THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Eternity Investment Limited, you should at once hand this circular and the accompanying 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.

ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

(I) MAJOR TRANSACTION — SUBSCRIPTION OF CONVERTIBLE BONDS (II) VERY SUBSTANTIAL ACQUISITION — CONVERSION OF CONVERTIBLE BONDS AND (III) NOTICE OF SPECIAL GENERAL MEETING

Financial advisers of the Company

Mansion House Securities (F.E.) Limited

Nuada Limited
Corporate Finance Advisory

A notice convening the special general meeting of Eternity Investment Limited to be held at Pacific Room, 2nd Floor, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on Thursday, 30 June 2011 at 2:00 p.m. is set out on pages 84 to 85 of this circular. Whether or not you intend to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general 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 special general meeting or any adjournment thereof should you so wish.

25 May 2011

CONTENTS

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

"acting in concert"	has the meaning ascribed to it in the Code
"Announcement"	the announcement dated 9 February 2011 jointly issued by the Company and China Star in relation to the Subscription Agreement
"Ashley Property"	the whole block of "Citadines Ashley Hongkong", No. 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong erected on Kowloon Inland Lot No. 9613
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"China Star"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued China Star Shares are listed on the Main Board of the Stock Exchange
"China Star Capital Reorganisation"	the capital reorganisation of China Star involving (i) the consolidation of every ten (10) issued and unissued China Star Old Shares of HK$0.01 each into one (1) consolidated China Star Old Share of HK$0.10 each; (ii) the capital reduction of the nominal value of all the authorised consolidated China Star Old Shares from HK$0.10 each to HK$0.01 each and the credit arising from reduction of the issued share capital of China Star be transferred to the contributed surplus account of China Star; and (iii) increase of authorised share capital of China Star becoming effective on 9 May 2011. Details of the capital reorganisation of China Star have been disclosed in the circular of China Star dated 7 March 2011
"China Star Group"	China Star and its subsidiaries
"China Star Independent Shareholders"	the China Star Shareholders, other than the Company, Mr. Heung, Ms. Chen and their respective associates

"China Star New Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of China Star after the implementation of the China Star Capital Reorganisation
"China Star Old Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of China Star before the implementation of the China Star Capital Reorganisation
"China Star Rights Issue"	the proposed issue of not less than 1,473,536,625 new China Star New Shares and not more than 1,684,106,889 new China Star New Shares by way of rights at a subscription price of HK$0.25 per China Star New Share on the basis of three new China Star New Shares for every one existing China Star New Share held on 7 June 2011, with the proposed issue of bonus warrants on the basis of one bonus warrant for every five new China Star New Shares taken up under the rights issue as announced by China Star on 19 April 2011 and 16 May 2011
"China Star SGM"	the special general meeting of China Star to be convened to approve, inter alia, the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights
"China Star Share(s)"	the China Star Old Share(s) or the China Star New Share(s), as the case may be
"China Star Shareholder(s)"	the holder(s) of the issued China Star Share(s)
"China Star Warrants"	the outstanding warrants in an aggregate principal amount of HK$111,525,643.67 entitling the holders thereof to subscribe for new China Star Old Shares at an adjusted subscription price of HK$0.182 per China Star Old Share before the implementation of the China Star Capital Reorganisation or HK$1.82 per China Star New Share after the implementation of the China Star Capital Reorganisation pursuant to the warrant instrument of China Star dated 15 June 2010
"Code"	the Hong Kong Code on Takeovers and Mergers

"Company"	Eternity Investment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange
"Concert Group"	HWKFE, Mr. Heung, Ms. Chen, Dorest, the Company, Simple View, Mr. Lei and their respective associates
"connected person"	has the meaning ascribed to it in the Listing Rules
"Convertible Bonds"	the convertible bonds in the maximum principal amount of HK$650 million to be issued by China Star in two tranches pursuant to the Subscription Agreement
"Conversion Price"	the initial conversion price of HK$0.08 per Conversion Share before the implementation of the China Star Capital Reorganisation or HK$0.80 per Conversion Share after the implementation of the China Star Capital Reorganisation (subject to adjustment) pursuant to the terms of the Convertible Bonds
"Conversion Rights"	the rights attached to the Convertible Bonds to convert the principal amount (or any part(s) thereof) of the Convertible Bonds into Conversion Shares at the Conversion Price
"Conversion Share(s)"	the new China Star Share(s) to be issued by China Star under the Convertible Bonds upon exercise of the Conversion Rights
"Directors"	the directors of the Company
"Dorest"	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung
"Enlarged Group"	the Group upon completion of the Subscription and conversion of the Convertible Bonds to the extent that the Company and parties acting in concert with it are interested in not more than 30% of the issued share capital of China Star
"First Tranche Subscription"	the subscription of the first tranche of the Convertible Bonds by the Company in the principal amount of HK$350 million pursuant to the terms and conditions of the Subscription Agreement

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HWKFE"	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Ms. Chen and as to 50% by Mr. Heung
"Instruments"	the instruments to be executed by China Star by way of a deed poll constituting the Convertible Bonds to be issued upon completion of the First Tranche Subscription and the Second Tranche Subscription
"Last Trading Day"	21 January 2011, being the last trading day before the publication of the Announcement
"Latest Practicable Date"	20 May 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lot 6B"	an undeveloped parcel of land named as "Quarteirao 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 Sociedade de Turismo e Diversões de Macau, S.A. 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

"Lot 6C"	an undeveloped parcel of land named as "Quarteirao 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 Sociedade de Turismo e Diversões de Macau, S.A. 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 "Quarteirao 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 Sociedade de Turismo e Diversões de Macau, S.A. 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 "Quarteirao 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 Sociedade de Turismo e Diversões de Macau, S.A. 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

"Mr. Heung"	Mr. Heung Wah Keung, an executive director of China Star and a former executive Director
"Mr. Lei"	the Chairman of the Board, an executive Director and a substantial Shareholder holding 220,280,000 Shares representing approximately 19.99% of the issued share capital of the Company
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive director of China Star and a former executive Director
"Second Tranche Subscription"	the subscription of the second tranche of the Convertible Bonds by the Company in the principal amount of HK$300 million pursuant to the terms and conditions of the Subscription Agreement
"SGM"	the special general meeting of the Company to be convened and held at Pacific Room, 2nd Floor, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on Thursday, 30 June 2011 at 2:00 p.m. to consider and, if thought fit, approve the transactions contemplated under the Subscription Agreement and the Subscription and the conversion of the Convertible Bonds
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the issued Share(s)
"Simple View"	Simple View Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Sites"	Lot 6B, Lot 6C, Lot 6D and Lot 6E
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the First Tranche Subscription and/or the Second Tranche Subscription

"Subscription Agreement"	the conditional subscription agreement dated 21 January 2011 entered into between China Star and the Company as supplemented by a supplemental agreement dated 28 March 2011 in relation to the Subscription
"substantial shareholders"	has the meaning ascribed to it in the Listing Rules
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

Executive Directors:
Mr. Lei Hong Wai *(Chairman)*
Mr. Cheung Kwok Wai, Elton
Mr. Chan Kin Wah, Billy

Independent non-executive Directors:
Mr. Tang Chak Lam, Gilbert
Mr. Hung Hing Man
Mr. Wan Shing Chi

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3811, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

25 May 2011

To the Shareholders

Dear Sir or Madam,

(I) MAJOR TRANSACTION — SUBSCRIPTION OF CONVERTIBLE BONDS (II) VERY SUBSTANTIAL ACQUISITION — CONVERSION OF CONVERTIBLE BONDS AND (III) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 21 January 2011 (after trading hours of the Stock Exchange), the Company and China Star entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to subscribe or procure subscription for and China Star has conditionally agreed to issue of the Convertible Bonds in the principal amount of HK$650 million in two tranches at their face value.

On 28 March 2011, the Company announced that the Company had entered into a supplemental agreement with China Star pursuant to which the parties had agreed the completion of the Subscription would be subject to the China Star Shareholders (other than those who are required to abstain from voting, if any) having approved at a special general meeting of China Star of the acquisition of leasehold property right in respect of the Sites.

The Subscription constitutes a major transaction and the conversion of the Convertible Bonds constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Subscription and the conversion of the Convertible Bonds are subject to the Shareholders' approvals at the SGM.

The purpose of this circular is to give you further details of the Subscription Agreement and the transaction contemplated thereunder, together with a notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Parties and date

Date: 21 January 2011

Issuer: China Star

Subscriber: The Company

As at the date of the Subscription Agreement:

(a) the Company, through Simple View, was interested in 680,000,000 China Star Old Shares, representing approximately 15.69% of the issued share capital of China Star, and the China Star Warrants in an aggregate principal amount of HK$26,248,000 entitling Simple View to subscribe for 141,881,081 new China Star Old Shares at an adjusted subscription price of HK$0.185 per China Star Old Share (subject to further adjustment);

(b) Mr. Heung and Ms. Chen, who are the executive directors of China Star, resigned as Directors on 1 February 2010;

(c) Mr. Ho Wai Chi, Paul, an independent non-executive director of China Star, resigned as a Director on 25 May 2010, Mr. Ho did not hold any China Star Shares or China Star Warrants as at the date of the Subscription Agreement; and

(d) Mr. Heung, Ms. Chen and their respective associates were interested in aggregate 246,852,025 China Star Old Shares, representing approximately 5.70% of the issued share capital of China Star, and the China Star Warrants in an aggregate principal amount of approximately HK$5,458,311 entitling them to subscribe for 29,504,385 new China Star Old Shares at an adjusted subscription price of HK$0.185 per China Star Old Share (subject to further adjustment).

As such, (a) the Company is a substantial shareholder of China Star and thus a connected person of China Star; and (b) Mr. Heung, Ms. Chen and Mr. Ho Wai Chi, Paul are connected persons of the Company as they were Directors within twelve months preceding the date of the Subscription Agreement.

On 18 April 2011, the board of directors of China Star proposed the China Star Rights Issue and HKWFE, Mr. Heung, Ms. Chen, Dorest, the Company, Simple View, Mr. Lei and their respective associates are deemed parties acting in concert under the Code.

Save as disclosed above, to the best of knowledge, information and belief of the Directors and having made all reasonable enquiries, China Star and its ultimate beneficial owners are third parties independent of and not connected nor acting in concert with any directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates.

Principal terms of the Convertible Bonds

Principal amount:	A maximum principal amount of HK$650 million, of which HK$350 million for the First Tranche Subscription and HK$300 million for the Second Tranche Subscription.
Maturity:	The fifth anniversary of the date of issue of the Convertible Bonds.
Interest:	The Convertible Bonds carry an interest to be accrued at 8% per annum on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of 16% per annum is payable on any overdue amount, whether principal or interest.
	Interest on the Convertible Bonds shall be payable on the last day of each interest period, which is of six months intervals commencing from the date of issue of the Convertible Bonds.

Redemption: China Star may at any time upon the date of issue and before the maturity date of the Convertible Bonds, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the Convertible Bonds, redeem the Convertible Bonds at par.

Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion Price: HK$0.08 per Conversion Share before the implementation of the China Star Capital Reorganisation or HK$0.80 per Conversion Share after the implementation of the China Star Capital Reorganisation (subject to adjustment). The adjustments are subject to review by China Star's auditors or an approved merchant bank. The adjustments for the Conversion Price include the followings:

(i) an alternation of nominal amount of each China Star Share by reason of any consolidation or subdivision;

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

(iii) a capital distribution (as defined in the Instruments) being made by China Star, whether on a reduction of capital or otherwise, to holders of the China Star Shares in their capacity as such;

(iv) an offer or grant being made by China Star to holders of China Star Shares by way of rights or of options or warrants to subscribe for new China Star Shares at a price which is less than 90% of the market price (calculation as provided in the Instruments);

(v) an issue wholly for cash being made by China Star of securities convertible into or exchangeable for or carrying rights of subscription for new China Star Shares, if in any case the total effective consideration per China Star Share (as defined in the Instruments) initially receivable for such securities is less than 90% of the market price (calculation as provided in the Instruments), or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per China Star Share initially receivable for such securities is less than 90% of the market price;

(vi) an issue being made by China Star wholly for cash of China Star Shares at a price per China Star Share less than 90% of the market price (calculation as provided in the Instruments); and

(vii) an issue being made by China Star of China Star Shares for acquisition of assets at a total effective consideration per China Star Share less than 90% of the market price (calculation as provided in the Instruments).

The initial Conversion Price of HK$0.08 before the implementation of the China Star Capital Reorganisation represents (i) a premium of approximately 9.59% over the closing price of HK$0.073 per China Star Old Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 11.11% over the average closing prices of approximately HK$0.072 per China Star Old Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day. As at the Latest Practicable Date, the initial Conversion Price of HK$0.80 after the implementation of the China Star Capital Reorganisation represents a premium of approximately 175.86% over the closing price of HK$0.29 per China Star New Share as quoted on the Stock Exchange.

Conversion Shares: Before the implementation of the China Star Capital Reorganisation, assuming the Convertible Bonds are converted into China Star Old Shares in full at the initial Conversion Price of HK$0.08 per Conversion Share, China Star will allot and issue an aggregate of 8,125,000,000 new China Star Old Shares, representing approximately 187.47% of the issued share capital of China Star as at the date of the Subscription Agreement and approximately 65.21% of the issued share capital of China Star as at the date of the Subscription Agreement as enlarged by allotment and issue of the Conversion Shares.

After the implementation of the China Star Capital Reorganisation, assuming the Convertible Bonds are converted into China Star New Shares in full at the initial Conversion Price of HK$0.80 per Conversion Share, China Star will allot and issue an aggregate of 812,500,000 new China Star New Shares, representing approximately 165.42% of the issued share capital of China Star as at the Latest Practicable Date and approximately 62.32% of the issued share capital of China Star as at the Latest Practicable Date as enlarged by allotment and issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the China Star SGM subject to the China Star Independent Shareholders' approval.

Conversion: Provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) which exercised the Conversion Rights and its party(ies) acting in concert; and (ii) will not cause the public float of China Star unable to meet requirement under Rule 8.08 of the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bonds to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares at the Conversion Price provided further that any conversion shall be made in amounts of not less than a whole multiples of HK$1 million on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted.

Transferability:	The bondholder(s) may only assign or transfer the Convertible Bonds to the transferee subject to the consent of China Star. China Star will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected person.
Ranking:	The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all issued shares of China Star on the date of the allotment and issue of the Conversion Shares.
Status of Convertible Bonds:	The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of China Star and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of China Star.
Voting rights:	The holders of the Convertible Bonds shall not be entitled to attend or vote at any general meetings of China Star.
Application for listing:	No application will be made by China Star for listing of the Convertible Bonds. Application will be made by China Star to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conditions Precedent

The obligations of the parties to the Subscription Agreement to effect the Subscription shall be conditional upon:

(a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which China Star and the Company have no reasonable objection) the listing of, and permission to deal in, the Conversion Shares;

(b) the China Star Independent Shareholders having approved at the China Star SGM the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon the exercise of the Conversion Rights or otherwise pursuant to the terms and conditions of the Convertible Bonds;

(c) the Shareholders (other than those who are required to abstain from voting, if any) having approved at the SGM the transactions contemplated in the Subscription Agreement and the subscription of the Convertible Bonds and the conversion of the Convertible Bonds;

(d) there being no occurrence of circumstances which, in the reasonable opinion of the Company, will have a material adverse effect on the financial condition, prospects, earning, business, undertaking or assets of China Star and its subsidiaries, in each case, taken as a whole, since the date of the Subscription Agreement;

(e) all the representations, warranties and undertakings made by China Star in the Subscription Agreement remaining true, accurate and complete in all material respects and not misleading in any material respect;

(f) all necessary consents and approvals required to be obtained on the part of China Star and the Company in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained;

(g) if necessary, the Bermuda Monetary Authority granting consent for the allotment and issue of Conversion Shares upon conversion of the Convertible Bonds; and

(h) the China Star Shareholders (other than those who are required to abstain from voting, if any) having approved at the China Star SGM the acquisition of leasehold property right in respect of the Sites.

If the conditions precedent as set out above are not fulfilled on or before 31 July 2011 (or such other date as may be agreed by China Star and the Company in writing), the Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches of the Subscription Agreement.

According to the Subscription Agreement, the Subscription is not conditional on the completion of the proposed acquisition of the property leasehold right in respect of the Sites as announced by China Star on 7 January 2011. As set out in the paragraph headed "Completion" below, China Star shall produce to the Company the Works License (工程准照) in respect of the Sites issued by the Macau Government for completing the Second Tranche Subscription. Accordingly, if China Star cannot produce the Works License (工程准照) to the Company, the Second Tranche Subscription is not proceeded.

Save for condition (b) above, none of the above conditions has been fulfilled as at the Latest Practicable Date.

Completion

Completion of the First Tranche Subscription shall take place on the date falling on the third business day (or such other date as may be agreed by China Star and the Company in writing) after the fulfillment of the conditions as set out in the section headed "Conditions Precedent" above.

Completion of the Second Tranche Subscription is also subject to the following conditions and shall take place on or before 30 June 2012 (or such other date as may be agreed by China Star and the Company in writing):

(a) China Star shall produce to the Company the Works License（工程准照）in respect of the Sites issued by the Macau Government;

(b) the Company shall have received evidence to its satisfaction that the proceeds from the Second Tranche Subscription of HK$300 million will be applied for the purpose of developing the Sites; and

(c) the Company has sufficient fund available for the Second Tranche Subscription.

For the provision of evidence by China Star in applying the proceeds from the Second Tranche Subscription for development of the Sites, the Company expects, including but not limited to, a written confirmation from the directors of China Star and/or an opening of a designated bank account for the use of proceeds.

As the Directors give top priority to develop the Group's own business, the Company does not have any plan to ensure it has sufficient fund for the Second Tranche Subscription. In addition, the Company has reserved its right to conclude whether it has sufficient fund available for the Second Tranche Subscription. In the event that the Company does not have sufficient fund, the Second Tranche Subscription will lapse. Pursuant to the Subscription Agreement, there is no arrangement between China Star and the Company if the Company considers that it does not have sufficient fund.

Termination

The Company may, by notice to China Star given at any time prior to the completion of each of the First Tranche Subscription and the Second Tranche Subscription, terminate the Subscription Agreement in any of the following circumstances:

In the reasonable opinion of the Company, the success of the Subscription would be materially and adversely affected by:

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

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

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

(d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(e) any suspension in the trading of securities generally or the securities of China Star on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the announcement, the circular or other documents in connection with the Subscription; or

(f) any material breach of any of the representations, warranties or undertakings contained in the Subscription Agreement comes to the knowledge of the Company.

If at any time prior to the completion of each of the First Tranche Subscription and the Second Tranche Subscription any such notice as is referred to above is given by the Company, the obligations of all parties under the Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches of the Subscription Agreement.

STATUS OF THE CONVERTIBLE BOND SUBSCRIBED BY THE GROUP ON 21 SEPTEMBER 2009

On 21 September 2009, the Group subscribed for the convertible bond in the principal amount of HK$200 million from China Star pursuant to the conditional subscription agreement dated 23 July 2009.

During the second half of 2009, the Group converted the convertible bond of HK$200 million entirely into 1,000,000,000 new China Star Old Shares at a conversion price of HK$0.20 per China Star Old Share by three conversions. On 12 October 2009, the Group disposed of 320,000,000 China Star Old Shares to independent third parties at a price of HK$0.20 per China Star Old Share pursuant to the conditional placing agreement dated 12 October 2009. As a result, the Group holds 680,000,000 China Star Old Shares as at the date of the Subscription Agreement.

As at the Latest Practicable Date, the Group did not held any convertible bonds issued by China Star.

UPDATE ON THE USE OF PROCEEDS FROM RIGHTS ISSUE AS ANNOUNCED BY THE COMPANY ON 28 JULY 2010

On 28 July 2010, the Company announced an issue of not less than 826,584,147 and not more than 879,960,951 new Shares by way of rights on the basis of three new Shares for every one existing Share held on 3 September 2010 at a subscription price of HK$0.40 per new Share. The proceeds of HK$325.11 million from the rights issue are intended to apply for the fund required under the revolving facility of up to HK$700 million to be granted to by the Company to the joint venture company engaged in property development in Vietnam or, if the formation of the joint venture company cannot completed, expanding into property investment/development business on its own.

Given the formation of the joint venture company was not completed, the HK$283 million of the net proceeds from the rights issue will be applied for financing the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong)

Limited and Citadines Ashley TST Management (Hong Kong) Limited as announced by the Company on 11 April 2011 and the remaining balance of HK$42.11 million will be applied for general working capital of the Group.

FINANCIAL INFORMATION OF THE CHINA STAR GROUP

The China Star Group recorded an audited net profit before and after taxation of approximately HK$26.22 million and HK$24.83 million (before profit of non-controlling interests of approximately HK$32.91 million) for the financial year ended 31 December 2010 respectively, and an audited net profit before and after taxation of approximately HK$167.24 million and HK$164.40 million (before loss of non-controlling interests of approximately HK$39.99 million) for the financial year ended 31 December 2009 respectively. The China Star Group had an audited net assets of approximately HK$2,579.96 million as at 31 December 2010.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE SUBSCRIPTION AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets and provision of management services to concierge departments of gaming promoters.

China Star 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.

As announced by China Star on 7 January 2011, the China Star Group has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the proposed acquisition of the property leasehold right in respect of the Sites at a consideration of HK$550 million. Given the superb location of the Sites which is adjacent to Hotel Lan Kwai Fong Macau, Macao Polytechnic Institute, Forum de Macao and Golden Lotus and is couple blocks away from Macau Fisherman's Wharf and Sands Casino, the China Star Group intends to develop the Sites into office units and residential apartment for sale and 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 Hotel Lan Kwai Fong Macau. The directors of China Star consider that the proposed acquisition of the property leasehold right in respect of the Sites will diversify the China Star Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long-term profitability. The directors of China Star consider that the Subscription Agreement provides an opportunity to the China Star Group for financing the proposed acquisition and the development of the Sites.

The Directors consider that the Subscription would enable the Company to participate in the development of the China Star Group and provide the Company with the flexibility to be benefited from the interest income of 8% per annum from the Convertible Bonds as well as the upside of the share price performance of the China Star Shares through conversion of part or whole of the Convertible Bonds into China Star Shares as and when the Company considers appropriate. The Group shall participate the development of the China Star Group by converting the Convertible Bonds into the China Star Shares and being a shareholder of China Star. Other than being a shareholder of China Star, the Group shall not take any part or role in relation to the development of the China Star Group.

As there is no investment with similar characteristic and interest rate available on the market, the Directors did not consider any other alternatives prior to the signing of the Subscription Agreement.

The Directors believe that there is a good chance for the upside of the share price performance of the China Star Shares as:

(i) China Star has generated a positive cash inflow from operating activities since the financial year of 2008;

(ii) shortly after the opening of Hotel Lan Kwai Fong Macau in August 2009, the hotel and gaming service business of China Star has reported a profit from its operations in the financial year of 2010;

(iii) the China Star Group has scaled down its loss-making film distribution business since the financial year of 2008; and

(iv) the proposed acquisition of the property leasehold right in respect of the Sites may have a positive impact on the China Star Group's profitability as the acquisition price of HK$550 million representing a 49.59% discount to the estimated market value of the Sites as at 30 November 2010, which reduces the risks associated with the newly expanded property development business of the China Star Group.

Taking into account (i) the Conversion Price is arrived at after arm's length negotiation and on normal commercial terms between China Star and the Company with reference to the prevailing share prices of China Star and the market risk relating to the volatility of the market condition assumed by the Company; and (ii) the interest rate and default interest rate of the Convertible Bonds are determined with reference to the prime rate of Hong Kong given the Convertible Bonds is unsecured, the Directors consider that the Subscription and the terms of the Subscription Agreement which are determined after arm's length negotiations and on normal commercial terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE OF CHINA STAR

The shareholding structure of China Star (i) as at the Latest Practicable Date, (ii) assuming full conversion of the Convertible Bonds at the Conversion Price; (iii) assuming full exercise of the China Star Warrants in an aggregate principal amount of HK$32,219,691 to subscribe for 17,703,127 China Star New Shares by the Concert Group and full conversion of the Convertible Bonds at the Conversion Price; and (iv) assuming conversion of the Convertible Bonds up to the extent that the Concert Group are interested in not more than 30% of the issued share capital of China Star, are set out as below:

	As at the Latest Practicable Date		Assuming full conversion of the Convertible Bonds at the Conversion Price *(Note 1)*		Assuming full exercise of the China Star Warrants in an aggregate principal amount of HK$32,219,691 to subscribe for 17,703,127 China Star New Shares by the Concert Group and full conversion of the Convertible Bonds at the Conversion Price *(Note 1)*		Assuming conversion of the Convertible Bonds up to the extent that the Concert Group are interest in not more than 30% of the issued share capital of China Star *(Note 1)*	
	No. of China Star New Shares	*Approx.*	*No. of China Star New Shares*	*Approx.*	*No. of China Star New Shares*	*Approx.*	*No. of China Star New Shares*	*Approx.*
The Concert Group								
Simple View and its associates	69,995,000	14.25%	882,495,000	67.69%	897,199,055	67.90%	141,435,755	25.01%
HWKFE *(Note 2 and 3)*	24,671,500	5.02%	24,671,500	1.89%	27,667,666	2.09%	27,667,666	4.89%
Dorest *(Note 2 and 4)*	13,702	0.01%	13,702	0.00%	16,608	0.00%	16,608	0.00%
Sub-total	94,680,202	19.28%	907,180,202	69.58%	924,883,329	69.99%	169,120,029	29.90%
Public China Star Shareholders	396,498,798	80.72%	396,498,798	30.42%	396,498,798	30.01%	396,498,798	70.10%
Total	491,179,000	100.00%	1,303,679,000	100.00%	1,321,382,127	100.00%	565,618,827	100.00%

Notes:

1. For illustrative purpose only. Pursuant to the terms of the Convertible Bonds, the bondholder(s) shall have the right to convert the Convertible Bonds into the Conversion Shares, provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of China Star unable to meet the requirement under the Listing Rules.

2. HWKFE, Mr. Heung, Ms. Chen, Dorest, the Company, Simple View, Mr. Lei and their respective associates are parties acting in concern as defined under the Code.

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

4. Dorest is owned as to 60% by Porterstone Limited (a company wholly owned by Ms. Chen) and as to 40% by Mr. Heung. The China Star Old Shares held by Dorest are under a charging order.

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

For the year ended 31 December 2010, the Group recorded a loss of HK$356.46 million. The loss for the year was mainly attributable to a loss on deemed disposal of an associate of HK$537.62 million which was partly offset by a gain on early repayment of promissory note receivable of HK$64.63 million and a gain on early repayment of convertible notes receivable of HK$75.96 million. The net assets of the Group amounted to HK$1,344.66 million.

The Directors believe that the key risks of 2011 are slower-than-expected US GDP growth, intensified European sovereign debt crises, supply disruption from the Tohoku Earthquake and other troubles in the Western economies and they may disrupt equities markets over the course of 2011. The Directors continue to see market weakness as an opportunity to the Group for building its portfolio for sustainable growth. The Group shall invest in equities with attractive valuation caused by volatility in equities markets in order to enhance the returns to the Shareholders.

Despite the fact that the Macau VIP gaming revenue had a 70% growth in 2010, the Directors believe that the grow in gaming revenue will be smoother in 2011 as Mainland China has already launched tightening measures to combat inflation. The Directors expect that the overall performance of the Group's provision of management services business will report a mild growth in 2011.

On 11 April 2011, the Company announced the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited at a cash consideration of HK$283.00 million. The principal asset of Citadines Ashley TST (Hong Kong) Limited is the Ashley Property. Citadines Ashley TST Management (Hong Kong) Limited is a company providing management service to the Ashley Property. The Ashley Property is located at Ashley Road, Tsimshatsui, Kowloon, Hong Kong and comprises 19-storey with a total gross floor area of approximately 28,338 square feet. The ground floor to the 3rd floor of the Ashley Property is designated for commercial purpose. The uppers floors are used as serviced apartments with 36 units. As the proposed acquisition constitutes a very substantial acquisition of the Company under the Listing Rules, the proposed acquisition is subject to the Shareholders' approval at a general meeting. Upon completion of the proposed acquisition, whilst the Group will continue to carry out its existing businesses, the Group will also carry out property investment business in Hong Kong via Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited. The Directors believe that the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited will provide a stable income source to the Group and have a positive impact on the Group's profitability.

Other than property investment and development, the Directors are active in identifying potential investment targets and expanding new business activities for distributing constant real returns to the Shareholders.

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 China Star expects that this policy would limit the competition in the Macau's gaming industry and have a positive impact on the performance of Hotel Lan Kwai Fong Macau and its gaming promotion operation.

The significant growth in the Mainland China box office receipts in recent years has created new opportunities for the Hong Kong film industry. To capture these new opportunities, the China Star Group has formed a 50-50 joint venture company in film production and distribution with KH Investment Holdings Limited (stock code: 8172). The China Star Group believes that the joint venture would reduce the working capital requirement and spread out business risks for its film production and distribution operations.

With a stable cash income generated from Hotel Lan Kwai Fong Macau and its gaming promotion operation, the China Star Group has taken steps to diversify its revenue sources by expanding into property development business in Macau. The China Star Group is in the process of acquiring lands, including the Sites, in Macau for its newly expanded property development business. Given the superb locations of the Sites and the steady growth in Macau's economy, the board of China Star expects the newly expanded property development business will contribute positively to the China Star Group.

FINANCIAL EFFECTS OF THE SUBSCRIPTION AND THE CONVERSION OF CONVERTIBLE BONDS

The accounting treatments of the Company on the Convertible Bonds are as follows:

(i) upon Completion, the Convertible Bonds is recognised as a financial asset of the Company's consolidated statement of financial position; or

(ii) upon any conversion of the Convertible Bonds into the Conversion Shares, China Star is treated as an associate (within the meaning of Hong Kong Accounting Standard 28 — Investments in Associates) of the Company and the converted Conversion Shares are accounted for in the Company's consolidated financial statements using the equity method in accordance with Hong Kong Accounting Standard 28 — Investments in Associates.

Assets

As at 31 December 2010, the audited consolidated total assets of the Group amounted to HK$1,397.40 million.

As set out in Appendix III to this circular, assuming completion of the Subscription had taken place on 31 December 2010, the unaudited pro forma consolidated total assets of the Group would be HK$1,600.65 million.

As set out in Appendix III to this circular, assuming completion of the Subscription and the conversion of 497,923,207 China Star Old Shares had taken place on 31 December 2010 on the basis that the Concert Group holding 946,802,025 China Star Old Shares on that date, the unaudited pro forma consolidated total assets of the Enlarged Group would be HK$2,123.59 million.

Liabilities

As at 31 December 2010, the audited consolidated total liabilities of the Group amounted to HK$52.74 million.

As set out in Appendix III to this circular, assuming completion of the Subscription had taken place on 31 December 2010, the unaudited pro forma consolidated total liabilities of the Group would remain at HK$52.74 million.

As set out in Appendix III to this circular, assuming completion of the Subscription and the conversion of 497,923,207 China Star Old Shares had taken place on 31 December 2010 on the basis that the Concert Group holding 946,802,025 China Star Old Shares on that date, the unaudited pro forma consolidated total liabilities of the Enlarged Group would remain at HK$52.74 million.

Earnings

The Group recorded an audited consolidated loss of HK$356.46 million for the year ended 31 December 2010.

As set out in Appendix III to this circular, assuming completion of the Subscription had taken place on 1 January 2010, the unaudited pro forma consolidated loss of the Group for the year ended 31 December 2010 would be HK$238.81 million.

As set out in Appendix III to this circular, assuming completion of the Subscription and the conversion of 497,923,207 China Star Old Shares had taken place on 1 January 2010 on the basis that the Concert Group holding 946,802,025 China Star Old Shares on that date, the unaudited pro forma consolidated profit of the Enlarged Group for the year ended 31 December 2010 would be HK$232.92 million.

Gearing

As at 31 December 2010, the Group had no borrowings.

Assuming completion of the Subscription had taken place on 31 December 2010, the Group would have no borrowings.

Assuming completion of the Subscription and the conversion of 497,923,207 China Star Old Shares had taken place on 31 December 2010 on the basis that the Concert Group holding 946,802,025 China Star Old Shares on that date, the Enlarged Group would have no borrowings.

IMPLICATION OF THE LISTING RULES

The Subscription constitutes a major transaction and the conversion of the Convertible Bonds constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Subscription and the conversion of the Convertible Bonds are subject to the Shareholders' approvals at the SGM. The SGM will be convened to approve the Subscription Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM.

THE SGM

A notice convening the SGM to be held at Pacific Room, 2nd Floor, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on Thursday, 30 June 2011 at 2:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the resolutions to approve the transactions contemplated under the Subscription Agreement, including the Subscription and the conversion of the Convertible Bonds is set out on pages 84 to 85 of this circular.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able 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 share registrar and transfer office in Hong Kong, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Subscription Agreement and the transactions contemplated thereunder, including the Subscription and the conversion of the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that Shareholders should vote in favour of the resolutions proposed at the SGM.

Given the completion of the Subscription is subject to the China Star Shareholders (other than those who are required to abstain from voting, if any) having approved at a special general meeting of China Star of the acquisition of leasehold property right in respect of the Sites and the proceeds of HK$300 million in respect of the Second Tranche Subscription is designated for the development of the Sites, Shareholders are strongly advised to read the circular issued by China Star dated 20 May 2011 relating to the proposed acquisition of leasehold property right in respect of the Sites, which is published at China Star's website at www.chinastar.com.hk, before voting for or against the resolutions proposed in respect of the Subscription and the conversion of the Convertible Bonds at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
Eternity Investment Limited
Lei Hong Wai
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS EXTRACTED FROM ANNUAL REPORTS OF THE COMPANY

Set out below is the management discussion and analysis extracted from the annual report of the Company for each of the three years ended 31 December 2008, 2009 and 2010.

(I) FOR THE YEAR ENDED 31 DECEMBER 2010

Financial Review

Results of operations

During the year ended 31 December 2010, the Group recorded a revenue of HK$78,200,000, a 4.67% increase from HK$74,711,000 for the previous year. Of the total turnover amount, HK$73,610,000 was generated from provision of management services and HK$4,590,000 was generated from sales of financial assets. Loss for the year ended 31 December 2010 amounted to HK$356,457,000, whereas the Group recorded a profit of HK$416,562,000 for the previous year. The deterioration was mainly attributable to a loss on deemed disposal of an associate of HK$537,615,000 which was partly offset by a gain on early repayment of promissory note receivable of HK$64,627,000 and a gain on early repayment of convertible notes receivable of HK$75,962,000.

Cost of sales for the year amounted to HK$632,000, which was wholly related to provision of management services. Based on the turnover of HK$73,610,000, the gross profit margin for provision of management services was 99.14%.

Other revenue and other income increased by 45.70% from HK$11,905,000 in the year ended 31 December 2009 to HK$17,346,000 in the year ended 31 December 2010. This increase was mainly attributable to the receipt of a compensation of HK$4,938,000 for a shortfall in service fee income guarantee given to the Group.

Administrative expenses (before depreciation and impairment loss recognised in respect of trade receivables) amounted to HK$13,943,000 for the year ended 31 December 2010, a 16.18% decrease from HK$16,634,000 for the previous year. This decrease was mainly attributable to the decreases in share-based payment expenses in respect of consultancy services and staff costs which were partly offset by the increases in legal and professional fees and office rental.

The directors reassessed the recoverable amounts of management services agreements held by the Group at the end of financial year of 2010 with reference to the valuations performed by an independent firm of professional valuers and, in light of the non-achievement of the service fee income guarantee for the 12-month ended 30 June 2010, an impairment loss on intangible assets of HK$4,856,000 was recognised.

During the year ended 31 December 2010, the Group ceased to have significant influence over China Star Film Group Limited ("China Star Film", now known as KH Investment Holdings Limited) and was deemed to dispose of its shareholding interest in China Star Entertainment Limited ("China Star Entertainment"). As a result, the Group discontinued to account for China Star Film and China Star Entertainment as associates. The Group reclassified its investments in China Star Film and China Star Entertainment as financial assets at fair value through profit or loss and available-for-sale financial assets, respectively. Accordingly, the Group recognised a loss on losing significant influence of an associate of HK$21,028,000, a loss on deemed disposal of an associate of HK$537,615,000 and a loss arising on change in fair value of available-for-sale financial assets of HK$14,280,000. Please refer to the section headed "Material disposals" below for more details.

During the year ended 31 December 2010, China Star Film and China Star Entertainment contributed losses of HK$543,000 and HK$8,828,000 to the Group respectively.

On 26 May 2010, the convertible notes receivable of HK$100,000,000 and the promissory note receivable of HK$100,000,000 were repaid by China Star Film before their maturity. The Group recorded a gain on early repayment of promissory note receivable of HK$64,627,000 and a gain on early repayment of convertible notes receivable of HK$75,962,000. In addition, the Group reassessed the fair value in respect of the conversion options embedded in the convertible notes receivable as at the date of repayment with reference to the valuation performed by an independent firm of professional valuers and recognised a gain arising on change in fair value of HK$1,525,000.

In October 2010, the Group sold 6,750,000 shares (the "Hantec Sale Shares") in Hantec Holdings Investment Limited ("Hantec") to Mr. Man Kong Yui at a consideration of HK$21,600,000. Taking into account the fair value of the consideration paid and the call option granted, the Group recorded a gain on disposal of available-for-sale financial assets of HK$7,579,000. Please refer to the sections headed "Material acquisition" and "Material disposals" below for more details.

During the year ended 31 December 2010, the Group recognised a gain arising on change in fair value of financial assets at fair value through profit or loss of HK$4,918,000, representing a gain of HK$3,150,000 arising from revaluating the Group's stocks portfolio at market prices and a gain of HK$1,768,000 arising from the bonus issue of warrants by China Star Entertainment.

To reduce its finance costs, the Company early redeemed the convertible notes of HK$72,000,000 payable to Well Will Investment Limited on 26 July 2010 and recognised a loss on early redemption of convertible notes payable of HK$1,062,000.

Finance costs decreased from HK$8,086,000 in the year ended 31 December 2009 to HK$3,041,000 in the year ended 31 December 2010. It was mainly attributable to the decrease in imputed interest expense on convertible notes payable resulted from the early redemption of convertible notes of HK$72,000,000 payable by the Company on 26 July 2010.

Liquidity and financial resources

During the year ended 31 December 2010, the Group mainly funded its operations through a combination of cash generated from operations, equity attributable to owners of the Company, convertible notes payable and issue of new shares. Equity attributable to owners of the Company decreased from HK$1,371,044,000 at 31 December 2009 to HK$1,344,663,000 at 31 December 2010.

At 31 December 2010, the cash and cash equivalents of the Group amounted to HK$989,625,000 (31 December 2009: HK$275,802,000). This increase was mainly attributable to the repayment of loan of HK$155,536,000 by 上海昇平文化發展有限公司 ("Shanghai Shengping"), a subsidiary of China Star Film, the early repayment of convertible notes receivable of HK$100,000,000 and promissory note receivable of HK$100,000,000 by China Star Film and the fund raising activities conducted by the Company raising net proceeds of HK$350,230,000.

At 31 December 2010, the Group had no borrowings.

At 31 December 2010, the Group's net current assets and current ratio were HK$994,811,000 (31 December 2009: HK$450,386,000) and 80.09 (31 December 2009: 40.48), respectively.

Capital structure

During the year ended 31 December 2010, the capital structure of the Company had the following changes:

(a) on 16 April 2010, the Company issued 26,420,000 new shares credited as fully paid to Mr. Man Kong Yui for settling the consideration of HK$18,000,000 for acquiring the Hantec Sale Shares;

(b) on 29 April 2010, the Company issued 5,680,000 new shares at a price of HK$0.64 per share and 5,830,000 new shares at a price of HK$0.60 per share pursuant to the exercise of share options granted to the directors and the Group's employees and consultants;

(c) on 5 May 2010, the Company issued 990,000 new shares at a price of HK$0.60 per share and 1,600,000 new shares at a price of HK$0.64 per share pursuant to the exercise of share options granted to the Group's employees and consultants;

(d) on 10 June 2010, the Company issued 960,000 new shares at a price of HK$0.66 per share pursuant to the exercise of share options granted to an employee of the Group;

(e) on 23 July 2010, the Company issued 45,920,000 new shares at a price of HK$0.55 per share by way of placing of new shares under general mandate raising HK$24,900,000 (net of expenses) for general working capital of the Group; and

(f) on 29 September 2010, the Company issued 826,584,147 rights shares at a subscription price of HK$0.40 per share by way of rights issue to qualifying shareholders on the basis of three rights shares for every one existing share held on 3 September 2010 raising HK$325,330,000 (net of expenses) for funding the loan facility to be granted to a joint venture company.

Material acquisition

On 16 April 2010, the Group acquired the Hantec Sale Shares from Mr. Man Kong Yiu at a consideration of HK$18,000,000, which was settled by the Company in issuing 26,420,000 new shares credited as fully paid to Mr. Man. The fair value of the new shares issued was HK$14,003,000.

Material disposals

During the year ended 31 December 2010, the Group had the following material disposals:

(a) Following the resignation of Mr. Heung Wah Keung, a then executive director of the Company, as a director of China Star Film on 21 January 2010, the Group ceased to have significant influence over China Star Film. Accordingly, the Group accounted for its investment in China Star Film as financial assets at fair value through profit or loss, instead of an associate, and recognised a loss on losing significant influence of an associate of HK$21,028,000.

(b) On 13 January 2010, China Star Entertainment issued 52,790,000 new shares upon the exercise of shares options granted to its employees, which caused a dilution on the Group's interest in China Star Entertainment from 29.61% to 28.94%. The Group was deemed to dispose of 0.67% shareholding interest in China Star Entertainment and recognised a loss on deemed disposal of an associate of HK$10,790,000.

(c) On 11 February 2010, China Star Entertainment issued 540,000,000 new shares pursuant to a private placement causing a dilution on the Group's interest in China Star Entertainment from 28.94% to 23.54%. The Group was deemed to dispose of 5.40% shareholding interest in China Star Entertainment and recognised a loss on deemed disposal of an associate of HK$95,343,000.

(d) On 11 August 2010, China Star Entertainment issued 1,444,643,184 new shares pursuant to the rights issue proposed on 8 July 2010. As the Group did not take up its entitlement under the rights issue, the Group's interest in China Star Entertainment was diluted from 23.54% to 15.69% and ceased to have significant influence over China Star Entertainment. The Group has accounted for its investment in China Star Entertainment as available-for-sale financial assets, instead of an associate, and recognised a loss on deemed disposal of an associate of HK$431,482,000 and a loss arising on change in fair value of available-for-sale financial assets of HK$14,280,000.

(e) On 27 October 2010, Mr. Man Kong Yui exercised the call option, which was granted to him by the Group under the conditional sale and purchase agreement dated 31 March 2010, to require the Group to sell the Hantec Sale Shares to him at a consideration of HK$21,600,000. The disposal of the Hantec Sale Shares was completed on 28 October 2010 and the Group recognised a gain on disposal of available-for-sale financial assets of HK$7,579,000.

Loan to Shanghai Shengping

In May 2010, Shanghai Shengping fully repaid the loan of HK$155,536,000.

The loan was secured by a corporate guarantee given by China Star Film, interest-free and had no fixed terms of repayment.

Pledge of assets

At 31 December 2010, no assets of the Group were pledged.

Commitments

At 31 December 2010, the Group had no material commitments.

Exchange risk and hedging

During the year ended 31 December 2010, the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by the Group.

Contingent liabilities

At 31 December 2010, the Group had no material contingent liabilities.

Employees and remuneration policy

At 31 December 2010, the headcount of the Group was 10 (2009: 21). Staff costs (including directors' remuneration) amounted to HK$3,463,000 (2009: HK$8,903,000 for continuing operations; HK$942,000 for discontinued operations). In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

Operations Review

During the year ended 31 December 2010, no revenue was generated from the Group's film distribution business as the Group was not able to secure quality films at reasonable prices for distribution.

Due to Europe's sovereign debt and bank anxiety, equity markets were volatile in the second quarter of 2010, the Group has started to rebuild its stocks portfolio by investing in equities of Hong Kong small and medium capitalisation companies. Following the cessation of significant influence over China Star Film, the Group disposed of its entire investment in China Star Film on market in May 2010. As the Group did not take up any of its entitlement under the rights issue proposed by China Star Entertainment, the Group sold the nil-paid rights shares in China Star Entertainment on market in July 2010. The Group reported a profit of HK$4,590,000 for its sale of financial assets business in the year ended 31 December 2010.

During the year ended 31 December 2010, the Group's provision of management services business generated services fee income amounted to HK$73,610,000, a 21.69% increase as compared to the previous year. The increase was mainly due to a strong growth in Macau VIP gaming revenue in 2010. The directors believe that the strong growth in Macau VIP gaming revenue was a direct result of the Mainland China's economic growth coupled with a lending boom.

On 16 April 2010, the Group acquired the Hantec Sale Shares at a consideration of HK$18,000,000 from Mr. Man Kong Yui and granted the call option to Mr. Man to acquire the Hantec Sale Shares from the Group for a consideration of HK$21,600,000 within one year from the date of completion. Pursuant to the conditional sale and purchase agreement dated 31 March 2010, Mr. Man had given a dividend guarantee for not less than HK$1,800,000 per annum for the period from 16 April 2010, being the date of completion of the acquisition, to 30 June 2012. On 17 May 2010, Hantec notified the Group that the registration of the transfer of the Hantec Sale Shares had been declined pursuant to the articles of association of Hantec. On 20 May 2010, a trust deed was executed by Mr. Man as trustee in favour of the Group as beneficiary, pursuant to which Mr. Man had agreed to act as nominee for the Group in respect of the Hantec Sale Shares and to hold the Hantec Sale Shares on trust for the Group. On the same date, Mr. Man gave an undertaking in favour of the Group that he should procure the registration of transfer of the Hantec Sale Shares within six months from the date of the undertaking and, if he failed to procure the registration within the prescribed time, exercise the call option to acquire the Hantec Sale Shares from the Group at HK$21,600,000. As Mr. Man failed to procure the registration of transfer of the Hantec Sale Shares within the prescribed time, Mr. Man exercised the call option to acquire the Hantec Sale Shares from the Group at HK$21,600,000 on 27 October 2010. Taking into account the fair value of the consideration paid and the call option granted, the Group recognised a gain on disposal of the Hantec Sale Shares of HK$7,579,000. The Group also recognised a dividend income of HK$962,000 from the Hantec Sale Shares.

On 24 June 2010, the Group entered into a joint venture agreement with Yiu Hing International Limited ("Yiu Hing") relating to the formation of a joint venture company engaged in growing and sale of organic vegetables in Mainland China. Pursuant to the joint venture agreement, the joint venture company is owned as to 50% by the Group and as to 50% by Yiu Hing and each of the Group and Yiu Hing shall contribute HK$30,000,000 in cash as capital. As the joint venture company was not able to obtain the land use rights for growing organic vegetables within 60 days from the date of the joint venture agreement, the Company announced on 24 August 2010 that the joint venture agreement was ceased and determined. The capital of HK$30,000,000 contributed made by the Group was returned to the Group and Yiu Hing paid a compensation of HK$1,500,000 to the Group on that date.

With a view to expand into real estate business in Vietnam, the Group entered into a joint venture agreement with Campbell Shillinglaw & Partners (Vietnam) Limited ("Campbell") and Victory Peace Holdings Limited on 21 July 2010, pursuant to which the Group and Campbell have conditionally agreed to setting up a joint venture company, namely Victory Peace Holdings Limited, to engage in the business of conducting, development and investing into real estate and related projects in Vietnam. The joint venture company is held as to 90.1% by the Group and 9.9% by Campbell. On the same date, the Company and the joint venture company entered into the facility agreement, pursuant to which the Company has conditionally agreed to grant a revolving credit facility of HK$700,000,000 to the joint venture company to proceed with its business of conducting, development and investing into real estate and related projects in Vietnam. The formation of the joint venture company and the granting of revolving credit facility to the joint venture company were approved by the shareholders on 3 September 2010. As Campbell failed to obtain the relevant approvals and consents from the Vietnam Government in relation to its acquiring a 9.9% equity interest in the joint venture company on or before 31 December 2010, being the long stop date of the joint venture agreement, the joint venture agreement has lapsed with effect from 31 December 2010.

Future Prospects

The directors believe that the key risks of 2011 are slower-than-expected US GDP growth, intensified European sovereign debt crises, supply disruption from the Tohoku Earthquake and other troubles in the Western economies and they may disrupt equities markets over the course of 2011. The directors continue to see market weakness as an opportunity to the Group for building its portfolio for sustainable growth. The Group continues to adopt a prudence approach in investing equities to enhance the returns to its shareholders.

Despite the fact that the Macau VIP gaming revenue had a 70% growth in 2010, the directors believe that the grow in gaming revenue will be smoother in 2011 as Mainland China has already launched tightening measures to combat inflation. The directors expect that the overall performance of the Group's provision of management services business will report a mild growth in 2011.

Although the setting up of the joint venture company engaging in the business of conducting, development and investing into real estate and related projects in Vietnam was lapsed, the Group's business strategy in expanding into property investment and development business remains unchanged and the directors are actively seeking suitable property projects for the Group. The directors are also active in identifying potential investment targets and expanding new business activities for distributing constant real returns to the Company's shareholders.

On 11 April 2011, the Company announced the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited at a cash consideration of HK$283.00 million. The principal asset of Citadines Ashley TST (Hong Kong) Limited is the Ashley Property. Citadines Ashley TST Management (Hong Kong) Limited is a company providing management service to the Ashley Property. The Ashley Property is located at Ashley Road, Tsimshatsui, Kowloon, Hong Kong and comprises 19-storey with a total gross floor area of approximately 28,338 square feet. The ground floor to the 3rd floor of the Ashley Property is designated for commercial purpose. The uppers floors are used as serviced apartments with 36 units. As the proposed acquisition constitutes a very substantial acquisition of the Company under the Listing Rules, the proposed acquisition is subject to the Shareholders' approval at a general meeting. Upon completion of the proposed acquisition, whilst the Group will continue to carry out its existing businesses, the Group will also carry out property investment business in Hong Kong via Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited. The Directors believe that the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited will provide a stable income source to the Group and have a positive impact on the Group's profitability.

Other than property investment and development, the Directors are active in identifying potential investment targets and expanding new business activities for distributing constant real returns to the Shareholders.

Events after the Reporting Period

On 21 January 2011, the Company and China Star Entertainment entered into a subscription agreement pursuant to which China Star Entertainment has conditionally agreed to issue and the Company has conditionally agreed to subscribe or procure subscription for the convertible bonds in the maximum principal amount of HK$650,000,000 in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and maturing on the fifth anniversary of the date of their issue. The convertible bonds carry rights entitling the Company to convert their principal amount into shares in China Star Entertainment at an initial conversion price of HK$0.08 per share (subject to adjustment). The subscription of the convertible bonds constitutes a major transaction and the conversion of the convertible bonds constitutes a very substantial acquisition for the Company under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Accordingly, the subscription and the conversion of the convertible bonds are subject to the notification, publication and shareholders' approval requirements. Please refer to the Company's announcement dated 9 February 2011 for details.

(II) For the year ended 31 December 2009

Financial Review

During the year, the Group disposed of its entire interest in the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and World East Investments Limited ("World East") together with the loans due by each of them to the Group. The major assets of Shinhan-Golden and World East are their interests in the registered capital of 北京莎瑪房地產開發有限公司 ("Beijing Suoma"). The principal activity of Beijing Suoma is property investment. Accordingly, the results of Shinhan-Golden and World East and their subsidiaries, namely Beijing Suoma, 上海昇平文化發展有限公司 ("Shanghai Shengping") and Beijing Jianguo Real Estate Development Co., Limited (collectively the "Disposal Group") are presented separately as discontinued operations.

Profit for the year ended 31 December 2009 from continuing and discontinued operations was HK$416,562,000, whereas the Group recorded a loss of HK$224,508,000 for the previous year.

Results of continuing operations

During the year ended 31 December 2009, the Group recorded a revenue of HK$74,711,000, a 288% increase from HK$19,253,000 for the previous year. The significant increase in revenue was attributable to the full year effect of the Group's expansion into provision of management services business in August 2008 and the turnaround in the performance of sales of financial assets. Of the total turnover amount, HK$60,491,000 or 81% was generated from provision of management services and HK$14,220,000 or 19% was generated from sales of financial assets. Profit for the year ended 31 December 2009 from continuing operations was HK$422,138,000, whereas the Group recorded a loss of HK$96,736,000 for the previous year. The turnaround was mainly attributed to a gain on excess of acquirer's interest in fair value of associates' identifiable net assets over cost of acquisition of HK$702,500,000 and a gain on adjustment to cost of combination in respect of an acquisition in prior year of HK$103,434,000, which were partly offset by impairment loss on intangible assets of HK$117,320,000 and losses on disposal of subsidiaries and associates of HK$328,888,000.

Cost of sales for the year ended 31 December 2009 amounted to HK$1,362,000, which was wholly related to provision of management services. Based on the turnover of HK$60,491,000, the gross profit margin for provision of management services was 97.75%.

As there was a V-shaped recovery in Hong Kong equity market in 2009, the Group increased its sales of financial assets activities and posted a gain on sales of financial assets of HK$14,220,000 during the year.

Other revenue and other income increased by 391% from HK$2,427,000 in the year ended 31 December 2008 to HK$11,905,000 in the year ended 31 December 2009. The significant increase was due to interest income of HK$5,102,000 arising from loan advanced to and convertible note receivable from China Star Entertainment Limited ("CSEL") (stock code: 326) and imputed interest income of HK$5,901,000 arising from promissory note receivable.

Administrative expenses (before depreciation, impairment loss recognised in respect of trade receivables and loss on disposal of property, plant and equipment) amounted to HK$16,634,000 for the year ended 31 December 2009, a 35% decrease from HK$25,768,000 for the previous year. The decrease was mainly attributable to the payment of consultancy fee of HK$1,650,000 and tax surcharge of HK$3,637,000 in the year ended 31 December 2008, whereas no such expenses in the year ended 31 December 2009. In addition, the Group recorded a decrease in legal and professional fees of HK$3,150,000 in the year ended 31 December 2009 due to the increased corporate activities in the previous year.

During the year, the directors reassessed the recoverable amounts of management services agreements held by Rich Daily Group Limited ("Rich Daily") with reference to the valuations performed by an independent firm of professional valuers. In light of the non-achievement of the service fee income guarantee for the 12-month ended 30 June 2009, an impairment loss on intangible assets of HK$117,320,000 was recognised.

As the closing price per share in China Star Film Group Limited (now known as KH Investment Holdings Limited ("CSFGL")) (stock code: 8172) dropped to HK$0.315 on 31 December 2009, the Group recognised a loss on fair value change in conversion options embedded in convertible note receivable from CSFGL of HK$64,542,000.

Pursuant to the sale and purchase agreement dated 28 February 2008 relating to the acquisition of Rich Daily, Mr. Ng Cheuk Fai has irrevocably and unconditionally guaranteed to the Group that the service fee income of Rich Daily for the 12-month ended 30 June 2009 shall not be less than HK$72,000,000. However, the actual service fee income of Rich Daily for the 12-month ended 30 June 2009 was HK$57,224,000. According to the sale and purchase agreement, the consideration for acquiring Rich Daily has to be adjusted from HK$504,000,000 to HK$400,566,000. The adjustment to the consideration of HK$103,434,000 was settled by deducting HK$72,000,000 from a convertible note payable to Well Will Investment Limited on a dollar for dollar basis and cash payment of HK$31,434,000 from Mr. Ng Cheuk Fai. As a result, the Group recorded a gain on adjustment to cost of combination in respect of an acquisition in prior year of HK$103,434,000 and a loss on cancellation of convertible note payable of HK$18,247,000.

Finance costs increased by 141% from HK$3,350,000 in the year ended 31 December 2008 to HK$8,086,000 in the year ended 31 December 2009. The increase was mainly due to the full year effect of the imputed interest expense on convertible notes payable to Well Will Investment Limited as the convertible notes were issued in August 2008.

The Group recorded a tax credit of HK$14,493,000 which represented deferred tax credits of HK$14,078,000 on release of impairment loss on intangible assets and HK$415,000 on imputed interest expense on convertible notes payable.

Results of discontinued operations

Loss from property investment improved by 96% from HK$127,772,000 in the year ended 31 December 2008 to HK$5,576,000 in the year ended 31 December 2009. This improvement was mainly attributable to the recognition of a loss on fair value change in investment properties of HK$74,045,000 and an impairment loss on goodwill of HK$40,382,000 in the year ended 31 December 2008, whereas the Group recorded a gain on fair value change in investment properties of HK$2,002,000 and no impairment loss on goodwill in the year ended 31 December 2009.

Liquidity and financial resources

During the year ended 31 December 2009, the Group mainly funded its operations through a combination of cash generated from operations, equity attributable to the Company's owners, bank borrowings, convertible notes payable and issuance of new shares. Equity attributable to the Company's owners at 31 December 2009 amounted to HK$1,371,044,000 (2008: HK$894,423,000).

At 31 December 2009, the cash and cash equivalents of the Group amounted to HK$275,802,000 (2008: HK$7,218,000). The significant increase in cash and cash equivalents was mainly attributable to the repayment of HK$220,000,000 to the Group by Shanghai Shengping and the funds raised from issuance of new shares.

At 31 December 2009, the total borrowings of the Group amounted to HK$54,563,000 (2008: HK$106,403,000), representing the liability component of the convertible note of HK$72,000,000 which is unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The decrease in total borrowings was mainly attributable to the cancellation of a convertible note of HK$72,000,000 in settling the adjustment to the consideration for acquiring Rich Daily. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's owners was 4% (2008: 12%).

Net current assets and current ratio

At 31 December 2009, the Group's net current assets and current ratio were HK$450,386,000 (2008: HK$602,720,000) and 40.5 (2008: 2.3), respectively.

Capital structure

On 9 January 2009, 39,000,000 new shares of HK$0.01 each were issued at a price of HK$0.102 per share by way of top-up subscription of new shares under general mandate raising HK$3,820,000 (net of expenses) for reducing the Group's bank borrowings.

On 11 February 2009, 200,000,000 new shares of HK$0.01 each were issued at a price of HK$0.102 per share by way of placing of new shares under specific mandate raising HK$19,870,000 (net of expenses) for reducing the Group's bank borrowings.

On 20 February 2009, the directors proposed the following changes to the capital of the Company in order to reduce the overall transaction and handling costs for dealing in the Company's shares:

(a) share consolidation — that every ten issued existing shares of HK$0.01 each be consolidated into one issued consolidated share of HK$0.10; and

(b) capital reduction — that (i) the total number of consolidated shares of HK$0.10 each in the issued share capital of the Company following the share consolidation be rounded down to a whole number by cancelling the fractional share arising from the share consolidation; (ii) the nominal value of each of the issued consolidated shares of HK$0.10 be reduced to HK$0.01 by cancelling the paid-up capital to the extent of HK$0.09 on each issued consolidated share; and (iii) the amount of credit arising from capital reduction be credited to the contributed surplus account of the Company.

The capital reorganisation was approved by the shareholders on 22 April 2009 and became effective on 23 April 2009.

On 2 March 2009, 300,000,000 new shares of HK$0.01 each were issued at a price of HK$0.091 per share by way of placing of new shares under specific mandate raising HK$26,850,000 (net of expenses) for reducing the Group's bank borrowings.

On 30 March 2009, 367,093,498 new shares of HK$0.01 each were issued at a subscription price of HK$0.10 per share by way of open offer to the qualifying shareholders of the Company on the basis of one new share for every two existing shares held on 6 March 2009 raising HK$34,339,000 (net of expenses) for financing possible diversified investments and general working capital of the Group.

On 10 September 2009, 22,000,000 new shares of HK$0.01 each were issued at a price of HK$0.42 per share by way of top-up subscription of new shares under general mandate raising HK$9,030,000 (net of expenses) for general working capital of the Group.

On 29 December 2009, 56,000,000 new shares of HK$0.01 each were issued to Thought Diamond International Limited at a price of HK$0.50 per share raising HK$27,700,000 (net of expenses) for possible diversified investments of the Group.

Disposal of subsidiaries and acquisition of associated companies

On 8 April 2009, the Group sold its interests in the entire issued share capital of Shinhan-Golden and World East together with the loans due by each of them to the Group to Mega Shell Services Limited ("Mega Shell"), a wholly-owned subsidiary of CSFGL, at a consideration of HK$212,732,000. The consideration was settled in the following manner (a) the cash payment of HK$6,847,000, (b) the issue of 11,769,194 new shares in CSFGL credited as fully paid at an issue price of HK$0.50 per share, (c) the issue of a promissory note of HK$100,000,000 by CSFGL and (d) the issue of a convertible note of HK$100,000,000 by CSFGL with an initial conversion price of HK$0.50 per conversion share (subject to adjustment). A loss on disposal of subsidiaries of HK$48,868,000 and a gain on excess of acquirer's interest in fair value of associates' identifiable net assets over cost of investment of HK$16,286,000 were recognised. The disposal together with the related transactions were approved by the shareholders on 12 February 2009.

On completion of the disposal of Shinhan-Golden and World East, the Group was interested in 20.36% of the issued share capital of CSFGL.

On 23 April 2009, the Group signed an undertaking to subscribe for 94,153,552 new shares in CSFGL at a subscription price of HK$0.10 per share to which the Group was entitled to under the open offer to the qualifying shareholders of CSFGL on the basis of eight new shares for every one existing share as announced by CSFGL on the same date. The subscription price for the new shares in CSFGL amounted to HK$9,415,000. The reasons for the Group for entering into the undertaking are to maintain its substantial level of shareholding interest in CSFGL and to facilitate the open offer for raising additional capital to strengthen CSFGL's capital base. The open offer was completed on 2 July 2009.

During the year ended 31 December 2009, CSFGL issued new shares pursuant to a private placement and upon exercise of share options causing a dilution on the Group's interest in CSFGL to 15.66% at the year end. Accordingly, the Group recognised a loss on deemed disposal of an associate of HK$6,629,000. Despite the Group's interest in CSFGL stood at 15.66%, it was accounted for investment in associate as the Group has retained its significant influence over CSFGL by having a representation on the board of directors of CSFGL.

During the year ended 31 December 2009, CSFGL recorded a profit attributable to its owners of HK$26,099,000 and contributed a profit of HK$6,372,000 to the Group.

On 29 April 2009, the Company made a loan of HK$200,000,000 to CSEL pursuant to the conditional loan agreement dated 11 March 2009. The loan was unsecured, interest bearing at prime rate as quoted by The Hong Kong and Shanghai Banking Corporation Limited per annum and maturing on 28 April 2012. The loan made to CSEL was approved by the shareholders, other than Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and their associates, on 22 April 2009.

On 21 September 2009, the Group subscribed the convertible note of HK$200,000,000 from CSEL pursuant to the conditional subscription agreement dated 23 July 2009. The subscription price of the convertible note was satisfied by setting off the loan of HK$200,000,000 made by the Company to CSEL on 29 April 2009. The convertible note was unsecured, interest bearing at prime rate as quoted by The Hong Kong and Shanghai Banking Corporation Limited per annum and maturing on 20 September 2012. The convertible note entitled the Group to convert the outstanding principal amount into shares in CSEL at an initial conversion price of HK$0.20 per share (subject to adjustment). The subscription of the convertible note was approved by the shareholders, other than Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and their associates, on 14 September 2009.

During the second half of 2009, the Group converted the convertible note of HK$200,000,000 entirely into 1,000,000,000 shares in CSEL at a conversion price of HK$0.20 per share. As a result, the Group recorded a gain on fair value change in convertible note of HK$55,244,000, which represented the difference between the fair value of the convertible note of HK$255,244,000 and their carrying amount of HK$200,000,000 and a gain on excess of acquirer's interest in fair value of associates' identifiable net assets over cost of investment of HK$686,214,000. On 10 December 2009, the Group disposed of 320,000,000 shares in CSEL to independent third parties at a price of HK$0.20 per share and recorded a loss on partial disposal of an associate of HK$280,020,000.

During the year ended 31 December 2009, CSEL made a profit attributable to its owners of HK$204,388,000 and contributed a profit of HK$16,116,000 to the Group.

Loan to Shanghai Shengping

As at the date of completion of the disposal of Shinhan-Golden and World East, Shanghai Shengping (a subsidiary of World East) was indebted to the Group in the sum of HK$375,536,000. Pursuant to the sale and purchase agreement, the loan made to Shanghai Shengping by the Group was not settled immediately upon completion and CSFGL has provided a guarantee to the Group for a term of maximum of three financial years ending 31 December 2011 to secure the repayment. If any part of the loan has not been settled on the day falling on the fifth anniversary of the date of completion, CSFGL will issue a convertible note to settle the outstanding balance of the loan.

During the year ended 31 December 2009, Shanghai Shengping repaid HK$220,000,000 to the Group. At 31 December 2009, the outstanding balance of the loan was HK$155,536,000.

The loan is secured by a corporate guarantee given by CSFGL, interest-free and has no fixed terms of repayment.

Pledge of assets

At 31 December 2009, no assets of the Group were pledged.

Commitments

At 31 December 2009, the Group had no material commitments.

Exchange risk and hedging

During the year ended 31 December 2009, the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. Accordingly, no financial instruments for hedging purposes have been used by the Group.

Contingent liabilities

At 31 December 2009, the Group had no material contingent liabilities.

Employees and remuneration policy

At 31 December 2009, headcount of the Group was 21 (2008: 22 for continuing operations; 96 for discontinued operations). Staff costs (including directors' remuneration) for continuing operations and discontinued operations amounted to HK$8,903,000 (2008: HK$9,574,000) and HK$942,000 (2008: HK$4,615,000) in the year ended 31 December 2009, respectively. In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

Operations Review

Continuing operations

During the year ended 31 December 2009, no revenue was generated from the Group's film distribution business as the Group was not able to secure a sufficient quantity of films at reasonable prices for distribution. As the cost of maintaining a distribution network is high, the Group has further scaled down its film distribution operations in the second half of 2009 in order to improve its cost structure.

Following a range of quantitative easing measures carried out by central banks, the market sentiment improved and global equities rallied. During the year ended 31 December 2009, the Group reactivated its sale of financial assets business. As Hong Kong stock market rallied shapely in the third quarter of 2009, the Group took profit on its Hong Kong equities by selling all of them in September 2009 and recorded a gain on sales of financial assets of HK$14,220,000.

During the year ended 31 December 2009, Rich Daily generated services fee income amounted to HK$60,491,000. Rich Daily is a management services provider to the concierge departments of gaming promoters. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters. Following the outbreak of global financial crisis, Rich Daily recorded a drop in its services fee income from September 2008 to February 2009. With Beijing's efforts to reflate the Chinese economy, the Group has seen a gradual improvement on the monthly service fee income since March 2009. The directors believe that Rich Daily strengthens the Group's profitability and cash inflow.

Best Season Holdings Corp. ("Best Season"), a 75% owned subsidiary of the Company, has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. Due to the downturn in Macau's property market in the second half of 2008 and the concentration on the Group's resources on newly expanded business, the business development of Best Season has temporarily been suspended. As a result, no contribution was made from Best Season for the year ended 31 December 2009.

Discontinued operations

During the period from 1 January 2009 to 8 April 2009, the Disposal Group generated an average monthly rental income of HK$1,045,000 and achieved an average monthly occupancy of 18%. The unsatisfactory occupancy was a direct result of weak leasing demand in the first half of 2009. The weaken demand for serviced apartments in Beijing primarily resulted from the negative impact of the global financial crisis which caused a cut in the number of expatriates staff stationed in Beijing by multinational companies.

Future Prospects

Given the Hong Kong stock market performed so well in 2009, there may be a consolidation in the second and third quarters of 2010. The directors believe that any consolidation in Hong Kong equities presents an opportunity to the Group for building a stocks portfolio for sustainable growth. The Group will continue to adopt a prudence approach in investing Hong Kong equities to enhance the returns to its shareholders.

With Macau's gaming revenue surged to its highest-ever quarterly figure in the fourth quarter of 2009, the directors believe that the provision of management services business will continue to contribute positively to the Group in coming years.

Although the global economy shown a sign of improvement in 2009, the directors believe that 2010 remains challenging. However, the directors consider that such kind of economics climate provides opportunities to the Group to invest with reasonable prices. The Group will actively seek investment opportunities to diversify its businesses and broaden its revenue base.

(III) For the year ended 31 December 2008

Financial Review

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and World East Investments Limited ("World East") to Mega Shell Services Limited ("Mega Shell"), a wholly-owned subsidiary of Golife Concepts Holdings Limited (now known as KH Investment Holdings Limited ("Golife")), at a consideration of HK$211,466,310 (subject to adjustment). The major assets of Shinhan-Golden and World East are their interests in the registered capital of 北京莎瑪房地產開發有限公司 ("Beijing Shama"). The principal activity of Beijing Shama is property investment. As a result, the assets and liabilities of Shinhan-Golden and World East and their subsidiaries, namely Beijing Shama, Beijing Jianguo Real Estate Development Co., Limited and 上海昇平文化發展有限公司 ("Shanghai Shengping") (collectively the "Disposal Group"), are re-classified as assets and liabilities of disposal group classified as held for sale in the consolidated balance sheet at 31 December 2008. The results of the Disposal Group are presented separately as discontinued operations in the consolidated income statement for the year ended 31 December 2008.

Loss from continuing and discontinued operations for the year ended 31 December 2008 amounted to HK$224,508,000, whereas a profit of HK$25,694,000 was recorded in 2007. The deterioration was mainly attributable to the increase in impairment loss recognised in respect of goodwill of HK$104,519,000 in the current year and the recognition of the one-off gain of HK$106,956,000 arising from bank loan interest waived in 2007.

Results of continuing operations

The turnover for continuing operations increased from HK$7,722,000 in the year ended 31 December 2007 to HK$19,253,000 in the year ended 31 December 2008. Of the total turnover, HK$2,000,000 was generated from sub-licensing of film rights, HK$18,215,000 was generated from provision of management services and a loss of HK$962,000 was incurred by sales of financial assets. The loss from continuing operations deteriorated from HK$44,749,000 in the year ended 31 December 2007 to HK$96,736,000 in the year ended 31 December 2008. Such deterioration was mainly attributable to the recognition of impairment loss in respect of goodwill of HK$101,965,000, which was partly offset by the increase in gross profit of HK$11,038,000, the decrease in administrative expenses of HK$28,931,000 and a tax credit of HK$13,854,000.

Cost of sales for the year ended 31 December 2008 amounted to HK$493,000, which was wholly related to provision of management services. The gross profit margin for provision of management services was 97%. The gross profit margin for sub-licensing of film rights was 100% as the cost of film library had been fully amortised and/or impaired in previous years.

Other revenue decreased from HK$2,922,000 in the year ended 31 December 2007 to HK$2,427,000 in the year ended 31 December 2008. The decrease was mainly attributed to the decrease in interest income on bank deposits resulted from the decrease in the average monthly balance of the Group's cash and cash equivalents as explained below.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Rich Daily Group Limited ("Rich Daily") with reference to the valuation performed by the independent professional valuers. In the light of the downturn in Macau's VIP gaming, the directors determined that the goodwill should be fully impaired and recognised an impairment loss of HK$101,965,000 in the year ended 31 December 2008.

Administrative expenses (net of depreciation, impairment loss and loss on disposal of property, plant and equipment) amounted to HK$25,768,000 for the year ended 31 December 2008, a 53% decrease from HK$54,818,000 as compared to the correspondence figure for the previous year. The decrease was mainly attributable to the decreases in share-based payment expenses of HK$28,674,000 and consultancy fee of HK$2,541,000, which were partly offset by the surcharge of HK$3,637,000 paid to Inland Revenue Department in relation to the compromise settlement on the Group's offshore income claim.

Finance costs for the year ended 31 December 2008 amounted to HK$3,350,000, representing the imputed interest expense on the convertible notes in an aggregate principal amount of HK$144,000,000 issued in August 2008 for the acquisition of Rich Daily.

During the year ended 31 December 2008, the Group reached a compromise settlement with Inland Revenue Department in settling a tax dispute over the offshore sub-licensing income claim for an amount of HK$12,021,000, which included a surcharge of HK$3,637,000. As a tax provision of HK$22,238,000 had been made in previous years, a tax credit of HK$13,854,000 was recognised.

Results of discontinued operations

The turnover generated from property investment for the year ended 31 December 2008 amounted to HK$20,826,000, a 614% increase from HK$2,917,000 for the previous year. The significant increase was attributable to the commencement of operations of Beijing Shama in late June 2008. The loss for property investment amounted to HK$127,772,000 in the year ended 31 December 2008, whereas a profit of HK$70,443,000 was recorded in 2007. The deterioration was attributable to the recognition of decrease in fair value of investment properties of HK$74,045,000 and impairment loss in respect of goodwill of HK$40,382,000 in 2008, whereas the one-off gain of HK$106,956,000 arising from bank loan interest waived was recognised in 2007.

Cost of sales increased from HK$858,000 in the year ended 31 December 2007 to HK$7,176,000 in the year ended 31 December 2008. The gross profit margin for property investment dropped from 71% in the year ended 31 December 2007 to 66% in the year ended 31 December 2008. The drop in gross profit margin was due to the increase in overhead of Beijing Shama following its soft opening in late June 2008.

Other revenue increased from HK$283,000 in the year ended 31 December 2007 to HK$1,257,000 in the year ended 31 December 2008. The increase was mainly attributed to the increase in interest income on bank deposits resulted from the increase in the average monthly bank balances of Beijing Shama.

Other income for the year ended 31 December 2007 amounted to HK$106,956,000 representing the one-off gain arising from bank loan interest waived by China Merchants Bank.

In the light of the downturn in the Mainland China's property market, the Group recognised a decrease in fair value of investment properties of HK$74,045,000 in the year ended 31 December 2008 with reference to the valuation performed by the independent qualified professional valuers valuing the investment properties at HK$906,960,000 at 31 December 2008.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Shinhan-Golden with reference to the valuation performed by the independent professional valuers. In the light of the downturn in the Mainland China's property market, the directors determined that the goodwill should be fully impaired and an impairment loss of HK$40,382,000 was recognised in the year ended 31 December 2008.

Administrative expenses (net of depreciation) increased from HK$11,635,000 in the year ended 31 December 2007 to HK$20,835,000 in the year ended 31 December 2008. The increase was mainly attributable to the commencement of operations of Beijing Shama in the second half of 2008.

Finance costs for the year ended 31 December 2008 amounted to HK$25,289,000, a 30% increase as compared to HK$19,494,000 in the year ended 31 December 2007. The increase was attributable to the increase in the average monthly balances of the RMB bank loan for the payment of renovation costs in respect of the investment properties.

A tax credit of HK$22,214,000 was arisen from the transfer of deferred tax to income statement in relation to the recognition of the decrease in fair value of investment properties in the year ended 31 December 2008.

Liquidity and financial resources

During the year ended 31 December 2008, the Group mainly funded its operations through a combination of equity attributable to the Company's equity holders, bank borrowings and convertible notes. Equity attributable to the Company's equity holders at 31 December 2008 amounted to HK$894,423,000 (2007: HK$1,046,080,000).

At 31 December 2008, the cash and cash equivalents of the Group amounted to HK$7,218,000 (2007: HK$531,396,000). The decrease in cash and cash equivalents of the Group was mainly attributable to the cash payment of HK$360,000,000 to Well Will Investment Limited ("Well Will") for the acquisition of Rich Daily and the cash and cash equivalents balances of HK$82,152,000 were re-classified as assets of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the total borrowings of the Group amounted to HK$106,403,000 (2007: HK$329,719,000), comprising the advance of HK$600,000 made by China Star Entertainment Limited ("China Star") which is unsecured, interest-free and has no fixed terms of repayment; and the liability component of the convertible notes with an aggregate principal amount of HK$144,000,000 issued to Well Will of HK$105,803,000 which are unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 12% (2007: 32%). The improvement in gearing ratio was attributed to the re-classification of bank borrowings as liabilities of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the bank borrowings of Beijing Shama amounted to HK$319,418,000 (2007: HK$329,018,000), representing the RMB bank loan which is secured by certain of the investment properties with a fair value of HK$853,835,000, the bank deposits of HK$23,470,000 and a corporate guarantee given by the Company, interest bearing at 110% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within three years.

Net current assets and current ratio

At 31 December 2008, the Group's net current assets and current ratio were HK$602,720,000 (2007: HK$491,885,000) and 2.30 (2007: 5.19) respectively.

Capital structure

To reduce the overall transaction and handling costs for dealing in the Company's shares and allow the Company to declare dividends to its shareholders at an earlier opportunity, the directors proposed the following changes to the capital of the Company (the "Capital Reorganisation") on 19 March 2008:

(a) the consolidation of every ten issued and unissued existing shares of HK$0.10 each in the share capital of the Company into one share of HK$1.00;

(b) immediately after completion of the share consolidation in (a) above, the reduction of the nominal value of all issued and issued shares of HK$1.00 each in the share capital of the Company from HK$1.00 each to HK$0.01 each; and

(c) the cancellation of the entire amount of HK$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 by transferring such credit amount to the contributed surplus account of the Company and the application of HK$518,374,000 in the contributed surplus account to set off against the accumulated losses of the Company of HK$518,374,000 at 31 December 2006.

The Capital Reorganisation was approved by the shareholders on 30 April 2008 and became effective on 2 May 2008.

In April 2008, the Company issued 10,009 new shares of HK$0.10 each at an exercise price of HK$0.1146 per share pursuant to the exercise of share options granted to an employee.

On 4 November 2008, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"). Pursuant to the placing agreement, the Company has conditionally agreed to place through Kingston, on a best effort basis, a maximum of 500,000,000 new shares of HK$0.01 each by a maximum of five tranches to independent investors at a placing price, which must not be lower than 85% or more of the average closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the last 30 consecutive trading days up to and including the date on which the placing price was fixed for such tranche and should not be less than HK$0.05 per share. The placing agreement was approved by the shareholders on 19 December 2008. The first tranche of placing of 200,000,000 new shares at a placing price of HK$0.102 per share was completed on 11 February 2009 and the second tranche of placing of 300,000,000 new shares at a placing price of HK$0.091 per share was completed on 2 March 2009. The net proceeds from the placing of 500,000,000 new shares amounted to HK$46,720,000.

On 29 December 2008, the Company, Classical Statue Limited ("CSL"), a substantial shareholder of the Company, and Kingston entered into a top-up placing agreement relating to the placing of 39,000,000 existing shares of HK$0.01 each held by CSL to not fewer than six placees at a placing price of HK$0.102 per share and the top-up subscription of 39,000,000 new shares by CSL at a subscription price of HK$0.102 per new share. The top-up placing was completed on 9 January 2009 and raised HK$3,820,000 (net of expenses) to the Group.

Material acquisitions and disposals of subsidiaries and associated companies

On 29 May 2008, the Group acquired the remaining 3.3% interest in the registered capital of Beijing Shama from Beijing Urban Development Group Co. Ltd. at a net consideration of RMB84,000 (or HK$95,000), after deducting an amount of RMB4,150,000 (or HK$4,705,000) paid to Beijing Urban Development Group Co. Ltd. by the ex-owner in 1997. The directors believe that the acquisition of the remaining 3.3% interest provides the Group with a better protection on its interest in Beijing Shama and a greater flexibility in managing Beijing Shama.

On 29 August 2008, the Group acquired the entire issued share capital of Rich Daily from Well Will at an initial consideration of HK$504,000,000 (subject to adjustment). The initial consideration was settled by paying HK$360,000,000 in cash and issuing of convertible notes in an aggregate principle amount of HK$144,000,000, with an initial conversion price of HK$1.60 per conversion share. Rich Daily is a management services provider to the concierge departments of gaming promoters in Macau. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters.

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden and World East to Mega Shell at a consideration of HK$211,466,310 (subject to adjustment). On 8 April 2009, the conditional sale and purchase agreement was completed. The adjusted consideration of HK$212,731,827 was settled in the following manner (i) the cash payment of HK$6,847,230, (ii) the issue of 11,769,194 new shares in Golife (adjusted for the capital reorganisation of Golife as completed on 6 April 2009) credited as fully paid at an issue price of HK$0.50 per share, (iii) the issue of a promissory note of HK$100,000,000 by Golife and (iv) the issue of a convertible bond of HK$100,000,000 with an initial conversion price of HK$0.50 per conversion share (subject to adjustment) by Golife. Upon completion of the sale and purchase agreement, the Group holds 20.36% interest in the issued share capital of Golife and Golife is treated as an associated company of the Group for financial reporting purposes. Golife is a company listed on the GEM Board of the Stock Exchange.

Charges on assets

At 31 December 2008, certain of the investment properties with a fair value of HK$853,835,000 and the bank deposits of HK$23,470,000 have been pledged to a bank to secure the RMB bank loan granted to Beijing Shama.

Material commitments

At 31 December 2008, the Group had the following material commitments:

(a) capital expenditures of HK$10,408,000 in respect of the renovation works of the investment properties contracted for but not provided in the consolidated financial statements;

(b) a commitment in respect of acquiring the registered capital of Shanghai Shengping from its owners at a price determined by the valuers in Mainland China when the laws in Mainland China allow foreign investors to own more than 51% interest in the registered capital of Shanghai Shengping; and

(c) an unused revolving facility of up to HK$200,000,000 granted to Best Season Holdings Corp. (“Best Season”).

Exchange risk and hedging

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

Contingent liabilities

At 31 December 2008, the Group had no material contingent liabilities (2007: nil).

Employees and remuneration policy

At 31 December 2008, the headcount of the Group was 118 (continuing operations: 22; discontinued operations: 96). Staff costs (including directors' remuneration) for continuing and discontinued operations amounted to HK$9,574,000 and HK$4,615,000 respectively in the year ended 31 December 2008. Employees are remunerated according to their performance and work experience. In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

Operations Review

Continuing operations

During the year ended 31 December 2008, the Hong Kong films market remained sluggish and the demand for Hong Kong made-movies in Mainland China, one of the major markets for Hong Kong made-movies, remained weak. The number of films produced by local producers had decreased. As a result, the Group was not able to secure quality films at reasonable prices for distribution. However, the Group has concluded an agreement to sell its film library at HK$2,000,000.

As volatility in equity market remained high in the first three quarters of 2008, the Group carried out a minimal trading in financial assets during the year. Following the outbreak of the global financial crisis, the Group sold all of its financial assets in order to reduce equity price risk.

The Group acquired the entire issued share of Rich Daily at an initial consideration of HK$504,000,000 (subject to adjustment) on 29 August 2008. Rich Daily is a management services provider to the concierge departments of gaming promoters. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters. Following the completion of the acquisition, Rich Daily generates a constant monthly cashflow to the Group. Although Rich Daily experienced a drop in its services fee income in September 2008 resulted from the outbreak of global financial crisis, the monthly service fee income has remained fairly stable in the fourth quarter of 2008. The directors believe that the newly expanded management service business provides the Group with a stable source of revenue and improves the Group's profitability.

Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. Due to the downturn in Macau's property market in the second half of 2008 and the concentration on the Group's resources on newly expanded business, the business development of Best Season has temporarily been suspended. As a result, no contribution was made from Best Season in the year ended 31 December 2008.

On 23 December 2008, the Group terminated the proposed acquisition of the entire interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan from China Star as the proposed acquisition had been hinged on the release of security given by China Star relating to Kingsway Hotel Limited to be replaced by security given by the Company. Both the Company and China Star had determined not to keep their shareholders and investors lingering on the status of the proposed acquisition or the proposed disposal, as the case may be, as it has been more than one year since the announcement of the proposed acquisition or the proposed disposal, as the case may be.

Discontinued operations

The soft opening of the Disposal Group's investment properties, namely Shama Luxe Chang An, commenced in late June 2008. During the year ended 31 December 2008, rental income of HK$16,033,000 was generated from short-term leasing in the "Olympic Month — August 2008". The occupancy of Shama Luxe Chang An was 16% during the second half of 2008. The unsatisfactory occupancy was a direct result of weak leasing demand in the second half of 2008. The weaken demand for serviced apartment in Beijing primarily resulted from the negative impact of the global financial crisis which caused a cut in the number of expatriates staff stationed in Beijing by many multinational companies. Beijing Shama is working with the management company to formulate plans to improve the occupancy and the cost structure of Shama Luxe Chang An.

Future Prospects

Given the recent global financial crisis and the depressed state of global economy, the directors forecast a tough 2009 and a persist downturn in global economy for a long period of time. As such, the Directors believe the best strategies for the Group are to (i) restructure its business, (ii) enable the Group to concentrate its resources on provision of management services business, and (iii) improve the Group's gearing ratio. On the other hand, the Group is seeking investment opportunities with attractive prices to diversify its businesses and broaden its revenue base.

FINANCIAL INFORMATION INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Group for the year ended 31 December 2008, 31 December 2009 and 31 December 2010, including the notes thereto, have been published in the annual reports of the Company for the year ended 31 December 2008 (pages 52 to 171) and 31 December 2009 (pages 52 to 195) and 31 December 2010 (pages 50 to 187) respectively, which are incorporated by reference into this circular. The said annual reports of the Company are available on the Company's website at www.eternityinv.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding borrowings or material contingent liabilities.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 April 2011.

WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account of the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited at a cash consideration of HK$283.00 million, the Subscription and the internal resources of the Group, the 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 ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

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

Pursuant to the conditional subscription agreement dated 21 January 2011 (as supplemented by a supplemental agreement dated 28 March 2011) entered into between Eternity Investment Limited (the "Company") and China Star Entertainment Limited ("China Star") (the "Subscription Agreement"), the Company has conditionally agreed to subscribe or procure subscription for the convertible bonds ("Convertible Bonds") in the maximum principal amount of HK$650 million to be issued by China Star in two tranches, of which HK$350 million for the first tranche subscription (the "First Tranche Subscription") and HK$300 million for the second tranche subscription (the "Second Tranche Subscription"), at their face value according to the Subscription Agreement (the "CB Subscription").

The accompanying unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the proposed CB Subscription and the conversion of the Convertible Bonds might have affected the financial information of the Group. The Group immediately after the completion of the CB Subscription and the conversion of the Convertible Bonds is referred to as the "Enlarged Group".

Since the conversion of the Convertible Bonds is subject to the provision that such conversion (i) will not trigger a mandatory offer obligation under Rule 26 of the Hong Kong Code on Takeovers and Mergers on the part of the Company which exercise the conversion rights and its parties acting in concert; and (ii) will not cause the public float of China Star unable to meet requirement under Rule 8.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), it is assuming that conversion of the Convertible Bonds will be up to the extent that the Company and the parties acting in concert with it are interested in not more that 30%, assumed to be 29.90% for the Enlarged Group of the then issued share capital of China Star (the "Partial Conversion").

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared on the assumption that the CB Subscription and the Partial Conversion have been completed on 31 December 2010 in the case of the unaudited pro forma consolidated statement of financial position, and on 1 January 2010 in the case of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group's operations that would have been attained had the CB Subscription and the Partial Conversion actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

(A) 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 CB Subscription and the Partial Conversion have been completed on 31 December 2010. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010. Such information is adjusted to reflect the effect of the CB Subscription and the Partial Conversion.

I. Unaudited pro forma consolidated statement of financial position

	The Group at 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) at 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) at 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS							
Non-current assets							
Property, plant and equipment	1,441			1,441			1,441
Intangible assets	334,681			334,681			334,681
Interests in associates	—			—	628,949	*4,5*	628,949
Convertible notes receivables	—	696,101	*1*	696,101	(42,659)	*4*	653,442
Available-for-sale financial assets	53,892			53,892	(53,720)	*4*	172
	390,014			1,086,115			1,618,685
Current assets							
Trade receivables	5,859			5,859			5,859
Deposits, prepayment and other receivables	2,456			2,456			2,456
Financial assets at fair value through profit or loss	9,418			9,418			9,418
Conversion options embedded in convertible notes receivable	—	157,140	*1*	157,140	(9,630)	*4*	147,510
Tax recoverable	32			32			32
Cash and cash equivalents	989,625	(650,000)	*2*	339,625			339,625
	1,007,390			514,530			504,900
Total assets	1,397,404			1,600,645			2,123,585

	The Group at 31 December 2010	Pro forma adjustments		The Group (after CB Subscription) at 31 December 2010	Pro forma adjustments		The Enlarged Group (after CB Subscription and Partial Conversion) at 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
EQUITY							
Capital and reserves attributable to owners of the Company							
Share capital	11,021			11,021			11,021
Reserves	1,333,642	203,241	*3*	1,536,883	522,940	*5*	2,059,823
Total equity	1,344,663			1,547,904			2,070,844
LIABILITIES							
Current liabilities							
Accruals and other payables	10,872			10,872			10,872
Trade deposits received	477			477			477
Tax payable	1,230			1,230			1,230
	12,579			12,579			12,579
Non-current liabilities							
Deferred taxation	40,162			40,162			40,162
Total liabilities	52,741			52,741			52,741
Total equity and liabilities	1,397,404			1,600,645			2,123,585
Net current assets	994,811			501,951			492,321
Total assets less current liabilities	1,384,825			1,588,066			2,111,006

II. Notes to the unaudited pro forma consolidated statement of financial position

1. The pro forma adjustments represent the initial measurement of the estimated fair value of the debt element and the conversion option element of the Convertible Bonds at the subscription date as if the CB Subscription had been completed on 31 December 2010 were as follows:

	HK$'000
Debt elements:	
First Tranche Subscription	374,824
Second Tranche Subscription	321,277
	696,101
Conversion option elements:	
First Tranche Subscription	84,614
Second Tranche Subscription	72,526
	157,140
	853,241

These fair values have been arrived at on the basis of valuation carried out on 31 December 2010 by Grant Sherman Appraisal Limited, an independent qualified professional valuer as if the CB Subscription had been completed on 31 December 2010.

2. The pro forma adjustment of HK$650,000,000 represents the consideration of the CB Subscription at the maximum principal amount of HK$650,000,000, of which HK$350,000,000 for the First Tranche Subscription and HK$300,000,000 for the Second Tranche Subscription, which are settled by cash as if the CB Subscription had been completed on 31 December 2010.

3. The pro forma adjustment of approximately HK$203,241,000 represents the difference between the sum of the estimated fair value of the debt elements and conversion option elements and the principal amount of the Convertible Bonds at the subscription date as if the CB Subscription had been completed on 31 December 2010, of which approximately HK$109,438,000 for the First Tranche Subscription and HK$93,803,000 for the Second Tranche Subscription, which should be credited to profit or loss.

4. Pursuant to the annual report of China Star for the year ended 31 December 2010, China Star had 4,333,933,757 outstanding ordinary shares at 31 December 2010. At 31 December 2010, the Company and the parties acting in concert with it held 946,802,025 ordinary shares of China Star, representing 21.85% equity interest in China Star. 680,000,000 ordinary shares of China Star, representing 15.69% equity interest in China Star were held by the Group and had been classified as available-for-sale financial assets. Accordingly, the maximum number of ordinary shares of China Star that the Group can convert under the Convertible Bonds to the extent that the Company and the parties acting in concern with it is interested in not more than 30%, assumed to be 29.90% for the Group of the then issued share capital of China Star is 497,923,207.

   The pro forma adjustment represents the recognition of the interest in an associate — China Star of approximately HK$106,009,000, which derived from Partial Conversion of the debt elements and the conversion option elements of the Convertible Bonds and derecognition of available-for-sale financial assets of approximately HK$42,659,000, HK$9,630,000 and HK$53,720,000 respectively, as if the Partial Conversion had been completed on 31 December 2010.

5. The pro forma adjustment of approximately HK$522,940,000 represents the discount on acquisition of an associate which directly credit to profit or loss as if the Partial Conversion had been completed on 31 December 2010. The adjustment does not have continuing financial effect.

(B) 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 CB Subscription and the Partial Conversion have been completed on 1 January 2010. The unaudited pro forma consolidated income statement of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010. Such information is adjusted to reflect the effect of the CB Subscription and the Partial Conversion.

I. Unaudited pro forma consolidated income statement

	The Group for the year ended 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	78,200			78,200			78,200
Cost of sales	(632)			(632)			(632)
Gross profit	77,568			77,568			77,568
Other revenue and other income	17,346	56,101	*7*	73,447	(3,438)	*10*	70,009
Administrative expenses	(14,366)			(14,366)			(14,366)
Impairment loss recognised in respect of intangible assets	(4,856)			(4,856)			(4,856)
Loss on losing significant influence of an associate	(21,028)			(21,028)			(21,028)
Loss on deemed disposal of an associate	(537,615)			(537,615)			(537,615)
Share of results of associates	(9,371)			(9,371)	462,542	*9,12*	453,171
Gain on subscription of convertible notes receivable	—	267,322	*6*	267,322			267,322
Gain on early repayment of promissory note receivables	64,627			64,627			64,627
Gain on early repayment of convertible notes receivables	75,962			75,962			75,962
Gain on disposal of available-for-sale financial assets	7,579			7,579			7,579
Loss arising on change in fair value of available-for-sale financial assets	(14,280)			(14,280)			(14,280)
Gain arising on change in fair value of financial assets at fair value through profit or loss	4,918			4,918			4,918

	The Group for the year ended 31 December 2010	Pro forma adjustments		The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments		The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Gain/(loss) arising on change in fair value of conversion options embedded in convertible notes receivable	1,525	(205,773)	*8*	(204,248)	12,610	*11*	(191,638)
Loss on early redemption of convertible notes payables	(1,062)			(1,062)			(1,062)
(Loss)/profit from operations	(353,053)			(235,403)			236,311
Finance costs	(3,041)			(3,041)			(3,041)
(Loss)/profit before taxation	(356,094)			(238,444)			233,270
Income tax expense	(363)			(363)			(363)
(Loss)/profit for the year	(356,457)			(238,807)			232,907
(Loss)/profit for the year attributable to owners of the Company	(356,457)			(238,807)			232,907

II. Notes to the unaudited pro forma consolidated income statement

6. The pro forma adjustment of approximately HK$267,322,000 represents the difference between the sum of the estimated fair value of the debt elements and conversion option elements and the principal amount of the Convertible Bonds at the subscription date as if the CB Subscription had been completed on 1 January 2010, of which approximately HK$143,942,000 for the First Tranche Subscription and HK$123,380,000 for the Second Tranche Subscription, which should be credited to profit or loss. The adjustment does not have continuing financial effect.

7. The pro forma adjustment of approximately HK$56,101,000 represents the imputed interest income on the Convertible Bonds, of which approximately HK$30,208,000 for the First Tranche Subscription and HK$25,893,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the CB Subscription had been completed on 1 January 2010. The adjustment has continuing financial effect.

8. The pro forma adjustment of approximately HK$205,773,000 represents the fair value changes on the conversion option element of the Convertible Bonds, of which approximately HK$110,801,000 for the First Tranche Subscription and HK$94,972,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the CB Subscription had been completed on 1 January 2010. The adjustment has continuing financial effect.

   The fair value changes have been arrived at on the basis of valuation carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer.

9. The pro forma adjustment of approximately HK$447,661,000 represents the discount on acquisition of an associate which directly credit to profit or loss as if the Partial Conversion had been completed on 1 January 2010. It is assumed that the Company held 15.69% equity interests in China Star at 1 January 2010 as same as on 31 December 2010. The adjustment does not have continuing financial effect.

10. The pro forma adjustment of approximately HK$3,438,000 represents the partial reversal of imputed interest income on the Convertible Bonds (see note 7), of which approximately HK$1,851,000 for the First Tranche Subscription and HK$1,587,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the Partial Conversion had been completed on 1 January 2010. The adjustment does not have continuing financial effect.

11. The pro forma adjustment of approximately HK$12,610,000 represents the partial reversal of fair value changes on conversion option element of the Convertible Bonds (see note 8), of which approximately HK$6,790,000 for the First Tranche Subscription and HK$5,820,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the Partial Conversion had been completed on 1 January 2010. The adjustment does not have continuing financial effect.

12. The pro forma adjustment of approximately HK$14,881,000 represents the additional share of results of associates — China Star based on the net profit attributable to owners of China Star as if the Partial Conversion had been completed on 1 January 2010. The adjustment has continuing financial effect.

(C) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, assuming that the CB Subscription and the Partial Conversion have been completed on 1 January 2010. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010. Such information is adjusted to reflect the effect of the CB Subscription and the Partial Conversion.

I. Unaudited pro forma consolidated statement of comprehensive income

	The Group for the year ended 31 December 2010	Pro forma adjustments		The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments		The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
(Loss)/profit for the year	(356,457)	117,650	*6,7,8*	(238,807)	471,714	*9-12*	232,907
Other comprehensive income for the year (after tax):							
Share of exchange reserve change of associates	(83)			(83)	41	*13*	(42)
Total comprehensive (loss)/ income for the year	(356,540)			(238,890)			232,865
Attributable to owners of the Company	(356,540)			(238,890)			232,865

II. Notes to the unaudited pro forma consolidated statement of comprehensive income

13. The pro forma adjustment of approximately HK$41,000 represents the change in share of exchange reserve change of associates as if the Partial Conversion had been completed on 1 January 2010. The adjustment has continuing financial effect.

(D) 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 CB Subscription and the Partial Conversion have been completed on 1 January 2010. The unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010. Such information is adjusted to reflect the effect of the CB Subscription and the Partial Conversion.

I. *Unaudited pro forma consolidated statement of cash flows*

	The Group for the year ended 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
OPERATING ACTIVITIES							
(Loss)/profit before taxation	(356,094)	117,650	*6,7,8*	(238,444)	471,714	*9-12*	233,270
Adjustments for:							
Depreciation of property, plant and equipment	423			423			423
Finance costs	3,041			3,041			3,041
Gain on subscription of convertible notes receivable	—	(267,322)	*6*	(267,322)			(267,322)
Gain arising on early repayment of promissory note receivable	(64,627)			(64,627)			(64,627)
Gain arising on early repayment of convertible notes receivable	(75,962)			(75,962)			(75,962)
Gain on disposal of available-for-sale financial assets	(7,579)			(7,579)			(7,579)
Interest income	(7,039)	(56,101)	*7*	(63,140)	3,438	*10*	(59,702)

	The Group for the year ended 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Impairment loss recognised in respect of intangible assets	4,856			4,856			4,856
Loss arising on change in fair value of available-for-sale financial assets	14,280			14,280			14,280
(Gain)/loss arising on change in fair value of conversion options embedded in convertible notes receivable	(1,525)	205,773	*8*	204,248	(12,610)	*11*	191,638
Gain arising on change in fair value of financial assets at fair value through profit or loss	(4,918)			(4,918)			(4,918)
Loss on early redemption of convertible notes payable	1,062			1,062			1,062
Loss on losing significant influence of an associate	21,028			21,028			21,028
Loss on deemed disposal of an associate	537,615			537,615			537,615
Share of results of associates	9,371			9,371	(462,542)	*9,12*	(453,171)
Share-based payment expenses	2,310			2,310			2,310
Operating cash flows before movements in working capital	76,242			76,242			76,242
Decrease in trade receivables	163			163			163
Increase in deposits, prepayments and other receivables	(1,441)			(1,441)			(1,441)
Increase in accruals and other payables	672			672			672

	The Group for the year ended 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Cash generated from operations	75,636			75,636			75,636
Tax paid	(64)			(64)			(64)
Net cash generated from operating activities	75,572			75,572			75,572
INVESTING ACTIVITIES							
Interest received	2,992	52,000	*15*	54,992	(3,187)	*16*	51,805
Interest paid	(2,042)			(2,042)			(2,042)
Repayment from loan to an associate	155,536			155,536			155,536
Repayment of amount due from an associate	5,103			5,103			5,103
Repayment of convertible notes	(72,000)			(72,000)			(72,000)
Proceeds from disposal of available-for-sale financial assets	21,572			21,572			21,572
Proceeds from disposal of financial assets at fair value through profit or loss	5,931			5,931			5,931
Acquisition of financial asset at fair value through profit or loss	(6,453)			(6,453)			(6,453)
Purchase of property, plant and equipment	(26)			(26)			(26)
Subscription of convertible notes	—	(650,000)	*14*	(650,000)			(650,000)
Net cash generated from/(used in) investing activities	110,613			(487,387)			(490,574)

	The Group for the year ended 31 December 2010	Pro forma adjustments	Notes	The Group (after CB Subscription) for the year ended 31 December 2010	Pro forma adjustments	Notes	The Enlarged Group (after CB Subscription and Partial Conversion) for the year ended 31 December 2010
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
FINANCING ACTIVITIES							
Issuance of new shares, rights shares and exercise of share options	360,701			360,701			360,701
Repayment of promissory note receivable	100,000			100,000			100,000
Repayment of convertible notes receivable	100,000			100,000			100,000
Dividend paid to owners of the Company	(33,063)			(33,063)			(33,063)
Net cash generated from financing activities	527,638			527,638			527,638
Net increase in cash and cash equivalents	713,823			115,823			112,636
Cash and cash equivalents at beginning of year	275,802			275,802			275,802
Cash and cash equivalents at end of year	989,625			391,625			388,438
Analysis of the balances of cash and cash equivalents							
Included in cash and cash equivalents	989,625	(598,000)	*14,15*	391,625	(3,187)	*16*	388,438

II. Notes to the unaudited pro forma consolidated statement of cash flows

14. The pro forma adjustment of HK$650,000,000 represents the consideration of the CB Subscription at the maximum principal amount of HK$650,000,000, of which HK$350,000,000 for the First Tranche Subscription and HK$300,000,000 for the Second Tranche Subscription, which is settled by cash as if the CB Subscription had been completed on 1 January 2010. The adjustment has no continuing financial effect.

15. The pro forma adjustment of HK$52,000,000 represents the interest income received on the Convertible Bonds, of which HK$28,000,000 for the First Tranche Subscription and HK$24,000,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the CB Subscription had been completed on 1 January 2010. The adjustment has continuing financial effect.

16. The pro forma adjustment of approximately HK$3,187,000 represents the partial reversal of interest income received on the Convertible Bonds (see note 15), of which HK$1,716,000 for the First Tranche Subscription and HK$1,471,000 for the Second Tranche Subscription, for the year ended 31 December 2010 as if the Partial Conversion had been completed on 1 January 2010. The adjustment has continuing financial effect.

The following is the text of the report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this appendix.

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

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

25 May 2011

The Director
Eternity Investment Limited
Unit 3811, 38/F., Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Eternity Investment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix III on pages 56 to 71 of the circular dated 25 May 2011 (the "Circular") under the headings of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in connection with the proposed subscription of convertible bonds (the "Convertible Bonds") in the maximum principal amount of HK$650 million to be issued by China Star Entertainment Limited in two tranches according to the subscription agreement (the "CB Subscription") and the conversion of the Convertible Bonds (collectively referred to as the "Enlarged Group"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the CB Subscription and the conversion of the Convertible Bonds constitute a major transaction and a very substantial acquisition of the Company respectively under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix III of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

BASIS OF OPINION

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that 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 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions made by the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

— the financial position of the Enlarged Group as 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.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

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

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 confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries the information contained in this circular is accurate and complete in all material respect and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at the Latest Practicable Date, no Directors or chief executive of the Company had or was deemed to have interests or short positions in Shares, underlying Shares or 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 or 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 referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long positions

a. the Shares

Name of Director	*Note*	**Capacity**	**Number of issued Shares held**	**Approximate percentage of the issued share capital of the Company**
Mr. Lei Hong Wai		Beneficial owner	220,280,000	19.99%
Mr. Cheung Kwok Wai, Elton	*1*	Other	106,000,000	9.62%
Mr. Chan Kin Wah, Billy		Beneficial owner	1,320,000	0.12%

Note:

1. Mr. Cheung Kwok Wai, Elton is the elder brother of Mr. Cheung Kwok Fan. Mr. Cheung Kwok Wai, Elton is deemed to be interested in the Shares held by Mr. Cheung Kwok Fan.

b. Share options

Name of Director	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	1,147,848	1,147,848
Mr. Chan Kin Wah, Billy	Beneficial owner	1,147,848	1,147,848

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, no other person or companies had an interest or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long positions

a. the Shares

Name of Shareholder	*Notes*	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Lei Hong Wai		Beneficial owner	220,280,000	19.99%
Thought Diamond International Limited	*1*	Beneficial owner	106,000,000	9.62%
Mr. Cheung Kwok Fan	*1*	Held by controlled corporation	106,000,000	9.62%

Name of Shareholder	*Notes*	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Asia Vest Partners VII Limited	*2*	Held by controlled corporation	1,294,921	9.95%
Asia Vest Partners X Limited	*2*	Held by controlled corporation	1,294,921	9.95%
Asia Vest Partners Limited	*2*	Held by controlled corporation	1,294,921	9.95%
Mr. Andrew Nam Sherrill	*2*	Held by controlled corporation	1,294,921	9.95%

Notes:

1. Thought Diamond International Limited is wholly owned by Mr. Cheung Kwok Fan.

2. The number of issued Shares was adjusted for the share consolidations that became effective on 30 April 2008 and 23 April 2009.

b. Share options

Name of Shareholder	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	1,147,848	1,147,848

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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

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

5. COMPETING INTEREST

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

6. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. SERVICES CONTRACTS

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

8. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion and advice, which is contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, references to its name and/or its advice in the form and context in which it appears.

9. EXPERT'S INTERESTS IN ASSETS

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

(a) was not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up; and

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

10. MISCELLANEOUS

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company is situated at Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, having its office situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) Mr. Chan Kin Wah, Billy, the company secretary of the Company, is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from University of New South Wales in Australia.

(d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

11. MATERIAL CONTRACTS

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

(i) the subscription agreement dated 23 July 2009 entered into between China Star and the Company in respect of subscription of convertible bonds of HK$200 million issued by China Star;

(ii) the placing and subscription agreement dated 28 August 2009 entered into among the Company, Kingston Securities Limited and Classical Statue Limited, a then substantial Shareholder. Pursuant to the placing and subscription agreement, Classical Statue Limited has agreed to place, through Kingston Securities Limited, 22,000,000 Shares beneficially owned by it, on a fully underwritten basis, to not less than six independent investors at a price of HK$0.42 per Share. Pursuant to the placing and subscription agreement, Classical Statue Limited has conditionally agreed to subscribe for 22,000,000 new Shares at a price of HK$0.42 per Share;

(iii) the conditional placing agreement dated 12 October 2009 entered into between Simple View Investment Limited, a wholly-owned subsidiary of the Company, and Kingston Securities Limited, pursuant to which Simple View Investment Limited has conditionally agreed to place, through Kingston Securities Limited, 320,000,000 China Star Old Shares to not fewer than six independent investors at a price of HK$0.20 per China Star Old Share;

(iv) the subscription agreement dated 20 November 2009 entered into between the Company and Thought Diamond International Limited. Pursuant to the subscription agreement, the Company has conditionally agreed to allot and issue and Thought Diamond International Limited has conditionally agreed to subscribe for 56,000,000 Shares at the subscription price of HKD 0.5 per Share.

(v) the sale and purchase agreement dated 31 March 2010 entered into between Riche (BVI) Ltd ("Riche"), a wholly-owned subsidiary of the Company, and Mr. Man Kong Yui in relation to (i) the sale and purchase of 6,750,000 shares with a par value of HK$1.00 each in the capital of Hantec Holdings Investment Limited for a consideration of HK$18.00 million, which shall be settled by Riche procuring the Company to allot and issue 26,420,000 new Shares credited as fully paid to Mr. Man Kong Yui upon completion; and (ii) the granting of a call option by Riche to Mr. Man Kong Yui to acquire the 6,750,000 shares in Hantec Holdings Investment Limited from Riche for a consideration of HK$21.60 million within one year from the date of completion;

(vi) the joint venture agreement dated 24 June 2010 entered into between Max Winner Investments Limited, a wholly-owned subsidiary of the Company, and Yiu Hing International Limited relating to the formation of a joint venture company engaging in organic agricultural business in the People's Republic of China with a total capital contribution of HK$60 million;

(vii) the placing agreement dated 12 July 2010 entered into between the Company and Kingston Securities Limited, pursuant to which the Company has conditional by agreed to place, through Kingston Securities Limited on a best effort basis, a maximum of 45,920,000 new Shares to not fewer than six independent investors at a price of HK$0.55 per Share;

(viii) the joint venture agreement dated 21 July 2010 entered into between Riche, Campbell Shillinglaw & Partners (Vietnam) Limited and Victory Peace Holdings Limited relating to the setting up of a joint venture company, namely Victory Peace Holdings Limited, engaging in the business of conducting, development and investing into real estate and related projects in Vietnam;

(ix) the facility agreement dated 21 July 2010 entered into between the Company and Victory Peace Holdings Limited relating to the grant of a revolving credit of HK$700 million by the Company to Victory Peace Holdings Limited;

(x) the underwriting agreement dated 28 July 2010 entered into between the Company and Kingston Securities Limited in relation to the proposed issue of not less than 826,584,147 and not more than 879,960,951 new Shares by way of rights to the qualifying Shareholders at a price of HK$0.40 per new Share on the basis of three new Shares for every one existing Share held on the record date;

(xi) the Subscription Agreement;

(xii) the supplemental agreement dated 28 March 2011 entered into between the Company and China Star relating to the amendments to the Subscription Agreement;

(xiii) the irrevocable undertaking dated 29 March 2011 given by Simple View to China Star, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited (a) to subscribe for or procure subscription for 200,000,000 new China Star New Shares to which Simple View is entitled under the rights issue announced by China Star on 18 April 2011 and (b) not to dispose of and not to exercise the subscription rights attached to the China Star Warrants held by it in an aggregate principal amount of HK$26,248,000 on or before the completion of the rights issue;

(xiv) the irrevocable undertaking dated 29 March 2011 given by the Company to China Star, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited not to dispose of the Convertible Bonds (if issued) and not to exercise the conversion rights attached to the Convertible Bonds (if issued) on or before the completion of the rights issue announced by China Star on 18 April 2011; and

(xv) the conditional sale and purchase agreement dated 4 April 2011 entered into between Golden Stone Management Limited, a wholly-owned subsidiary of the Company, and Citadines Ashley TST (Singapore) Pte. Limited, pursuant to which Golden Stone Management Limited has conditionally agreed to acquire and Citadines Ashley TST (Singapore) Pte. Limited has conditionally agreed to sell the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited at a consideration of HK$283.00 million.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3811, 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 of association and bye-laws of the Company;

(b) the annual reports of the Company for the financial years ended 31 December 2008, 2009 and 2010;

(c) the written consents referred to in the paragraph headed "Expert and Consent" to this Appendix;

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

(e) a copy of each of the circulars issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2010, being the date of the latest published audited accounts of the Company; and

(f) this circular.

ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Eternity Investment Limited (the "**Company**") will be held at Pacific Room, 2nd Floor, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on Thursday, 30 June 2011 at 2:00 p.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTION

1. "**THAT**

(a) subject to the fulfillment or waiver of the conditions as set out in the conditional subscription agreement (the "**Subscription Agreement**", a copy of which having been produced to the Meeting marked "A" and initialled by the chairman of the Meeting for the purpose of identification) dated 21 January 2011 and entered into between the Company and China Star Entertainment Limited ("**China Star**") in respect of the subscription of convertible bonds (the "**Convertible Bonds**") to be issued by China Star in the principal amount of HK$650,000,000 in two tranches, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the exercise of conversion rights conferred by the Convertible Bonds be and are hereby approved, confirmed and ratified; and

(b) any one or more of the directors (each a "**Director**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as he/they consider(s) necessary, desirable or expedient in his/their opinion to implement and/or give effect to the Subscription Agreement and any transaction contemplated thereunder."

By Order of the Board
Eternity Investment Limited
Lei Hong Wai
Chairman

Hong Kong, 25 May 2011

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3811
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 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 a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he/she/it so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.