limited in relation to a placing of up to 577,855,000 new Shares on a best effort basis at a price of HK\$0.07 per Share;
- (xii) the conditional subscription agreement dated 21 January 2011 (as supplemented by supplemental agreement dated 28 March 2011) entered into between the Company and Eternity, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK\$650 million in two tranches at their face value; and
- (xiii) the underwriting agreement dated 29 March 2011 (as supplemented by the supplemental agreement dated 18 April 2011) entered into between the Company, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited relating to the Rights Issue.

6. MISCELLANEOUS

- (i) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (iii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.
- (iv) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (v) 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.
- (vi) The English text of this circular shall prevail over the Chinese text.

7. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Grant Sherman Appraisal Limited	Independent Professional Valuer
DTZ Debenham Tie Leung Limited	Independent Professional Valuer

Each of Donvex Capital Limited, HLB Hodgson Impey Cheng, Grant Sherman Appraisal Limited and DTZ Debenham Tie Leung 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 Donvex Capital Limited, HLB Hodgson Impey Cheng, Grant Sherman Appraisal Limited and DTZ Debenham Tie Leung 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, Donvex Capital Limited, HLB Hodgson Impey Cheng, Grant Sherman Appraisal Limited and DTZ Debenham Tie Leung 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 2010, being the date to which the latest published audited accounts of the Company were made up.

8. 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 the date of the SGM:

- (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 Company for each of the two financial years ended 31 December 2009 and 2010;
- (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 2010 (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 page 41 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 42 to 49 to this circular;
- (g) the valuation report on the Sites, the text of which is set out in Appendix V to this circular;
- (h) the valuation report on the properties of the Group in Hong Kong, the text of which is set out in Appendix VI to this circular;
- (i) the valuation report on the properties of the Group in Macau, the text of which is set out in Appendix VII to this circular;
- (j) the written consents of the experts referred to in the section headed “Expert and Consent” in this appendix; and
- (k) this circular.

NOTICE OF SPECIAL GENERAL MEETING



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Entertainment Limited (the “Company”) will be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 3:45 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) 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

- (a) the conditional agreement (the “Agreement”) dated 23 December 2010 and entered into between Triumph Top Limited, Sociedade de Turismo e Diversões de Macau, S.A., the Company and Mr. Heung Wah Keung, a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorised to do all other acts and things and execute all documents which he/she considers necessary or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated respectively thereunder.”

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

Hong Kong, 20 May 2011

NOTICE OF SPECIAL GENERAL MEETING

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.