THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中国星

CHINA STAR FILM GROUP LIMITED
中國星電影集團有限公司

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

(Stock Code: 8172)

(1) VERY SUBSTANTIAL DISPOSAL
(2) PROPOSED SPECIAL DIVIDEND
AND
(3) NOTICE OF SPECIAL GENERAL MEETING

A letter from the Board (as defined herein) is set out on pages 8 to 25 of this circular.

A notice convening the SGM (as defined herein) to be held at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 24 May 2010 at 11:00 a.m. is set out on pages 172 to 173 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). The completion and delivery of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish. This circular will remain on the GEM (as defined herein) website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting.

5 May 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

"Acquisition Agreement"	the conditional sale and purchase agreement dated 9 February 2010 (after trading hours) entered into between the Company and the Acquisition Vendor in relation to the Proposed Acquisition
"Acquisition Vendor"	an Independent Third Party
"Announcement"	the announcement dated 13 April 2010 in respect of, among others, the Disposal and the Proposed Special Dividend
"Annual Report 2009"	the annual report of the Company for the year ended 31 December 2009
"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Balance"	the balance of the consideration in the sum of RMB 450 million to be received by Beijing Suoma for the sale and purchase of the Disposed Properties pursuant to the sale and purchase agreement dated 8 August 2009 entered into between Beijing Suoma and 北京銀座興業房地產經紀有限公司 (Beijing Yinzuo Xingye Real Estate Agency Company Limited**)
"Beijing Jianguo (BVI)"	Beijing Jianguo Real Estate Development Co., Ltd., a company incorporated in the BVI and a wholly-owned subsidiary of Shinhan-Golden
"Beijing Suoma"	北京莎瑪房地產開發有限公司 (Beijing Shama Real Estate Development Company Limited**) (formerly known as 北京建國房地產開發有限公司 (Beijing Jianguo Real Estate Development Company Limited)), a company organised and existing under the laws of the PRC
"Board"	the board of Directors

"BVI"	the British Virgin Islands
"Business Day"	a day (other than Saturdays, Sundays and such other days where a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above is in force or hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hour
"Capital Reorganisation"	the proposed capital reorganisation of the Company announced on 1 April 2010 in relation to (i) the proposed reduction of the entire amount standing to the credit of the share premium account of the Company; (ii) the proposed transfer of the entire amount standing to the credit of the share premium account of the Company to the contributed surplus account of the Company; and (iii) the proposed application of approximately HK$212,283,009.22 from the contributed surplus account of the Company to offset against the accumulated losses of the Company. Details of which has been disclosed in the Company's circular dated 19 April 2010
"Chen"	Ms. Chen Peng (陳萍), a PRC citizen and owner of 51% registered capital of Shanghai Shengping
"Chen Undertaking"	an undertaking dated 3 July 2003 as supplemented by a supplemental undertaking dated 7 November 2003 by Chen in relation to the transfer of 51% of the registered capital in Shanghai Shengping
"Company"	China Star Film Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares are listed on the GEM
"Directors"	the directors of the Company

"Disposal"	the proposed disposal of the Mega Shell Sale Share and the Mega Shell Sale Loan pursuant to the Disposal Agreement
"Disposal Agreement"	the conditional sale and purchase agreement dated 8 February 2010 (as supplemented by the Disposal Supplemental Agreement) entered into the Company and Keen Modern in relation to the sale and purchase of the Mega Shell Sale Share and the Mega Shell Sale Loan
"Disposal Completion"	completion of the Disposal in accordance with the Disposal Agreement
"Disposal Deposit"	a refundable deposit in the sum of RMB 5.00 million (or approximately HK$5.69 million), which being a deposit and part payment of the Disposal Price payable by Keen Modern to the Company
"Disposal Long Stop Date"	31 May 2010, being the last day for the fufillment (or waived) of the conditions under the Disposal Agreement
"Disposal Price"	the aggregate consideration of approximately RMB119.57 million (or approximately HK$136.07 million) for the Disposal pursuant to the Disposal Agreement
"Disposed Properties"	the 193 residential and the 186 car parking spaces located at No. 9, Gongyan Xijie, Dongcheng District, Beijing, the PRC
"Disposal Supplemental Agreement"	the supplemental agreement dated 22 April 2010 entered into the Company and Keen Modern in relation to the extension of the Disposal Long Stop Date
"GEM"	Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	third party(ies) independent of and not connected or acting in concert with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules) and are not connected persons of the Company
"JCE"	Amazing Goal International Limited, a 19% owned jointly controlled entity of the Group and principally engaged in distribution of high-end apparel and accessories
"Keen Modern"	Keen Modern Limited, a company incorporated in the BVI and wholly owned by Mr. Long Rui Ming John who is an Independent Third Party
"Latest Practicable Date"	30 April 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Liao"	Mr. Liao Miao-yuan (賴淼源), a PRC citizen and owner of 49% registered capital in Shanghai Shengping
"Liao Undertaking"	an undertaking dated 3 July 2003 as supplemented by a supplemental undertaking dated 7 November 2003 by Liao in relation to the transfer of 49% of the registered capital in Shanghai Shengping
"Mega Shell"	Mega Shell Services Limited, a company incorporated in the BVI and a directly wholly-owned subsidiary of the Company

"Mega Shell Group"	collectively, Mega Shell, Shinhan-Golden, World East, Beijing Suoma, Shanghai Shengping and Beijing Jianguo (BVI)
"Mega Shell Sale Loan"	all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of Disposal Completion. As at 8 February 2010 (being the date of the Disposal Agreement), Mega Shell was indebted to the Company in the sum of HK$59,634,979
"Mega Shell Sale Share"	the one issued ordinary share of par value of US$1.00 in the capital of Mega Shell
"PRC"	the People's Republic of China
"Property"	comprising the 1st Floor and the 2nd Floor together with equipment room of the main building and the entire ancillary building located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC with total gross floor area of about 6,769.98 square meters
"Proposed Acquisition"	the proposed acquisition of the entire issued share capital of the Target Company subject to the terms and conditions of the Acquisition Agreement
"Proposed Special Dividend"	the proposed distribution of cash dividend of HK$40,231,926 by the Company to the Shareholders on a pro rata basis. Further details of the Proposed Special Dividend have been disclosed in the Company's announcement dated 23 April 2010
"Remaining Group"	the Group immediately upon the Disposal Completion

"Riche"	Riche (BVI) Limited, a wholly-owned subsidiary of China Star Investment Holdings Limited and a Shareholder holding approximately 6.32% of the issued share capital of the Company as at the Latest Practicable Date
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened by the Company for the purpose of, among other things, approving the Disposal and the transactions contemplated thereunder and the Proposed Special Dividend
"Shanghai Shengping"	上海昇平文化發展有限公司 (Shanghai Shengping Culture Development Company Limited**), a company organised and existing under the laws of the PRC
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Shares
"Shinhan-Golden"	Shinhan-Golden Faith International Development Limited, a company incorporated in the BVI and an indirectly wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	a company principally engaged in design, management and implementation of integrated information system and advanced energy saving technology which aims for wise and modern management of the city's public services in the PRC
"Termination Agreement"	the termination agreement dated 13 April 2010 entered into between the Company and the Acquisition Vendor to terminate the Acquisition Agreement

“World East”	World East Investments Limited, a company incorporated in the BVI and an indirectly wholly-owned subsidiary of the Company
“HK$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

**: *English translation only*

Unless otherwise specified in this circular, translation of RMB into HK$ are made in this circular, for illustration only, at the rate of HK$1.00 to RMB0.8787. No representation is made that any amounts in HK$ or RMB could have been or could be converted at those rates or at any other rates.

CHINA STAR FILM GROUP LIMITED
中國星電影集團有限公司

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

(Stock Code: 8172)

Executive Directors:
Mr. Lai Hok Lim
Mr. Wong Chi Chiu

Independent non-executive Directors:
Mr. Yip Tai Him
Mr. Law Yiu Sang, Jacky
Ms. Chio Chong Meng

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

Head office and principal place of business in Hong Kong:
Unit 3407, 34/F.
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

5 May 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL
(2) PROPOSED SPECIAL DIVIDEND
AND
(3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

The Board announced on 8 February 2010 (after trading hours) that the Company entered into the Disposal Agreement with Keen Modern pursuant to which the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the Mega Shell Sale Share and the Mega Shell Sale Loan for the Disposal Price of approximately RMB119.57 million (or approximately HK$136.07 million), which shall be satisfied in the following manners: (a) Keen Modern has paid the Disposal Deposit of RMB5 million (or approximately HK$5.69 million) upon signing of the Disposal Agreement; and (b) Keen Modern shall pay approximately RMB114.57 million (or approximately HK$130.38 million) in cash, being the remaining balance of the Disposal Price upon Disposal Completion. Keen Modern has the right (but not obliged) to pay the remaining balance of the Disposal Price prior to the Disposal Completion.

The Board proposes that the Proposed Special Dividend of HK$40,231,926 will be distributed to the Shareholders on a pro rata basis. Based on 335,266,054 Shares in issue as at the Latest Practicable Date, the Proposed Special Dividend will be HK$0.12 per Share. The Proposed Special Dividend will be paid in cash to the Shareholders by the Company, subject to conditions as set out the section headed Proposed Special Dividend in this letter.

The purpose of this circular is to provide you with further information, among other things, further details of the Disposal and the Proposed Special Dividend together with a notice convening the SGM and a proxy form.

THE DISPOSAL

The Disposal Agreement

Date: 8 February 2010 (after trading hours)

Parties: (1) Vendor : the Company

(2) Purchaser : Keen Modern

Keen Modern is an investment holding company. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Keen Modern and its ultimate beneficial owner are Independent Third Parties.

Assets to be disposed

Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the Mega Shell Sale Share, which constitutes the entire issued share capital of Mega Shell, and the Mega Shell Sale Loan.

Mega Shell is an investment holding company which acquired the entire issued share capital of each of Shinhan-Golden and World East on 8 April 2009.

Shinhan-Golden is an investment holding vehicle which holds 96.7% of the registered capital of Beijing Suoma. Shinhan-Golden also holds the entire issued share capital of Beijing Jianguo (BVI), which is a dormant company with no business operation. Except the aforesaid, Shinhan-Golden has no other business.

The remaining 3.3% registered capital of Beijing Suoma is held by Shanghai Shengping. Shanghai Shengping is owned as to 49% by Liao and 51% by Chen. Each of Chen and Liao has respectively by the Chen Undertaking and the Liao Undertaking undertaken to World East to transfer their respective interests in the registered capital of Shanghai Shengping to World East at a price with reference to valuation of such respective registered capital when the laws in the PRC allow foreign investors to own more than 51% in the registered capital of Shanghai Shengping. As at the Latest Practicable Date, Chen and Liao have not transferred their interests in the registered capital of Shanghai Shengping to World East. Other than holding the Chen Undertaking and the Liao Undertaking, World East has no other business.

Following the disposal of the Disposed Properties as mentioned in the announcement of the Company dated 19 August 2009, the principal assets of Beijing Suoma are the Property and the remaining Balance of approximately RMB53.51 million (or approximately HK$60.89 million) as at 8 February 2010 (being the date of the Disposal Agreement). The Property mainly consists of 15 apartment rooms, a clubhouse, a retail floor and an equipment room. The 15 apartment rooms and the retail floor are for rental purposes. The rental income and the occupancy rates in respect of the 15 apartment rooms and the retail floor for the year ended 31 December 2009 were as follows:

	Rental income	**Occupancy rate**
15 apartment rooms	approximately HK$0.74 million	25.62%
Retail floor	HK$nil	0.00%

Beijing Suoma is the registered and beneficial owner of the Property which comprises the 1st Floor and the 2nd Floor together with equipment room of the main building and the entire ancillary building located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC with the land use right certificate number Jing Shi Dong She Wai Guo You (2001 Chu) Zi Di no. 10136. The Property has a total gross floor area of about 6,769.98 square meters.

Disposal Price

The Disposal Price of approximately RMB119.57 million (or approximately HK$136.07 million) shall be satisfied in the following manners:

(a) Keen Modern has paid the Disposal Deposit of RMB5 million (or approximately HK$5.69 million) upon signing of the Disposal Agreement; and

(b) Keen Modern shall pay approximately RMB114.57 million (or approximately HK$130.38 million) in cash being the remaining balance of the Disposal Price upon Disposal Completion. Keen Modern has the right (but not obliged) to pay the remaining balance of the Disposal Price prior to the Disposal Completion.

The Disposal Price was agreed between the Company and Keen Modern after arm's length negotiations by reference to the book value of the Property of approximately HK$113.72 million as at 30 September 2009. The negotiations of the Disposal Price were based on the book value of the Property as at 30 September 2009, instead of an updated valuation of the Property. It is because (a) Keen Modern has accepted that the book value of the Property is the starting point to determine the Disposal Price; and (b) the Disposal Price represents the maximum amount that Keen Modern is willing to pay. The Directors believe that the book value of the Property as at 30 September 2009 plus a premium of 19.65% does not significantly depart from the updated valuation of the Property. As the Disposal Price represents a premium of 19.65% over the book value of approximately HK$113.72 million, the Directors (including the independent non-executive Directors) consider that the Disposal Price is fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Further details in respect of market value of the Property have been disclosed in Appendix IV to this circular.

Reference is made to note 53(c)(ii) to the financial information of the Group as disclosed in Appendix I to this circular, the excess of the Disposal Price over the net assets value of the Mega Shell Group of approximately HK$58.09 million as at 31 December 2009 is approximately HK$77.98 million.

Conditions precedent of the Disposal

Completion of the Disposal shall be conditional on and subject to the fulfillment of the following conditions:

(a) if necessary, the passing by the Shareholders who are not required by the GEM Listing Rules to abstain from voting at the SGM of the necessary resolutions to approve the Disposal Agreement and the transactions contemplated thereunder;

(b) all necessary consents, approvals, licences and authorisation required to be obtained on the part of Keen Modern in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained;

(c) all necessary consents, approvals, licences and authorisation required to be obtained on the part of the Company in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained;

(d) the warranties given by Keen Modern in the Disposal Agreement remaining true and accurate in all material respects;

(e) the warranties given by the Company in the Disposal Agreement remaining true and accurate in all material respects;

(f) the Balance having been received by Beijing Suoma in full; and

(g) Keen Modern, acting reasonably, confirming that it is satisfied with the results of the due diligence review to be conducted on the Mega Shell Group, including Beijing Suoma's title to the Property.

All conditions, except conditions (e) and (g) which Keen Modern may waive and condition (d) which the Company may waive, are not waivable. If the conditions have not been satisfied or waived on or before 4:00 p.m. on 31 May 2010 as agreed in writing by the Company and Keen Modern, the Disposal Agreement shall cease and determine in accordance with the terms thereof, and thereafter neither party shall have any obligations and liabilities towards each other, save for any antecedent breaches of the terms thereof. The Company will within five Business Days after the Disposal Long Stop Date return to Keen Modern the Disposal Deposit without interest.

If the conditions set out above have been fulfilled or waived on or before the Disposal Long Stop Date, but Keen Modern shall fail to complete the purchase of the Mega Shell Sale Share and the Mega Shell Sale Loan in accordance with the Disposal Agreement, the Company may forthwith determine the Disposal Agreement by giving notice of termination in writing to Keen Modern to such effect, in which event the Company shall be entitled to forfeit the Disposal Deposit absolutely and either party shall have any obligations and liabilities thereunder and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms thereof.

Likewise, if the conditions set out above have been fulfilled or waived on or before the Disposal Long Stop Date, but the Company shall fail to complete the sale of the Mega Shell Sale Share and the Mega Shell Sale Loan in accordance with the Disposal Agreement, Keen Modern may forthwith determine the Disposal Agreement by giving notice of termination in writing to the Company to such effect, in which event the Company shall forthwith refund the Disposal Deposit (without interest) plus an amount equivalent to the Disposal Deposit to Keen Modern and neither party shall have any obligations and liabilities thereunder and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms thereof.

Disposal Completion shall take place on the date falling the third Business Days after the fulfillment (or waiver) of the conditions set out above.

As at the Latest Practicable Date, save for (f), none of the conditions have been fulfilled.

REASONS FOR THE DISPOSAL

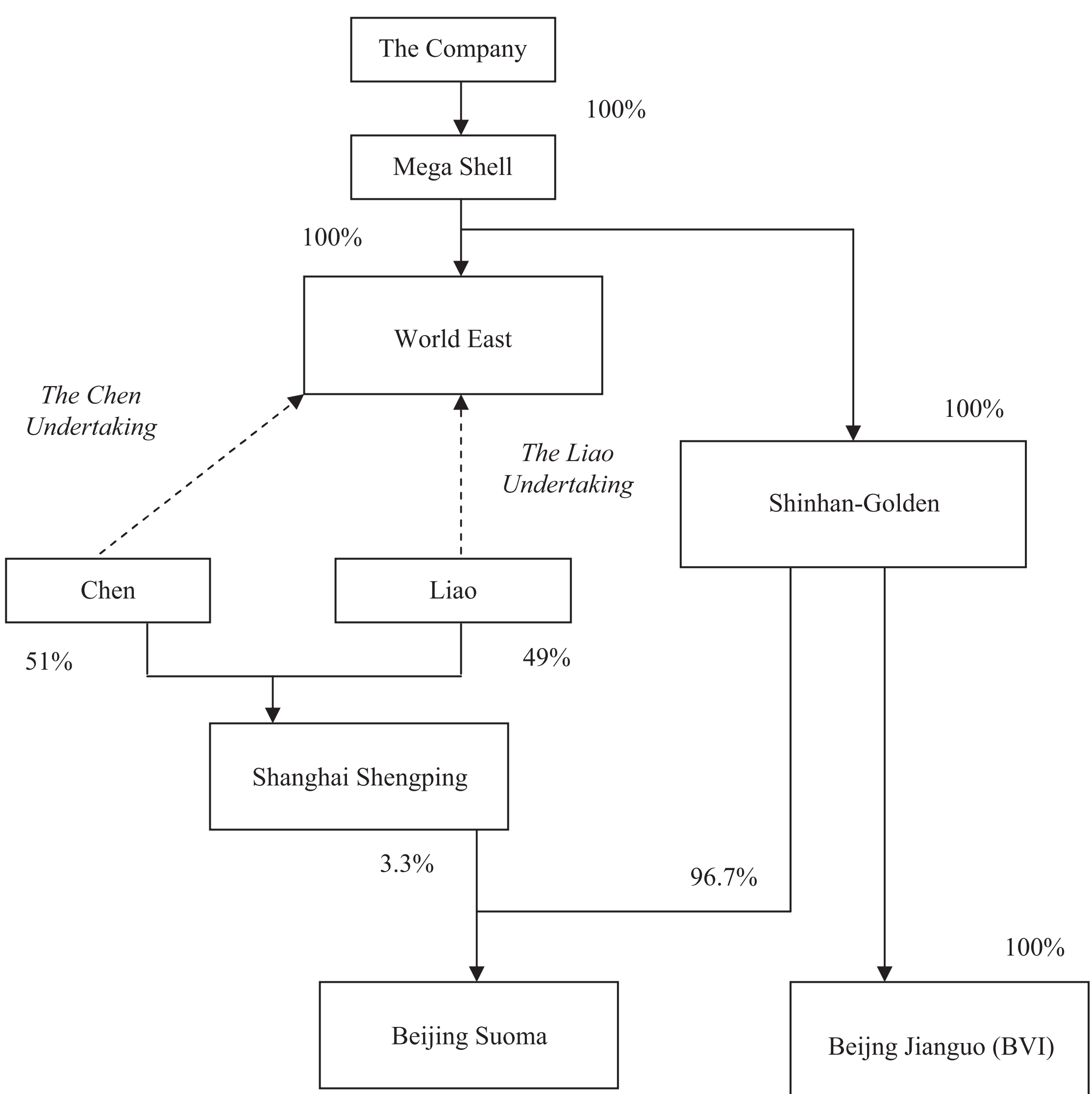
Following the global financial crisis in 2008, many multinational companies have cut the number of expatriates staff stationed in the PRC causing a weak demand for serviced apartments in Beijing. As a result, the revenue generated from the Property is less than its operating expenses. According to the Annual Report 2009, the serviced apartment operations recorded a segment loss of approximately HK$16.83 million.

In late 2009, the PRC Government has taken initial measures to cool down the booming property market by suggesting commercial banks to tighten lendings for property investment activities. The Directors also note that there have been reports in the media that the PRC Government may take additional measures to cool down the property market in the PRC by imposing the resale tax and property tax to property owners. In view of the Property in a loss-making performance and the property market in the PRC being affected by the various measures of the PRC Government, the Directors consider that the Disposal represents an opportunity for the Group to realise the Property and re-allocate its resources for improving the Group's financial performance.

The terms of the Disposal Agreement are determined after arm's length negotiations and the Disposal Price is agreed at approximately RMB119.57 million (or approximately HK$136.07 million) by reference to the book value of the Property of approximately HK$113.72 million as at 30 September 2009. The Disposal Price represents a premium of 19.65% over the book value of approximately HK$113.72 million as at 30 September 2009. The Directors (including the independent non-executive Directors) consider that the Disposal Agreement is on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Disposal, the remaining business activities of the Group will comprise, namely the provision of artists management services, film production and distribution and investment in the JCE.

GROUP STRUCTURE OF MEGA SHELL



FINANCIAL INFORMATION OF MEGA SHELL AND THE MEGA SHELL GROUP

According to the note 53(c)(i) and (ii) to the financial information of the Group as set out in Appendix I to this circular, the audited net assets value of Mega Shell as at 31 December 2008 was HK$7.80. There was no profit or loss recorded by Mega Shell for the period from 2 June 2008 (date of incorporation) to 31 December 2008. As at 31 December 2008, the Mega Shell Sale Loan is nil. Mega Shell was a dormant company until it acquired the entire issued share capital of Shinhan-Golden and World East on 8 April 2009.

According to note 53(c)(i) and (ii) to the financial information of the Group as set out in Appendix I to this circular, the audited consolidated net assets value of the Mega Shell Group as at 31 December 2009 was approximately HK$58.09 million. The audited consolidated profit before taxation for the year ended 31 December 2009 was approximately HK$24.80 million. The audited consolidated profit after taxation for the year ended 31 December 2009 was approximately HK$58.63 million. The reporting of a profit by the Mega Shell Group for the year ended 31 December 2009 was mainly attributable to the recognition of a discount on acquisitions of Shinhan-Golden and World East of approximately HK$105.39 million. As at 31 December 2009, the Mega Shell Sale Loan amounted to approximately HK$131.91 million.

RECONCILIATION STATEMENT OF THE PROPERTY

As stated in the valuation report in Appendix IV to this circular, the market value of the Property as at 31 March 2010 was approximately RMB114.80 million, equivalent to approximately HK$130.57 million (exchange rate of 0.8792 is used by independent valuer). The carrying value of the Property as at 31 December 2009 was approximately HK$118.62 million as per note 19 to the Group's audited consolidated balance sheet as at 31 December 2009 as reproduced in Appendix I to this circular. The valuation surplus of approximately HK$11.95 million would be created and recorded by the Mega Shell Group arising from the difference between the market value and the carrying value of the Property.

FINANCIAL EFFECT OF THE DISPOSAL

Prior to the Disposal, Mega Shell, Shinhan-Golden, World East, Shanghai Shengping, Beijing Suoma and Beijing Jianguo (BVI) are treated as subsidiaries of the Company and their results are consolidated into that of the Company. Upon the Disposal Completion, Mega Shell, Shinhan-Golden, World East, Shanghai Shengping, Beijing Suoma and Beijing Jianguo (BVI) will cease to be subsidiaries of the Company.

Total assets

As at 31 December 2009, the audited consolidated total assets of the Group amounted to approximately HK$594.23 million.

As set out in Appendix II on page 124 of this circular, assuming the Disposal had taken place on 31 December 2009, the unaudited pro forma consolidated total assets of the Remaining Group would have been approximately HK$230.55 million.

Total liabilities

As at 31 December 2009, the audited consolidated total liabilities of the Group amounted to approximately HK$418.85 million.

As set out on Appendix II on page 125 of this circular, assuming the Disposal had taken place on 31 December 2009, the unaudited pro forma consolidated total liabilities of the Remaining Group would have been approximately HK$110.32 million.

Loss on the Disposal

As set out in Appendix II on page 127 of this circular, assuming the Disposal had taken place on 31 December 2009, the Remaining Group would have recorded a loss on disposal of approximately HK$55.68 million which was calculated based on the cash proceeds from the Disposal of approximately HK$135.86 million less (i) the net assets of the Mega Shell Group of approximately HK$58.09 million as at 31 December 2009; (ii) the exchange reserves of approximately HK$0.54 million to be released; (iii) the balance of the Mega Shell Sale Loan of approximately HK$131.91 million as at 31 December 2009; and (iv) the estimated transaction costs of HK$1.0 million.

As it is expected that the balance of the Mega Shell Sale Loan will reduce from HK$131.91 million to HK$7.23 million on Disposal Completion, the Remaining Group will record a gain on Disposal, instead of a loss.

Gearing ratio

As at 31 December 2009, the total borrowings of the Group amounted to approximately HK$204.96 million and the Group's gearing ratio calculated as a percentage of total borrowings over the equity attributable to the Company's owners was approximately 116.87%.

As set out in Appendix II to this circular, assuming the Disposal had taken place on 31 December 2009, the unaudited pro forma total borrowings of the Remaining Group would have been decreased to approximately HK$49.43 million, comprising HK$31.83 million of the promissory note and HK$17.60 million of the convertible bonds of the Company. The gearing ratio of the Remaining Group would be to approximately 41.11%.

USE OF PROCEEDS FROM THE DISPOSAL

The entire proceeds of the Disposal of approximately RMB119.57 million (or approximately HK$136.07 million) is intended to be used for repaying the amount due to Riche of approximately HK$155.54 million. As the provision of financial assistance under the amount due to Riche is granted by Riche to facilitate the acquisition of the investment properties by the Group in April 2009, the Board considers that it is rational and reasonable for the Group to settle the amount due to Riche following the realisation of the investment properties.

FINANCIAL AND TRADING PROSPECT OF THE REMAINING GROUP

Upon completion of the Disposal, the Remaining Group is principally engaged in the provision of artists management services, film production and distribution and investment in the JCE.

Artists management services business

In July 2009, the Group expanded into provision of artists management services business by acquiring China Star Management Limited ("CSML") and Anglo Market International Limited ("AMIL") on 31 July 2009. The turnover generated from the provision of artists management business for the year ended 31 December 2009 amounted to approximately HK$19.1 million, approximately HK$7.2 million of which was booked by the Group as the remaining turnover of approximately HK$11.9 million was related to pre-acquisition.

According to the track records of CSML and AMIL, the combined turnover of CSML and AMIL for the year ended 31 December 2007 and 2008 were approximately HK$17.4 million and HK$13.1 million respectively. The combined net loss of CSML and AMIL for the year ended 31 December 2007 and 2008 were approximately HK$4.0 million and HK$6.0 million respectively.

The provision of artists management services business has possessed existing resources, including a pool of non-contracted and contracted artists and experienced management in the media field. The contracted artists are 陳小春 (Jordan Chan), 應采兒 (Cherrie Ying), 黃浩然 (Raymond Wong), 谷祖琳 (Jo Koo), 安志杰 (Andy On), 金燕玲 (Elaine Jin), 閻清 (Qing Yan), 徐自賢 (Jessica Tsui) and 黃蕊 (Shirley Huang). The business mainly focuses on locating projects, contract negotiations, work scheduling, artist training and development, image building and improvement, publicity campaigns and provision of personal assistant services for artists in Hong Kong and outside Hong Kong. The artist management services business of the Group involves the Group acting as sole and exclusive agent or manager of the artists in all aspects. The Group charges commission at a rate, which is specified in the relevant management agreements on the performance fees receivable by the artists. The artists management services business of the Group comprises five staffs who are responsible for the daily operation of the business and negotiating contracts on behalf of the artists for commercials, advertisements, movies and shows in Hong Kong and the PRC.

To avoid a large cash outlays for contracting renowned artists, the Group has planned to enlarge its pool of contracted artists by recruiting new talents in coming years. As the economic growth of the PRC is strong, there is an increasing demand for entertainment. The Group places more emphasis on extending the geographical coverage of its artists in the PRC.

Film distribution and production business

The Group expanded into film distribution and production business by acquiring Creative Formula Limited ("CFL") in film production and distribution business in October 2009. As at 31 December 2009, the Group had film rights ready for distribution of approximately HK$8.0 million.

According to the track records of CFL, no turnover was recorded for the period from 13 August 2007 (being the date of incorporation) to 31 March 2008, the year ended 31 March 2009 and the nine months ended 31 December 2009. The net loss of CFL for the period from 13 August 2007 to 31 March 2008, the year ended 31 March 2009 and the nine months ended 31 December 2009 were approximately HK$0.1 million, HK$1.47 million and HK$1.44 million respectively. Prior to the acquisition, the distribution of film rights was done by a former related company of CFL for taxation purposes. Therefore, no turnover has been recorded by CFL.

Given the number of cable and satellite TV stations in Asia Pacific, particularly in the PRC, is increasing, the Group is actively seeking investments in films, including acquisition of film rights and film production, to build up a film library for distribution. As it requires six to nine months for producing a film, the Group concentrates on acquiring film rights for building up its film library. The Board believes that such strategy produces speedy results on the Group's film distribution and production business. The Group is currently in a preliminary negotiation with an oversea distributor for sourcing film rights of old Hong Kong-made movies. Given the film distribution and production is in a development stage, the Group retains one employee, who works for CFL prior to the acquisition and has extensive experience and network in film distribution and production business. The employee manages day-to-day operations of the film distribution. He is responsible for seeking investments in films and locating overseas distributors.

Investment in the JCE

As the distribution of high-end apparel and accessories business has incurred loss, the Group disposed of its 50% interest in the business by allotting new shares of Amazing Goal International Limited, a then wholly-owned subsidiary of the Company to Chung Chiu (PTC) Ltd., an associate of a connected person of the Company, and formed the JCE in the year ended 31 December 2009. Each of the venturers has appointed two directors to the board of directors of the JCE to participate in and govern the financial and operating decisions of the JCE and recognises its interest in the JCE using proportionate consolidation. The Group prepares the financial accounts of the JCE.

Notwithstanding that the Group's interests in the JCE decreased to 19% in August 2009, the Group is entitled to exercise its rights to top-up its interest in the JCE to a maximum of 50%. Given the JCE is currently in loss making, the Group closely monitors the operations of the JCE from time to time and exercises the right to top-up its interest in the JCE as and when the performance of the JCE improves.

According to the Annual Report 2009, the turnover of the JCE for the year ended 31 December 2008 and 2009 were approximately HK$74.12 million and HK$8.80 million respectively. The profit of segment results in the investment in the JCE business was approximately HK$37.96 million for the year ended 31 December 2008, and the loss of segment results was approximately HK$23.59 million for the year ended 31 December 2009.

Overview

As disclosed in the Annual Report 2009, the turnover of the Group derived from the investment in the JCE of approximately HK$8.80 million, the provision of artists management services businesses of approximately HK$7.20 million and property investment business of approximately HK$8.22 million. Other than the Mega Shell Group, the Group has a total of fourteen full-time personnel, including the Directors and senior management. Taking into account the decrease in the Group's interest in the JCE from 100% to 19%, the turnover attributed to the businesses of the Remaining Group after the Disposal Completion for the year ended 31 December 2009 was approximately HK$9.01 million, representing approximately 37.20% of the turnover for the year ended 31 December 2009. It demonstrates that the Group has sufficient operation following the Disposal.

The Group reported consecutive losses for the two years ended 31 December 2008 and net liabilities of approximately HK$44.65 million as at 31 December 2008. To strengthen the financial position of the Group, the Company has carried out various fund raising exercises and reported net assets of approximately HK$175.38 million as at 31 December 2009. With a view to improving its profitability and diversifying its earnings base, the Group has undertaken various corporate activities to dispose of its loss making business and acquire assets and businesses with profit potential since the fourth quarter of the financial year 2008. The Group made a turnaround in its financial performance and recorded a profit of approximately HK$26.10 million in the year ended 31 December 2009, whereas loss for the year ended 31 December 2008 amounted to approximately HK$75.31 million.

Despite the fact that the Proposed Acquisition has been terminated, the Company continues to seek appropriate investment projects for the Group to improve its profitability and diversify its earnings base and more resources are allocated to further develop the remaining businesses of the Group.

Save for the Disposal and the negotiation between the Acquisition Vendor for a possible investment opportunity in environmental protection business in the PRC, the Company has not entered into any agreement, arrangement, understanding or negotiation about any acquisition or disposal of the company or assets (whether concluded or not). The Board has no intention to dispose of any of its remaining businesses after the Disposal.

As at the Latest Practicable Date, the Company had total borrowings of approximately HK$422.54 million, of which HK$415.54 million is redeemable by the Company prior to maturity and approximately HK$7.0 million of a convertible bond in which the bondholder has agreed to mandatorily convert the outstanding principal of convertible bond into Shares at maturity.

The redeemable borrowings of HK$415.54 million comprise of (i) the amount due to Riche of approximately HK$155.54 million; (ii) the promissory note issued to Riche of HK$100 million; (iii) the convertible bond issued to Riche of HK$100 million; and (iv) the convertible bond issued to China Star Entertainment Limited of HK$60 million. Details of the redeemable borrowings are as follows:

(i) The amount due to Riche of approximately HK$155.54 million is unsecured and interest-free and has no fixed term of repayment. It was arisen from the acquisition of the investment properties by the Group in April 2009.

(ii) The promissory note issued to Riche of HK$100 million was arisen in settling part of the consideration in acquisition of the Group's investment properties in April 2009. The promissory note is unsecured, interest-free and maturing on 7 April 2014.

(iii) The convertible bond issued to Riche of HK$100 million was arisen in settling part of the consideration in acquisition of the Group's investment properties in April 2009. The convertible bond is unsecured, interest-free and maturing on 7 April 2019.

(iv) The convertible bond issued to China Star Entertainment Limited of HK$60 million was arisen for financing the Group's general working capital and/or repayment of its borrowings. The convertible bond is unsecured, interest-free and maturing on 28 January 2019.

The Board proposes to repay the redeemable borrowings of (ii), (iii) and (iv) on or before the Disposal Completion and to repay the redeemable borrowing of (i) upon Disposal Completion. Although the Company is not obliged to early repay the redeemable borrowings before their maturity, the Board considers that it is fair and reasonable and in the interests of the Company and the Shareholders to make the early repayment on or before the Disposal Completion on the following grounds:

(a) it improves the Company's financial position and reduces gearing ratio for future business development;

(b) as a majority of the redeemable borrowings represents debts granted by Riche for facilitating the acquisition of the investment properties of the Group and settling part of the consideration for acquisition in April 2009, it is rational and reasonable to early repay those borrowings following the realisation by the Group;

(c) the potential massive dulition effect on the shareholding of the Company is eliminated by repaying the outstanding redeemable convertible bonds; and

(d) it enables the compliance of Rule 19.82 of the GEM Listing Rules by the Company.

PROPOSED SPECIAL DIVIDEND

The Board proposes that the Proposed Special Dividend of HK$40,231,926 will be distributed to the Shareholders on a pro rata basis. Based on 335,266,054 Shares in issue as at the Latest Practicable Date, the Proposed Special Dividend will be HK$0.12 per Share. The Proposed Special Dividend will be paid in cash to the Shareholders by the Company. As the Company would have sufficient internal resource for it operations after the Disposal Completion, the Board considered it is a good opportunity for the Company to award the return of the Company to the Shareholders.

According to the announcement of the Company dated 23 April 2010, the Register of Members of the Company will be closed from Monday, 10 May 2010 to Friday, 14 May 2010 (both days inclusive) for the purpose of the payment of special dividend of HK$0.12 per Share (the "**Dividend**"). In order to qualify for the Dividend, all transfer of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 7 May 2010. The record date for the purpose of the distribution of Dividend will be on Monday, 10 May 2010. The last day of dealing in Shares cum-Dividend will be on Wednesday, 5 May 2010. Dealing of Shares ex-Dividend will be from Thursday, 6 May 2010.

The distribution of the Proposed Special Dividend is conditional upon the Shareholders' approvals on the Proposed Special Dividend and the Disposal Agreement and the transactions contemplated thereunder at the SGM and the completion of the Capital Reorganisation. The Dividend is expected to be distributed on the Business Day immediately after the SGM. For further details in relation to the Capital Reorganisation, please refer to the circular of the Company dated 19 April 2010. The announcement of closure of Register of Members of the Company for distributing the Proposed Special Dividend has been released by the Company on 23 April 2010. An ordinary resolution will be put forward at the SGM for distribution of the Proposed Special Dividend.

GEM LISTING RULES IMPLICATIONS

Following the Disposal, the remaining businesses of the Group are film production and distribution, provision of artists management services and investment in the JCE. Taking into account the decrease in the Group's interest in the JCE from 100% to 19%, the turnover attributed to the remaining businesses of the Remaining Group for the year ended 31 December 2009 was approximately HK$9.01 million, representing approximately 37.20% of the turnover for the year ended 31 December 2009. The Company still has sufficient level of operations or assets of sufficient potential value to warrant the continued listing of the Shares in accordance with Rule 17.26 of the GEM Listing Rules following the Disposal Completion.

Pursuant to Rule 19.82 of the GEM Listing Rules which stipulates that if the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, it will not be regarded as suitable for listing and trading in its securities will be suspended. Based on the management accounts of the Group and taking into account the net proceeds from the Disposal, the Company anticipates that the Company's assets will consist substantially of cash upon completion of the Disposal. The Company may be regarded as a cash company under Rule 19.82 of the GEM Listing Rules upon the Disposal Completion. To ensure the compliance with Rule 19.82 of the GEM Listing Rules, the Company shall (a) repay the promissory note of HK$100 million issued to Riche, the convertible bond of HK$100 million issued to Riche and the convertible bond of HK$60 million issued to China Star Entertainment Limited on or before the Disposal Completion; (b) repay the amount due to Riche of approximately HK$155.54 million upon Disposal Completion; and (c) distribute the Proposed Special Dividend on the Business Day immediately after the SGM.

On the assumption that, upon Disposal Completion, (a) the net proceeds of HK$136.07 million is received from the Disposal; (b) the redeemable borrowings of approximately HK$415.54 million are repaid by the Group; and (c) the distribution of the Proposed Special Dividend, the Company would have a cash to total assets ratio of approximately 79.57%. In the event that the Board notices that the Company's assets comprise wholly or substantially of cash or short-dated securities as a result of the Disposal, the Company will make an announcement and request for suspension of dealings in the Shares as soon as practicable.

GENERAL

The Disposal constitutes a very substantial disposal on the part of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

Riche is a Shareholder holding approximately 6.32% of the issued share capital of the Company as at the Latest Practicable Date. Given the net proceeds from the Disposal will be applied for the repayment of the amount owed to Riche by the Group, Riche is considered to have an interest in the Disposal Agreement. Therefore, Riche and its associates will be required to abstain from voting to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge of the Directors, save for Riche and its associates, there is no Shareholder having material interests in the Disposal and therefore no Shareholder, other than Riche and its associates, will be required to abstain from voting on the resolutions approving the Disposal Agreement and the transactions contemplated thereunder at the SGM. No Shareholders will be required to abstain from voting on the resolution approving the Proposed Special Dividend at the SGM.

Shareholders and potential investors should note that completion of the Disposal is subject to various conditions as stated in the sub-sections headed "Conditions Precedent of the Disposal" under the sections headed "The Disposal Agreement" above. As the Disposal may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

SGM

Set out pages 172 to 173 of this circular is a notice convening the SGM to be held at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 24 May 2010 at 11:00 a.m. at which the resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder and the Proposed Special Divided. A form of proxy for use at the SGM is enclosed with this circular, whether or not you are able to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible, but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not prevent you from attending and voting in person at the SGM or any adjourned meeting thereof if you so wish.

The resolutions proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the results of the SGM.

RECOMMENDATION

The Board considers that the Disposal and the Proposed Special Dividend are in the interests of the Company and the Shareholders as a whole and the terms under the Disposal Agreement are fair and reasonable. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully
For and on behalf of the Board of
China Star Film Group Limited
Lai Hok Lim
Chairman

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

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

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

5 May 2010

The Directors
China Star Film Group Limited
Unit 3407, 34/F.
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of China Star Film Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Section I and II below, for inclusion in the circular of the Company dated 5 May 2010 (the "Circular") in connection with the proposed disposal of the entire interest in Mega Shell Services Limited (the "Mega Shell") by the Company (the "Disposal") and all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of Disposal (the "Mega Shell Sale Loan"). The Financial Information comprises the consolidated balance sheets of the Group and the balance sheets of the Company at 31 December 2007, 2008 and 2009 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of change in equity and the consolidated statements of cash flows for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009 as an exempted company with limited liability and is engaged in investment holding.

At the date of this report, the Company had direct and indirect interests in the principal subsidiaries as set out in note 54 of Section I below all of which are private companies. The Company and its subsidiaries have adopted 31 December as their financial year end date. The audited financial statements of the Group for the two years ended 31 December 2007 and 2008 were audited by Cheung & Siu and Vision A.S. Limited respectively.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited consolidated financial statements of the Group for each of the years ended 31 December 2007, 2008 and 2009 on the basis set out in note 4 below. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

Directors' responsibility for the Financial Information

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

Reporting Accountants' responsibility

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Financial Information together with the notes thereto, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and of the Group at 31 December 2007, 2008 and 2009 and of the results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED INCOME STATEMENTS

		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Turnover	*7*	62,339	74,122	24,223
Cost of sales		(24,086)	(36,160)	(13,858)
Gross profit		38,253	37,962	10,365
Other revenue	*8*	629	811	1,803
Other income	*9*	5,198	3,583	155,683
Selling and distribution costs		(3,600)	(3,217)	(342)
Administrative expenses		(56,433)	(91,602)	(67,115)
Other operating expenses	*10*	(75,552)	(20,345)	(86,799)
Finance costs	*11*	(1,800)	(2,498)	(21,880)
Loss before tax	*12*	(93,305)	(75,306)	(8,285)
Tax credit	*13*	—	—	34,384
(Loss)/profit for the year from continuing operations		(93,305)	(75,306)	26,099
Discontinued operation				
Profit for the year from discontinued operation	*14*	340	—	—
(Loss)/profit for the year		(92,965)	(75,306)	26,099
(Loss)/profit attributable to the owners of the Company		(92,965)	(75,306)	26,099
(Loss)/earnings per share	*16*			
From continuing and discontinued operations				
— basic *(HK cents)*		(438.00)	(284.38)	8.74
— diluted *(HK cents)*		(438.00)	(284.38)	8.74
From continuing operations				
— basic *(HK cents)*		(439.60)	(284.38)	8.74
— diluted *(HK cents)*		(439.60)	(284.38)	8.74

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit for the year		(92,965)	(75,306)	26,099
Other comprehensive income				
Exchange differences arising on translation of foreign operations during the year		—	—	(537)
Total comprehensive income for the year		(92,965)	(75,306)	25,562
Total comprehensive income attributable to owners of the Company		(92,965)	(75,306)	25,562

CONSOLIDATED BALANCE SHEETS

		At 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*18*	6,718	2,006	8,027
Investment properties	*19*	—	—	118,619
Intangible assets	*20*	—	—	7,958
Goodwill	*21*	—	—	—
Total non-current assets		6,718	2,006	134,604
Current assets				
Inventories	*23*	8,992	7,590	—
Trade receivables	*24*	4,195	2,794	186,716
Deposits, prepayments and other receivables	*25*	13,822	7,522	13,411
Financial assets at fair value through profit or loss	*26*	966	231	1
Derivative financial instruments	*27*	840	—	—
Properties held for sale	*28*	—	—	29,033
Amount due from jointly controlled entities		—	—	—
Tax recoverable		—	1,303	—
Pledged deposits		5,949	—	—
Cash and bank balances	*29*	3,705	5,766	230,463
Total current assets		38,469	25,206	459,624

		At 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	*30*	3,098	2,402	197
Accruals, deposits received and other payables	*31*	15,479	19,845	124,225
Derivative financial instruments	*27*	459	2,153	—
Interest-bearing bank and other borrowings	*32*	13,563	11,074	130
Convertible loan notes	*37*	—	3,157	—
Amount due to a shareholder	*34*	—	—	155,535
Amount due to jointly controlled entities	*34*	—	1,025	—
Receipts in advance	*35*	—	—	42,428
Tax payable		755	587	15,303
Total current liabilities		33,354	40,243	337,818
Net current assets/(liabilities)		5,115	(15,037)	121,806
Total assets less current liabilities		11,833	(13,031)	256,410
Non-current liabilities				
Interest-bearing bank and other borrowings	*32*	805	1,045	—
Promissory note	*36*	—	—	31,831
Convertible loan notes	*37*	—	30,574	17,596
Deferred taxation	*38*	—	—	31,603
Total non-current liabilities		805	31,619	81,030
Net assets/(liabilities)		11,028	(44,650)	175,380
Equity				
Issued capital	*39*	12,470	16,446	6,763
Reserves		(1,442)	(61,096)	168,617
		11,028	(44,650)	175,380

BALANCE SHEETS

		The Company		
		At 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investments in subsidiaries	*22*	1	—	—
Interests in jointly controlled entities		—	—	—
Total non-current assets		1	—	—
Current assets				
Deposits, prepayments and other receivables		7,098	100	—
Amounts due from subsidiaries	*22*	13,353	4,503	143,662
Amounts due from jointly controlled entities		—	—	2,939
Cash and bank balances	*29*	1	3,545	73,056
Total current assets		20,452	8,148	219,657
Current liabilities				
Accruals and other payables		5,654	3,459	4,256
Amounts due to subsidiaries	*22*	3,107	—	—
Convertible loan notes	*37*	—	3,157	—
Total current liabilities		8,761	6,616	4,256
Net current assets		11,691	1,532	215,401
Total assets less current liabilities		11,692	1,532	215,401

		The Company		
		At 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Promissory note	*36*	—	—	31,831
Convertible loan notes	*37*	—	30,574	17,596
Deferred taxation	*38*	—	—	24,428
Total non-current liabilities		—	30,574	73,855
Net assets/(liabilities)		11,692	(29,042)	141,546
Equity				
Issued capital	*39*	12,470	16,446	6,763
Reserves	*42*	(778)	(45,488)	134,783
		11,692	(29,042)	141,546

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital HK'000	Share premium HK$'000	Contributed surplus HK$'000	Convertible loan notes reserves HK$'000	Share-based payments reserve HK$'000	Exchange reserve HK$'000	Acc-umulated losses HK$'000	Total HK$'000
At 1 January 2007	5,268	55,642	—	11,316	—	—	(40,678)	31,548
Redemption of convertible loan notes	—	—	—	(195)	—	—	—	(195)
Conversion of convertible loan notes	5,702	53,546	—	(11,121)	—	—	—	48,127
Placement of new shares, net	1,500	22,915	—	—	—	—	—	24,415
Recognition of equity-settled share-based payments *(note 32)*	—	—	—	—	98	—	—	98
Net loss for the year	—	—	—	—	—	—	(92,965)	(92,965)
Total comprehensive income for the year	—	—	—	—	—	—	(92,965)	(92,965)
At 31 December 2007 and 1 January 2008	12,470	132,103	—	—	98	—	(133,643)	11,028
Redemption of convertible loan notes	—	—	—	12,823	—	—	—	12,823
Conversion of convertible loan notes	1,326	1,674	—	(130)	—	—	—	2,870
Placement of new share, net	2,650	1,285	—	—	—	—	—	3,935
Net loss for the year	—	—	—	—	—	—	(75,306)	(75,306)
Total comprehensive income for the year	—	—	—	—	—	—	(75,306)	(75,306)
At 31 December 2008 and 1 January 2009	16,446	135,062	—	12,693	98	—	(208,949)	(44,650)
Issue of convertible loan notes	—	—	—	241,878	—	—	—	241,878
Redemption of convertible loan notes	—	—	—	(101,942)	—	—	4,840	(97,102)
Deferred tax of convertible loan notes	—	—	—	(39,910)	—	—	—	(39,910)
Deferred tax released on redemption of convertible loan notes	—	—	—	14,929	—	—	—	14,929
Capital reduction	(22,564)	—	22,564	—	—	—	—	—
Issue of new shares arising on acquisition of subsidiaries	118	2,001	—	—	—	—	—	2,119
Recognition of equity-settled share-based payments	—	—	—	—	4,197	—	—	4,197
Issue of new shares upon exercise of share options	519	7,145	—	—	(2,827)	—	—	4,837
Cancellation of share options	—	—	—	—	(98)	—	98	—
Issue of new shares on open-offer	12,128	49,066	—	—	—	—	—	61,194
Placement of new share, net	116	2,210	—	—	—	—	—	2,326
Exchange difference arising on translating foreign operations	—	—	—	—	—	(537)	—	(537)
Net profit for the year	—	—	—	—	—	—	26,099	26,099
Total comprehensive income for the year	—	—	—	—	—	(537)	26,099	25,562
At 31 December 2009	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
(Loss)/profit before tax:			
Continuing operations	(93,305)	(75,306)	(8,285)
Discontinued operation	340	—	—
Adjustments for:			
Finance costs	1,800	2,498	21,880
Interest income	(247)	(632)	(674)
Depreciation of property, plant and equipment	2,993	4,180	10,358
Loss on disposal of property, plant and equipment	501	—	122
Impairment losses recognised in respect of goodwill	75,552	—	55
Amortisation of intangible assets	673	—	—
Loss arising on change in fair value in respect of investment properties	—	—	52,395
Loss arising on early redemption of convertible loan notes	—	—	2,638
Impairment loss recognised in respect of amount due from jointly controlled entities	—	1,917	30,892
Impairment loss recognised in respect of available-for-sale investment	—	1,400	—
Impairment loss recognised in respect of intangible assets	4,047	—	—
Write down of inventories	—	1,355	—
Impairment loss recognised in respect of property, plant and equipment	—	3,137	—
Impairment of amount due from a related company	—	470	—
Impairment of trade receivables	490	—	—
Provision of annual leave	—	3	—
Write off of property, plant and equipment	—	—	8,537
Provision for loss on early termination of shop tenancies	—	9,079	—
Provision for loss on early termination of license agreement	—	1,238	13,439
Equity-settled share option expenses	98	—	4,197
Gain on deemed disposal of subsidiaries	—	—	(32,758)
Gain on deemed disposal of joint controlled entities	—	—	(17,077)
Discount on acquisition of subsidiaries	—	—	(105,848)
Gain on disposal of subsidiaries	(385)	—	—
Waiver of other payable	—	(1,600)	—
(Gain)/loss on disposal of financial assets at fair value through profit or loss	(4,813)	3,746	351
Loss on disposal of derivative financial instruments	—	229	—
Fair value gain on financial assets at fair value through profit or loss	(4)	(21)	—
Fair value (gain)/loss on derivative financial instruments	(381)	2,153	—

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Operating cash flow before movements in working capital	(12,641)	(46,154)	(19,778)
(Increase)/decrease in inventories	(6,349)	59	6,025
(Increase)/decrease in trade receivables	(2,476)	1,401	2,120
(Increase)/decrease in deposits, prepayments and other receivables	(9,558)	5,725	54,043
Increase in financial assets at fair value through profit or loss	—	—	(123)
Increase in amount due from related companies	(337)	(270)	—
Increase/(decrease) in derivate financial instruments	92	152	(2,153)
Decrease in trade payables	(18)	(696)	(572)
Increase/(decrease) in accruals, deposits received and other payables	12,440	(3,973)	46,276
Increase/(decrease) in amount due to shareholders	619	650	(192,023)
Increase/(decrease) in amount due to a director	7	(1)	—
Increase in amount due to related companies	98	338	—
Increase in receipts in advance	—	—	1,362
Cash used in operations	(18,123)	(42,769)	(104,823)
Interest received	247	632	674
Hong Kong profits tax (paid)/recovered	(321)	(1,471)	938
Net cash used in operating activities	(18,197)	(43,608)	(103,211)
Investing activities			
Disposal of subsidiaries	50	—	—
Acquisition of subsidiaries	—	(375)	33,673
Advances to jointly controlled entities	(562)	(3,272)	—
Purchases of items of property, plant and equipment	(7,257)	(2,605)	(4,190)
Proceeds on disposal of investment properties	—	—	565,266
Proceeds from deemed disposal of subsidiaries	—	—	1,611
Proceeds from deemed disposal of jointly controlled entities	—	—	(74)
Purchases of shareholding in jointly controlled entities	(4)	—	—
Proceeds on disposals of financial assets at fair value through profit or loss	71,717	29,362	—
Purchases of financial assets at fair value through profit or loss	(61,676)	(32,352)	—
(Increase)/decrease in pledged deposits	(5,949)	5,949	—
Net cash (used in)/from investing activities	(3,681)	(3,293)	596,286

	For the year ended 31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Financing activities			
Interest paid	(1,056)	(1,274)	(11,799)
Proceeds from issue of convertible loan notes	—	48,200	160,000
Proceeds from placing new shares	24,415	3,935	2,326
Proceed from issue of new share upon exercise of share option	—	—	4,837
Proceed from issue of new shares on open offer	—	—	61,194
Redemption of convertible loan notes	(1,000)	—	(138,199)
New bank loans raised	3,807	4,520	—
Repayment of bank loans	(7,202)	(7,279)	(304,408)
Increase/(decrease) in amounts due to jointly controlled entities	675	350	(31,917)
Increase/(decrease) in trust receipt loans	4,577	(3,021)	(4,319)
Repayment of capital element of finance leases	(395)	(396)	(75)
Net cash from/(used in) financing activities	23,821	45,035	(262,360)
Net increase/(decrease) in cash and cash equivalents	1,943	(1,866)	230,715
Cash and cash equivalents at beginning of year	955	2,898	1,032
Effect of foreign exchange rate changes	—	—	(1,284)
Cash and cash equivalents at end of year	2,898	1,032	230,463
Analysis of balances of cash and cash equivalents			
Cash and bank balances	3,705	5,766	230,463
Bank overdrafts	(807)	(4,734)	—
	2,898	1,032	230,463

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the GEM of the Stock Exchange since 26 March 2002.

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and jointly controlled entity are set out in notes 54 and 43 respectively.

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

In the current year, the Group has applied, for the first time, the following new amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2009. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arsing on Liquidation
HKFRS 1 & HKAS 27	Amendment to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised) "Presentation of financial statements" — effective 1 January 2009

The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non owner changes in equity are presented in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements, an income statement and a statement of comprehensive income. Comparative information has been re-presented so that it conforms to the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKFRS 7 "Financial Instruments — Disclosures" (Amendment) — effective 1 January 2009

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

HKFRS 8 "Operating segments" ("HKFRS 8") — effective 1 January 2009

HKFRS 8 replaces HKAS 14, "Segment reporting", where it requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes, that is more consistent with the internal reporting provided to the chief operating decision-maker. Adoption of this standard did not have any effect on the Group's results.

The adoption of the above amendment and new interpretations had no material effect on the results of financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Item[1]
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Revised)	First time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguish Financial Liabilities with Equity Instruments[6]
HK Int 4 Amendment	Determination of Length of Lease Term in respect of Hong Kong Land Leases[4]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2010
7 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information of the Group and of the Company are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

Basis of preparation

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

The measurement basis used in the preparation of the Financial Information is the historical cost convention, as modified for the revaluation of certain financial instruments and investment properties which are stated at their fair values.

Certain comparative figures have been reclassified to conform with the current year's presentation.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 5.

Basis of consolidation

The Financial Information include the financial statements of the Company and the Group made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the Financial Information from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions are eliminated on consolidation.

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

Acquisition of additional interest in subsidiaries

Acquisition of additional interest in subsidiaries is recorded at the book value of the net asset attributable to the interests. The excess of the cost of acquisition over net asset value of the subsidiary attributable to the additional interest acquired is recognised as goodwill.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated balance sheets.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the Financial Information.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of jointly controlled entity (see above).

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income is recognised when services are provided.

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

Rental income from consolidated operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchanges differences are recognised in other comprehensive income in the Financial Information and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes managed by the PRC government and the Mandatory Provident Fund Scheme ("MPF") are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with corresponding adjustment to share options reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which it is able to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Furniture and equipment	20% — 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquire separately

Intangible assets acquired separately and with finite lives are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near future; or

— it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amount due from an associate, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-for-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment loss on available-for-sale equity instrument will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

— it has been incurred principally for the purpose of repurchasing in the near future; or

— it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible loan notes

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

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

If the conversion option of convertible loan notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loan notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loan notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly controlled entity;

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

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and in the future period.

(b) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. The estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of trade receivables at the balance sheet date.

(c) Investment properties

As described in note 19, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method valuation is reflective of the current market conditions. Should there are changes in assumptions due to change of market conditions, the fair value of the investment properties will change in future.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash generating unit to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The chief operating decision-maker has been identified as the key management. This key management reviews the Group's internal reporting in order to assess performance and allocate resources. Key management has determined the operating segments based on these reports.

The key management considers the business from both a geographic and product perspective. From a product perspective, key management assesses the performance of distribution of high-end apparel, and accessories.

The key management assesses the performance of the operating segments based on a measure of profit before tax. Other information provided to the key management, except as noted below, is measured in a manner consistent with that in the Financial Information.

Total assets excluded deferred tax, available-for-sale financial assets, both of which are managed centrally. These comprised part of the reconciliation to total balance sheet assets.

Transaction between segments are carried out at arm's length. The revenue from external parties reported to the key management is measured in a manner consistent with that in the consolidated income statement.

The segment results provided to the key management for the reportable segments for the year ended 31 December 2007, 2008 and 2009 is as follows:

Information regarding the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirement of HKFRS 8.

For the year ended 31 December 2007

(a) Segment revenue and results

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:							
Sales to external customer	62,339	—	—	—	62,339	62	62,401
Segment results	(92,520)	—	—	—	(92,520)	340	(92,180)
Unallocated other revenue and income							5,014
Unallocated expenses							(3,999)
Loss from operating activities							(91,165)
Finance costs							(1,800)
Loss before income tax							(92,965)
Income tax credit							—
Loss for the year							(92,965)

(b) Segment assets and liabilities

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	34,732	—	—	—	34,732	—	34,732
Unallocated assets							10,455
Total assets							45,187
Segment liabilities	27,651	—	—	—	27,651	—	27,651
Unallocated liabilities							6,508
Total liabilities							34,159

(c) Other segment information

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	2,993	—	—	—	2,993	—	2,993
Capital expenditure	7,249	—	—	—	7,249	—	7,249

(d) Geographical segments

	The PRC	Hong Kong	Taiwan	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customer:				
Continuing operations	—	48,911	13,428	62,339
Discontinued operation	—	62	—	62
	—	48,973	13,428	62,401
Non-current assets:				
Continuing operations	—	6,718	—	6,718
Discontinued operation	—	—	—	—
	—	6,718	—	6,718

For the year ended 31 December 2008

(a) Segment revenue and results

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:							
Sales to external customer	74,122	—	—	—	74,122	—	74,122
Segment results	37,962	—	—	—	37,962	—	37,962
Unallocated other revenue and income							4,394
Unallocated expenses							(115,164)
Profit from operating activities							(72,808)
Finance costs							(2,498)
Loss before income tax							(75,306)
Income tax credit							—
Loss for the year							(75,306)

(b) Segment assets and liabilities

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	23,599	—	—	—	23,599	—	23,599
Unallocated assets							3,613
Total assets							27,212
Segment liabilities	31,314	—	—	—	31,314	—	31,314
Unallocated liabilities							40,548
Total liabilities							71,862

(c) Other segment information

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	4,180	—	—	—	4,180	—	4,180
Write-off and impairment of property, plant and equipment	3,137	—	—	—	3,137	—	3,137
Allowance for obsolete inventories	1,355	—	—	—	1,355	—	1,355
Capital expenditure	2,359	—	—	—	2,359	—	2,359

(d) Geographical information

	The PRC	Hong Kong	Taiwan	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customer:				
Continuing operations	—	58,965	15,157	74,122
Discontinued operation	—	—	—	—
	—	58,965	15,157	74,122
Non-current assets:				
Continuing operations	—	2,006	—	2,006
Discontinued operation	—	—	—	—
	—	2,006	—	2,006

For the year ended 31 December 2009

(a) Segment revenue and results

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:							
Sales to external customer	8,801	8,224	7,198	—	24,223	—	24,223
Segment results	(23,592)	(16,826)	(2,307)	(1,441)	(44,166)	—	(44,166)
Unallocated other revenue and income							155,707
Unallocated expenses							(97,946)
Profit from operating activities							13,595
Finance costs							(21,880)
Loss before income tax							(8,285)
Income tax credit							34,384
Profit for the year							26,099

(b) Segment assets and liabilities

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	531	498,535	12,353	9,753	521,172	—	521,172
Unallocated assets							73,056
Total assets							594,228
Segment liabilities	18,924	286,142	11,314	2,330	318,710	—	318,710
Unallocated liabilities							100,138
Total liabilities							418,848

(c) Other segment information

	Continuing operations					Discontinued operation	
	Distribution	Service apartment operations	Artist management	Film production	Total	Design and development	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	316	9,890	85	67	10,358	—	10,358
Write-off and impairment of property, plant and equipment	763	7,774	—	—	8,537	—	8,537
Capital expenditure	9	15,334	—	—	15,343	—	15,343
Impairment of goodwill	55	—	—	—	55	—	55

(d) Geographical information

	The PRC	Hong Kong	Taiwan	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customer:				
Continuing operations	14,226	9,747	250	24,223
Discontinued operation	—	—	—	—
	14,226	9,747	250	24,223
Non-current assets:				
Continuing operations	125,339	9,265	—	134,604
Discontinued operation	—	—	—	—
	125,339	9,265	—	134,604

7. TURNOVER

Turnover represents the net amounts received and receivables from goods sold to customers, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Distribution of high-end apparel and accessories	62,339	74,122	8,801
Rental income	—	—	8,224
Artists management services	—	—	7,198
	62,339	74,122	24,223
Discontinued operation			
Design, development and sales of location-based technology devices and applications *(note 14)*	62	—	—
	62,401	74,122	24,223

8. OTHER REVENUE

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	247	631	674
Sundry income	42	60	579
Management services income	340	120	550
	629	811	1,803

9. OTHER INCOME

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Discount on acquisition *(note 44)*	—	—	105,848
Gain on deemed disposal of subsidiaries	—	—	32,758
Gain on deemed disposal of jointly controlled entities	—	—	17,077
Exchange gain, net	—	1,962	—
Fair value gain on financial assets at fair value through profit or loss	4	21	—
Fair value gain on derivative financial instruments	381	—	—
Gain on disposal of financial assets at fair value through profit or loss	4,813	—	—
Waiver of other payable	—	1,600	—
	5,198	3,583	155,683

10. OTHER OPERATING EXPENSES

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Loss on disposal of a jointly controlled entity	—	—	346
Impairment losses recognised in respect of goodwill	75,552	—	55
Loss on disposal of property, plant and equipment	—	—	122
Loss arising on change in fair values of investment properties	—	—	52,395
Loss arising on early redemption of convertible loan notes	—	—	2,638
Impairment losses recognised in respect of amounts due from jointly controlled entities	—	1,917	30,892
Break-up fee for a terminated acquisition *(note)*	—	12,300	—
Loss arising on change in fair values in respect of derivative financial instruments	—	2,382	—
Loss arising on change in fair values in respect of financial assets at fair value through profit or loss	—	3,746	351
	75,552	20,345	86,799

Note:

Pursuant to an acquisition agreement in relation to the acquisition of 96.57% of the issued shares in Financière Solola entered into by the Company dated 8 November 2007, a break-up fee of EUR1,000,000 was paid to the sellers upon the termination of the acquisition agreement due to the transaction voted down by the shareholders of the Company at an extraordinary general meeting held on 31 March 2008.

11. FINANCE COSTS

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Effective interest expenses on convertible loan notes	744	1,232	4,318
Effective interest expenses on promissory note	—	—	5,879
Interest on bank loans and overdrafts wholly repayable within five years	1,004	1,214	11,639
Interest on finance leases	52	52	44
	1,800	2,498	21,880

12. LOSS BEFORE TAX

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	360	421	450
Cost of inventories sold	24,086	36,160	4,697
Amortisation of intangible assets	673	—	—
Depreciation of property, plant and equipment	2,993	4,180	10,358
Loss on disposal of property, plant and equipment	—	—	122
Exchange loss, net	378	—	—
Minimum lease payments under operating leases on land and buildings	15,202	21,673	5,510
Impairment loss recognised in respect of available-for-sale investment	—	1,400	—
Impairment loss recognised in respect of intangible assets	4,047	—	—
Write down of inventories	—	1,355	—
Impairment loss recognised in respect of property, plant and equipment	—	3,137	—
Impairment of trade receivables	490	—	—
Provision for loss on early termination of shop tenancies	—	9,079	—
Provision for litigation claims arising on early termination of license agreement	—	1,238	13,439
Staff costs (excluding directors' remuneration)			
Salaries and allowances	11,778	18,448	8,552
Equity-settled share option expenses	32	—	1,002
Pension scheme contributions	364	487	340

13. TAX CREDIT

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong for the Relevant Periods. Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both years.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
PRC Enterprise Income Tax	—	—	(14,357)
Deferred tax *(note 38)*	—	—	48,741
	—	—	34,384
Attributable to:			
Continuing operations	—	—	34,384
Discontinued operation *(note 14)*	—	—	—
	—	—	34,384

Subsidiaries in the PRC are subject to the PRC Enterprise Income Tax at 33%, 25% and 25% for the years ended 31 December 2007, 2008 and 2009 respectively. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The standard Hong Kong profits tax rate is 17.5%, 16.5% and 16.5% for the years ended 31 December 2007, 2008 and 2009 respectively.

A reconciliation of the tax expenses applicable to loss/(profit) using the statutory rates for the countries in which the Group is domiciled to the tax credit/(expense) at effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

For the year ended 31 December 2007

	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
Loss/(profit) before tax			
Continuing operations	93,305	—	93,305
Discontinued operation	(340)	—	(340)
	92,965	—	92,965
Tax at the statutory tax rate	16,268	—	16,268
Effect of difference tax rates in other jurisdictions	74	—	74
Tax effect of expenses not deductible for tax purpose	(15,810)	—	(15,810)
Tax effect of income not taxable for tax purpose	70	—	70
Tax effect of tax losses not recognised	(602)	—	(602)
Tax credit for the year	—	—	—

For the year ended 31 December 2008

	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
Loss before tax			
Continuing operations	75,306	—	75,306
Discontinued operation	—	—	—
	75,306	—	75,306
Tax at the statutory tax rate	12,425	—	12,425
Tax effect of expenses not deductible for tax purpose	(8,911)	—	(8,911)
Tax effect of tax losses not recognised	(3,514)	—	(3,514)
Tax credit for the year	—	—	—

For the year ended 31 December 2009

	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
(Profit)/loss before tax			
Continuing operations	(72,654)	80,939	8,285
Discontinued operation	—	—	—
	(72,654)	80,939	8,285
Tax at the statutory tax rate	(11,988)	20,235	8,247
Tax effect of expenses not deductible for tax purpose	(5,220)	(1,066)	(6,286)
Tax effect of income not taxable for tax purpose	25,664	15,573	41,237
Tax effect of tax losses not recognised	(12,134)	(911)	(13,045)
Tax effect of utilisation of tax losses previously not recognised	4,231	—	4,231
Tax credit for the year	533	33,831	34,384

14. DISCONTINUED OPERATION

On 20 September 2007, the Group ceased its business of design, development and sales of location-based technology devices and application. On 27 September 2007, the Company disposed of Satellite Devices (BVI) Limited, which holds a subsidiary called Satellite Devices Limited. Satellite Devices (BVI) Limited was an investment holding company and Satellite Devices Limited engaged in design, development and sales of location-based technology devices and application and was a separate business segment that was part of Hong Kong operations.

The operating result associated with the business of design, development and sales of location based technology devices and application for the year ended 31 December 2007 and gain on disposal of subsidiaries related to the discontinued operation are presented below:

	2007
	HK$'000
Turnover *(note 7)*	62
Other income *(note 45(a))*	385
Administrative expenses	(107)
Profit before tax	340
Tax *(note 13)*	—
Profit attributable to equity holders of the Company	340

The net cash flows incurred by the disposal group are as follows:

Operating activities	(1)
Investing activities	50
Financing activities	—
Net cash inflow	49

15. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the Relevant Periods.

16. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the year as adjusted for the effect of share consolidation.

From continuing and discontinued operations

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

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Earnings			
(Loss)/profit attributable to owners of the Company for the purposes of basic (loss)/earnings per share:	(92,965)	(75,306)	26,099
After tax effect of effective interest on liability component of convertible loan notes	—	—	3,292
(Loss)/profit for the purpose of diluted (loss)/earnings per share	(92,965)	(75,306)	29,391

	Number of ordinary shares		
	2007	**2008**	**2009**
	'000	*'000*	*'000*
Weighted average number of ordinary share for the purposes of basic (loss)/earnings per share	21,225*	26,481*	343,733

* The weighted average number of ordinary share for the year ended 31 December 2007 and 2008 were adjusted retrospectively due to share consolidation in 2009.

From continuing operations

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

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Earnings			
(Loss)/profit attributable to owners of the Company for the purposes of basic (loss)/earnings per share:	(93,305)	(75,306)	26,099
After tax effect of effective interest on liability component of convertible loan notes	—	—	3,292
(Loss)/profit for the purpose of diluted (loss)/earnings per share	(93,305)	(75,306)	29,391

The denominators used are the same as those detailed above for the basic and diluted (loss)/earnings per share.

For the Relevant Periods, diluted (loss)/earnings per share were not presented because the exercise of share options and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

17. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The emoluments of each director, on a named basis for the Relevant Periods are set out below:

For the year ended 31 December 2007:

	Fees	Salaries and allowances	Retirement scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Gouw San Bo, Elizabeth *(Note 1)*	—	1,227	6	—	1,233
Lo Mun Lam, Raymond *(Note 2)*	380	—	—	—	380
Richard Yen *(Note 3)*	500	94	4	33	631
Leung Tak Wah *(Note 4)*	—	246	7	—	253
Non-executive directors					
Duncan Chiu *(Note 5)*	—	—	—	33	33
Yu Wai Yin, Vicky *(Note 6)*	33	—	—	—	33
Independent non-executive directors					
Lum Pak Sum *(Note 7)*	221	—	—	—	221
Sum Chun Ho, Sam *(Note 8)*	60	—	—	—	60
Wan Kwok Pan *(Note 8)*	49	—	—	—	49
Total	1,243	1,567	17	66	2,893

For the year ended 31 December 2008:

	Fees	Salaries and allowances	Retirement scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lai Hok Lim *(Note 9)*	17	—	—	—	17
Gouw San Bo, Elizabeth *(Note 1)*	—	5,889	12	—	5,901
Lee Chan Wah *(Note 10)*	17	—	—	—	17
Lo Mun Lam, Raymond *(Note 2)*	143	—	—	—	143
Richard Yen *(Note 3)*	—	874	11	—	885
Non-executive directors					
Duncan Chiu *(Note 5)*	—	—	—	—	—
Yu Wai Yin, Vicky *(Note 6)*	—	—	—	—	—
Independent non-executive directors					
Yip Tai Him *(Note 11)*	6	—	—	—	6
Law Yiu Sang, Jacky *(Note 11)*	6	—	—	—	6
Lum Pak Sum *(Note 7)*	96	—	—	—	96
Sum Chun Ho, Sam *(Note 8)*	57	—	—	—	57
Wan Kwok Pan *(Note 8)*	34	—	—	—	34
Total	376	6,763	23	—	7,162

For the year ended 31 December 2009:

	Fees	Salaries and allowances	Retirement scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lai Hok Lim *(Note 9)*	120	—	—	235	355
Heung Wah Keung *(Note 13)*	48	—	—	—	48
Gouw San Bo, Elizabeth *(Note 1)*	—	—	—	—	—
Lee Chan Wah *(Note 10)*	76	—	—	—	76
Lo Mun Lam, Raymond *(Note 2)*	—	—	—	—	—
Richard Yen *(Note 3)*	—	—	—	—	—
Non-executive directors					
Duncan Chiu *(Note 5)*	—	—	—	—	—
Yu Wai Yin, Vicky *(Note 6)*	—	—	—	—	—
Independent non-executive directors					
Yip Tai Him *(Note 11)*	120	—	—	—	120
Law Yiu Sang, Jacky *(Note 11)*	120	—	—	—	120
Chio Chong Meng *(Note 12)*	120	—	—	—	120
Lum Pak Sum *(Note 7)*	—	—	—	—	—
Sum Chun Ho, Sam *(Note 8)*	—	—	—	—	—
Wan Kwok Pan *(Note 8)*	—	—	—	—	—
Total	604	—	—	235	839

Notes:

1. Ms. Gouw San Bo, Elizabeth was appointed as an executive director on 11 July 2007 and was retired as executive director on 20 April 2009.

2. Mr. Lo Mun Lam, Raymond was redesigned as a non-executive director from an executive director on 28 May 2008. He resigned as a non-executive director on 16 November 2008.

3. Mr. Richard Yen resigned as an executive director on 16 November 2008.

4. Mr. Leung Tak Wah resigned as an executive director on 11 July 2007.

5. Mr. Duncan Chiu was retired as a non-executive director on 20 April 2009.

6. Ms. Yu Wai Yin, Vicky resigned as a non-executive director on 28 May 2008.

7. Mr. Lum Pak Sum resigned as an independent non-executive director on 1 January 2009

8. Mr. Sum Chun Ho, Sam and Mr. Wan Kwok Pan resigned as independent non-executive directors on 13 December 2008.

9. Mr. Lai Hok Lim was appointed as an executive director on 10 November 2008.

10. Mr. Lee Chan Wah was appointed as an executive director on 10 November 2008 and resigned on 20 August 2009.

11. Mr. Yip Tai Him and Mr. Law Yiu Sang, Jacky were appointed as independent non-executive directors on 13 December 2008.

12. Ms. Chio Chong Meng was appointed as an independent non-executive director on 1 January 2009.

13. Mr. Heung Wah Keung was appointed as an executive director on 6 August 2009 and resigned on 21 January 2010.

During the year 2008, Gouw San Bo, Elizabeth agreed to waive part of yearly bonus of HK$2,186,020. Apart from these, there was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

Of the five highest paid individuals, one (2008: two; 2007: three) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above and the disclosure below.

Details of the emoluments of the remaining four (2008: three; 2007: two) non-directors, highest paid employees of Group for the year are as follow:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries, allowances and other benefits in kind	2,915	6,775	1,598
Share option benefit	32	—	—
Retirement benefits scheme contributions	12	36	10
	2,959	6,811	1,608

The number of non-director, highest paid individuals whose remuneration fell within the following bands, is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	1	2	4
HK$2,000,001 to HK$2,500,000	1	—	—
HK$5,500,000 to HK$6,000,000	—	1	—
	2	3	4

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2007, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 40 to the Financial Information. The fair value of such options, which has been charged to the consolidated income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

During the year ended 31 December 2009, share options were granted to directors, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 40 to the Financial Information. The fair value of such options, which has been charged to the consolidated income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 January 2007	3,857	617	1,616	6,090
Additions	6,298	959	—	7,257
Disposals	(1,493)	—	—	(1,493)
At 31 December 2007 and 1 January 2008	8,662	1,576	1,616	11,854
Additions	2,132	473	—	2,605
At 31 December 2008 and 1 January 2009	10,794	2,049	1,616	14,459
Acquisition of subsidiaries	710	24,455	3,016	28,181
Addition	39	4,151	—	4,190
Deemed disposal of subsidiaries	(1,601)	(136)	(808)	(2,545)
Deemed disposal of jointly control entities	(993)	(84)	(501)	(1,578)
Write-off of property, plant and equipment	(8,239)	(23,463)	—	(31,702)
Exchange alignment	—	126	—	126
At 31 December 2009	710	7,098	3,323	11,131
Accumulated depreciation and impairment:				
At 1 January 2007	2,395	417	323	3,135
Charge for the year	2,472	198	323	2,993
Disposals	(992)	—	—	(992)
At 31 December 2007 and 1 January 2008	3,875	615	646	5,136
Charge for the year	3,534	323	323	4,180
Impairment of property, plant and equipment	2,653	484	—	3,137
At 31 December 2008 and 1 January 2009	10,062	1,422	969	12,453
Acquisition of subsidiaries	136	6,034	535	6,705
Deemed disposal of subsidiaries	(1,421)	(70)	(661)	(2,152)
Deemed disposal of jointly control entities	(880)	(42)	(186)	(1,108)
Write-off of property, plant and equipment	(7,969)	(15,196)	—	(23,165)
Charge for the year	361	9,603	394	10,358
Exchange alignment	—	13	—	13
At 31 December 2009	289	1,764	1,051	3,104
Net book value:				
At 31 December 2009	421	5,334	2,272	8,027
At 31 December 2008	732	627	647	2,006
At 31 December 2007	4,787	961	970	6,718

The net book value of the Group's property, plant and equipment held under finance leases included in the total amounts of motor vehicles at 31 December 2007, 2008 and 2009 amounted to approximately HK$969,000, HK$646,000 and HK$323,000 respectively.

19. INVESTMENT PROPERTIES

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	—	—
Acquisition of subsidiaries	—	—	920,564
Loss arising on changes in fair values	—	—	(163)
Exchange alignments	—	—	5,061
Disposal	—	—	(806,843)
At 31 December	—	—	118,619

The fair values of the Group's investment properties at 31 December 2009 have been arrived at on the basis of the valuations carried out on these dates by Grant Sherman Appraisal Limited. Grant Sherman Appraisal Limited, is an independent firm of professional valuers not connected with the Group, members of the Hong Kong Institute of Valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair value of investment properties shown above comprise:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Outside Hong Kong, held on:			
Long-term leases	—	—	118,619

All of the Group's properties interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

20. INTANGIBLE ASSETS

	Franchise rights	Film rights	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2007, 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	5,000	—	5,000
Acquisition of subsidiaries	—	7,958	7,958
At 31 December 2009	5,000	7,958	12,958
Amortisation and impairment:			
At 1 January 2007	280	—	280
Amortised for the year	673	—	673
Impairment for the year	4,047	—	4,047
At 31 December 2007, 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	5,000	—	5,000
Net book value:			
At 31 December 2009	—	7,958	7,958
At 31 December 2008	—	—	—
At 31 December 2007	—	—	—

Franchise rights acquired have been allocated to the cash generating unit ("CGU") of GL Retailing (Hong Kong) Limited (formerly known as Golife (Hong Kong) Limited), a wholly-owned subsidiary of the Company which is principally engaged in distribution of high-end apparel and accessories.

During the year ended 31 December 2009, the Group acquired the film rights through the acquisition of Creative Formula Limited (Note 44(c)).

Impairment testing of intangible assets

The Group tests the franchise rights annually for impairment, or more frequently if there are indications that the franchise rights might be impaired.

For the purpose of impairment testing, franchise rights with carrying amount of approximately HK$5,000,000 has been allocated to the CGU of distribution of high-end apparel and accessories business for the year ended 31 December 2007.

The recoverable amounts of the franchise rights allocated to distribution of high-end apparel and accessories business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 10.8% per annum was applied in the value-in-use model when assessing the recoverability of the franchise rights for the year ended 31 December 2007.

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

The recoverable amounts of the franchise rights were lower than their carrying amounts based on value-in-use calculations. Accordingly, the franchise rights were fully impaired during the year ended 31 December 2007. Impairment loss of approximately HK$4,047,000 is recognised in the consolidated income statement for the year ended 31 December 2007.

21. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary and jointly controlled entities, are as follows:

	HK$'000
At 1 January 2007	75,552
Impairment during the year	(75,552)
At 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	—
Arising from acquisition of a jointly controlled entities *(Note)*	55
Impairment during the year	(55)
At 31 December 2009	—

Note:

On 2 November 2009, a jointly controlled entity of the Group acquired a remaining 50% interest in LOC Limited from a third party. The consideration for the acquisition was in the form of cash, with US$1 paid at the acquisition. The goodwill arising from the acquisition was amounted to approximately HK$55,000.

Impairment testing of goodwill

For the purpose of impairment testing, goodwill with carrying amount of approximately HK$75,552,000 and HK$55,000 has been allocated to the CGU of distribution of high-end apparel and accessories business for the year ended 31 December 2007 and 2009 respectively.

The recoverable amounts of the goodwill allocated to distribution of high-end apparel and accessories business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 10.8% and 14% per annum was applied in the value-in-use model when assessing the recoverability of the goodwill for the year ended 31 December 2007 and 2009 respectively.

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

The recoverable amounts of the CGU were lower than their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was fully impaired during the year ended 31 December 2007 and 2009. Impairment loss of approximately HK$75,552,000 and HK$55,000 is recognised in the consolidated income statement for the year ended 31 December 2007 and 2009 respectively.

22. INTERESTS IN SUBSIDIARIES

The Company

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares at cost	81,181	81,191	—
Impairment in value	(81,180)	(81,191)	—
	1	—	—
Amounts due from subsidiaries	17,853	38,156	143,662
Amounts due to subsidiaries	(3,107)	—	—
Impairment in value	(4,500)	(33,653)	—
	10,246	4,503	143,662
	10,247	4,503	143,662

Details of the Company's subsidiaries at 31 December 2009 are set out in note 54 to the Financial Information.

23. INVENTORIES

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost	8,992	7,590	—

No inventories were carried at net realisable value for the Relevant Periods.

24. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables at the balance sheet dates is as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 — 90 days	2,430	1,960	186,716
91 — 180 days	1,503	643	—
181 — 365 days	24	—	—
Over 365 days	728	681	—
	4,685	3,284	186,716
Impairment loss recognised	(490)	(490)	—
	4,195	2,794	186,716

Notes:

i. The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers. The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers. The trade receivables are generally on 30 to 180 days.

ii. Included in the trade receivable balances are debtors with an aggregate carrying amount of approximately Nil, HK$191,000 and Nil at 31 December 2007, 2008 and 2009 respectively and which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

iii. At 31 December 2009, the amount of approximately HK$184,734,000 (2008: Nil; 2007: Nil) in the trade receivables of the Group which were arising from the proceed on disposal of investment properties.

iv. The aging of trade receivables which are past due but not impaired was as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Over 365 days	—	191	—

v. The movement of the allowance for impairment loss of trade receivables was as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	—	490	490
Impairment for the year	490	—	—
Bad debt written off	—	—	(490)
Reversal of allowance for impairment loss	—	—	—
At end of the year	490	490	—

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Deposits	7,098	5,008	9,055
Prepayments	4,757	178	2,167
Other receivables	1,967	2,336	2,189
	13,822	7,522	13,411

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Equity investment listed in Hong Kong, at fair value	238	42	1
Derivative financial assets, at fair value	728	189	—
	966	231	1

At 31 December 2007, approximately HK$728,000 of the Group's financial assets at fair value through profit or loss was pledged as security for the Group's bank borrowings.

The above equity investments were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

The fair values of listed securities in Hong Kong are determined based on the quoted market bid prices available on the relevant stock exchanges.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Forward foreign currency contracts	840	—	—
Liabilities			
Forward foreign currency contracts	459	2,153	—

The Group has eight, two and zero forward currency contracts outstanding at 31 December 2007, 2008 and 2009 respectively to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Fair value gain/(loss) of non-hedging currency derivatives amounting to approximately HK$381,000, HK$(2,153,000) and Nil was credit/(debited) to the consolidated income statement for the Relevant Periods respectively.

28. PROPERTIES HELD FOR SALE

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Properties held-for-sale	—	—	29,033

Properties held-for-sale solely comprised of certain units of apartments held by 北京莎瑪房地產開發有限公司, a subsidiary of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden"), of which sale and purchase agreements were entered into and full consideration have been received by 北京莎瑪房地產開發有限公司 in respect of these units of apartments (note 35 to the Financial Information). However, the transfers of legal titles of these units of apartments have not yet been completed at the date of approval of the financial statements.

29. CASH AND BANK BALANCES

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances			
Renminbi	—	—	155,747
Hong Kong Dollars	3,705	5,766	74,716
	3,705	5,766	230,463

The Company

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances			
Renminbi	—	—	—
Hong Kong Dollars	1	3,545	73,056
	1	3,545	73,056

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 31 December 2007, 2008 and 2009, the cash and bank balances of the Group denominated in RMB amounted to approximately Nil, Nil and HK$155,747,000 respectively, which were deposits with banks in the PRC.

30. TRADE PAYABLES

An aged analysis of the Group's trade payables at the balance sheet dates is as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 — 90 days	2,212	1,787	197
91 — 180 days	178	—	—
181 — 365 days	13	—	—
Over 365 days	695	615	—
	3,098	2,402	197

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Accruals *(Note)*	13,778	15,599	104,009
Deposits received	1,636	508	—
Other payables	65	3,738	20,216
	15,479	19,845	124,225

Note:

At 31 December 2009, GL Retailing (Hong Kong) Limited ("GLHK") (formerly known as Golife Hong Kong Limited), a jointly controlled entity of the Group, was a defendant in a litigation and dispute arising from early termination of license agreements for a brand name product (the "Licensing Agreement") initiated by GLHK. The licensor of the Licensing Agreement (the "Licensor") claims, through the French Court, directly against GLHK only, but none of the directors for (i) the outstanding purchase commitments under the license agreements, (ii) image compensation suffered by the Licensor and (iii) penalty in the sum of EUR6,374,745. The directors of GLHK consider that the claim is enormously overstated for the reasons that (i) it is unreasonable for the licensor to claim the total future purchase commitments which represent future commitments instead of any loss incurred by the licensor, and (ii) the directors of GLHK do not agree that the licensor has incurred any loss on its image. The GLHK is now seeking legal advice on the litigation and an estimate of the final result of the litigation cannot be made. The directors of GLHK made a full provision on the penalty of which approximately HK$13,460,740 has been proportionately consolidated into the Financial Information for the year ended 31 December 2009.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

The Group

	Effective interest rate (%) per annum	Maturity of interest reprice date whichever is earlier	2007 HK$'000
Current			
Finance lease payables — *note 33*	3.35	2008	395
Bank overdrafts — secured	best lending rate	on demand	807
Bank loans — secured	5.81 or prime rate + 2	2008	5,021
Trust receipt loans — secured	best lending rate	2008	7,340
			13,563
Non-current			
Finance lease payable — *note 33*	3.25	2009-2011	643
Bank loans — secured	prime rate + 2	2009-2010	162
			805
			14,368

	Effective interest rate (%) per annum	Maturity of interest reprice date whichever is earlier	2008 HK$'000
Current			
Finance lease payables — *note 33*	2.75-3.25	2009	395
Bank overdrafts — secured	—	on demand	4,734
Bank loans — secured	3.75-8.75	2009	1,626
Trust receipt loans — secured	—	2009	4,319
			11,074
Non-current			
Finance lease payable — *note 33*	2.75-3.25	2010-2011	247
Bank loans — secured	3.75-8.75	2010-2011	798
			1,045
			12,119

	Effective interest rate (%) per annum	Maturity of interest reprice date whichever is earlier	2009
			HK$'000
Current			
Finance lease payables — *note 33*	2.75-3.25	2010	47
Bank loans — unsecured	6.25	2010	83
			130

The Group

	At 31 December 2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year or on demand	13,168	10,679	83
In the second year	162	773	—
In the third to fifth years, inclusive	—	25	—
	13,330	11,477	83
Other borrowings payables:			
Within one year or on demand	395	395	47
In the second year	395	222	—
In the third to fifth years, inclusive	248	25	—
	1,038	642	47
	14,368	12,119	130

The Group's banking facilities are secured by:

(i) the pledge of approximately HK$5,949,000, Nil and Nil at 31 December 2007, 2008 and 2009 respectively of the Group's fixed deposits;

(ii) the pledge of the Group's financial assets at fair value through profit or loss with carrying amount of approximately HK$728,000, Nil and Nil at 31 December 2007, 2008 and 2009 respectively;

(iii) corporate guarantee provided by the Company; and

(iv) personal guarantees provided by directors of a subsidiary of the Group.

33. FINANCIAL LEASE PAYABLES

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms within one year.

At the balance sheet date, the total future minimum lease payments under finance lease and the present value, were as follows:

The Group

	Minimum lease payments At 31 December			Present value lease payments At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable:						
Within one year	447	447	53	395	395	47
In the second year	447	252	—	395	222	—
In the third year to fifth year, inclusive	280	28	—	248	25	—
Total minimum finance lease payments	1,174	727	53	1,038	642	47
Future finance charges	(136)	(85)	(6)			
Total net finance lease payables	1,038	642	47			
Portion classified as current liabilities — *note 32*	(395)	(395)	(47)			
Long term portion — *note 32*	643	247	—			

34. AMOUNT DUE TO A SHAREHOLER/JOINTLY CONTROLLED ENTITIES

Amount due to a shareholder/jointly controlled entities were unsecured, interest-free and repayable on demand.

35. RECEIPTS IN ADVANCE

The Group

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade deposit received	—	—	3,094
Deposit of sales of properties	—	—	39,334
	—	—	42,428

At 31 December 2009, receipts in advance amounted to approximately HK$39,334,000 represented the full amount of considerations received from sales of certain unites of apartments, details of which are set out in note 28 to the Financial Information. Since the transfers of legal titles of these units of apartments have not yet been completed at the date of the approval of the financial statements no revenue could be recognised for the year and the total amount was recorded as receipts in advance.

36. PROMISSORY NOTE

In April 2009, the Group issued a promissory note with a principal amount of HK$100,000,000 as a part of consideration in acquisition of Shinhan-Golden and World East Investments Limited ("World East"). Details were set out in note 44(a) to the Financial Information. The effective interest rate is 30.97%.

	HK$'000
At 1 January 2007, 31 December 2007, 1 January 2008, 31 December 2008 and January 2009	—
Fair value of promissory note	25,952
Interest expenses charged	5,879
At 31 December 2009	31,831

37. CONVERTIBLE LOAN NOTES

On 11 June 2008, the Company issued convertible loan notes with a principal amount of HK$6.2 million to an independent third party, JL Investments Capital Limited, for a term of one year and a coupon rate of 2% per annum (the "JL Convertible Note"). The JL Convertible Note are convertible into shares of the Company at the initial conversion price of HK$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the JL Convertible Note is 7.29%.

For the year ended 31 December 2008, an amount of HK$3,000,000 of JL Convertible Note was converted into ordinary shares of the Company.

On 3 February 2009, the Company early redeemed the entire remaining of JL Convertible Note and a gain on early redemption of convertible loan notes of approximately HK$173,000 was recognised during the year ended 31 December 2009.

On 16 July 2008, the Company issued convertible loan note with a principal amount of HK$7 million to Far East Holdings International Limited, for a term of three years with a coupon rate of 2% per annum (the "FE Convertible Note"). The FE Convertible Note are convertible into shares of the Company at the initial conversion price of HK$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the FE Convertible Note is 7.29%.

On 3 February 2009, the Company early redeemed the entire FE Convertible Note and a gain on early redemption of convertible loan note of approximately HK$1,767,000 is recognised during the year ended 31 December 2009.

On 25 September 2008, the Company issued convertible loan note with a principal amount of HK$35 million to Goldig Investment Group Limited with a term of three years and zero coupon rate (the "Goldig Convertible Note"). The Goldig Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.125 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the Goldig Convertible Note is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK$28,000,000 of the Goldig Convertible Note and a gain on early redemption of Convertible loan note of approximately HK$11,719,000 is recognised during the year ended 31 December 2009.

Pursuant to the Company's circular dated 12 August 2009, the Company and the bondholders of the Golding Convertible Note entered into the deed of amendments to modify the terms and conditions of the remaining HK$7,000,000 of the Golding Convertible Note. Where the maturity date shall be the fifth anniversary of the date of issue instead of the third anniversary of the date of issue, and the mandatory conversion of any outstanding amount of the Golding Convertible Note into new conversion shares at HK$0.239.

On 29 January 2009, the Company issued convertible loan note with a principal amount of HK$60 million to China Star Entertainment Limited, for a term of 10 years with zero coupon rate (the "CS Convertible Note"). The CS Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CS Convertible Note is 34.9%.

On 8 April 2009, the Company issued convertible loan note with a principal value of HK$100 million to China Star Investment Holdings Limited as part of consolidation for the acquisition of Shinhan-Golden and World East, for a term of 10 years with zero coupon rate (the "CSI Convertible Note"). The CSI Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CSI Convertible Note is 31.34%.

On 28 April 2009, the Company issued convertible loan note with a principal amount of HK$100 million to Brilliant Arts Multi-Media Holding Limited, for a term of 10 years with zero coupon rate ("the BA Convertible Note"). The BA Convertible Note are convertible into shares of the Company at the initial conversion price of HK$0.521 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the BA Convertible Note is 27.8%.

On 2 October 2009, the Company early redeemed the entire BA Convertible Note and a loss on early redemption of convertible loan note of approximately HK$16,296,000 is recognised during the year ended 31 December 2009.

The movement of the liability component of the convertible loan notes recognised in the balance sheet of the Group and the Company are calculated as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Liability component at 1 January	48,188	—	33,731
Convertible loan notes issued during the year	—	35,377	18,122
Conversion during the year	(48,127)	(2,870)	—
Redemption during the year	(805)	—	(38,459)
Interest expenses	744	1,232	4,318
Interest paid	—	(8)	(116)
Liability component at 31 December	—	33,731	17,596
Current liabilities	—	3,157	—
Non-current liabilities	—	30,574	17,596
	—	33,731	17,596

38. DEFERRED TAXATION

The movements in the Group's deferred tax liabilities/(assets) during the Relevant Periods are as follows:

The Group

	Revaluation of investment properties	Convertible loan notes	Accumulated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	—	—	6	(6)	—
Charged/(credited) to consolidated income statement	—	—	15	(15)	—
At 31 December 2007 and 1 January 2008	—	—	21	(21)	—
Charged/(credited) to consolidated income statement	—	—	(21)	21	—
At 31 December 2008 and 1 January 2009	—	—	—	—	—
Addition through acquisition of subsidiaries	55,363	—	—	—	55,363
Issue of convertible loan notes *(note 42)*	—	39,910	—	—	39,910
Release on redemption of convertible loan notes *(note 42)*	—	(14,929)	—	—	(14,929)
Released on disposal of investment properties	(48,147)	—	—	—	(48,147)
Credited to consolidated income statement	(41)	(553)	—	—	(594)
At 31 December 2009	7,175	24,428	—	—	31,603

The Company

	Convertible loan notes
	HK$'000
At 1 January 2007, 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	—
Issue of convertible loan notes *(note 42)*	39,910
Release on redemption of convertible loan notes *(note 42)*	(14,929)
Credited to consolidated income statement	(553)
At 31 December 2009	24,428

At 31 December 2009, the Group has estimated unused tax losses of approximately HK$71,929,000 (2008: HK$24,032,000; 2007: HK$1,937,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset was recognised during the Relevant Periods due to the unpredictability of future profit streams.

39. SHARE CAPITAL

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
3,000,000,000 ordinary shares of HK$0.01 each (2008: 2,000,000,000 ordinary shares of HK$0.05 each; 2007: 10,000,000,000 ordinary shares of HK$0.01 each)	100,000	100,000	300,000
Issued and fully paid:			
676,330,271 ordinary shares of HK$0.01 each (2008: 328,926,613 ordinary shares of HK$0.05 each; 2007: 1,247,001,488 ordinary shares of HK$0.01 each)	12,470	16,446	6,763

A summary of the movements of the Company's issued capital is as follows:

	Notes	Number of shares in issue	Issued capital *HK$'000*
At 1 January 2007, ordinary shares of HK$0.01 each		526,801,488	5,268
Conversion of convertible loan notes	*(i)*	570,200,000	5,702
Placement of new shares, net	*(ii)*	150,000,000	1,500
At 31 December 2007 and 1 January 2008, ordinary shares of HK$0.01 each		1,247,001,488	12,470
Conversion of convertible loan notes	*(iii)*	80,000,000	800
		1,327,001,488	13,270
Share consolidation (5 into 1)	*(iv)*	(1,061,601,190)	—
Conversion of convertible loan notes	*(iii)*	10,526,315	526
Placement of new shares, net	*(v)*	53,000,000	2,650
At 31 December 2008 and 1 January 2009, ordinary shares of HK$0.05 each		328,926,613	16,446
Open offer of new shares	*(vi)*	686,601,997	12,128
Share consolidation (10 into 1)	*(vii)*	(414,447,533)	—
Capital reduction	*(vii)*	—	(22,564)
Issue of shares arising on acquisition of subsidiaries	*(viii)*	11,769,194	118
Placement of new shares, net	*(ix)*	11,560,000	116
Issue of shares upon exercise of share option	*(x)*	51,920,000	519
At 31 December 2009, ordinary shares of HK$0.01 each		676,330,271	6,763

Notes:

For the year ended 31 December 2007

(i) Convertible loan notes with principal amount of HK$57,020,000 were converted into 570,200,000 ordinary shares at a conversion price of HK$0.10 per share.

(ii) 150,000,000 new ordinary shares of the Company had been issued at a placing price of HK$0.165 per share on 18 June 2007, proceed of approximately HK$24,415,000 was being raised as working capital.

For the year ended 31 December 2008

(iii) Convertible loan notes with principal amount of HK$2,000,000 were converted into 80,000,000 ordinary shares at a conversion price of HK$0.025 per share and convertible loan notes with principal amount of HK$1,000,000 were converted into 10,526,315 ordinary shares at a conversion price of HK$0.095 per share.

(iv) 1,327,001,488 issued ordinary shares were consolidated into 265,400,298 ordinary shares on the basis of every 5 issued shares consolidated into 1 consolidated share. The nominal value of each issued consolidated share was then increased from HK$0.01 each to HK$0.05 each.

(v) 53,000,000 new ordinary shares were issued at a placing price of HK$0.075 per share on 10 December 2008, net proceed of approximately HK$3,935,000 was being raised as working capital.

For the year ended 31 December 2009

(vi) On 31 January 2009, 131,570,645 ordinary shares of HK$0.05 each at a price of HK$0.05 each were issued by the Company by way of open offer.

On 2 July 2009, 555,031,352 ordinary shares of HK$0.01 each at a price of HK$0.1 each were issued by the Company by way of open offer.

(vii) Pursuant to an ordinary resolution passed in a special general meeting on 6 April 2009, every ten issued shares of the Company were consolidated into one consolidated share of HK$0.50 each. The consolidated shares of HK$0.50 each were then reduced to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.49 on each issued consolidated share.

(viii) In April 2009, 11,769,194 consolidated ordinary shares of the Company with par value of HK$0.01 each were issued as part of consideration on acquisition of Shinhan-Golden and World East.

(ix) On 14 May 2009, the Company placed 11,560,000 ordinary shares of HK$0.01 each at a placing price of HK$0.205 per share.

(x) In 2009, 51,920,000 ordinary shares of the Company with par value of HK$0.01 each were issued upon exercise of share options by the share option holders.

40. SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

On 3 July 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1.00 for each lot of share option to subscribe for an aggregate of 2,970,000 shares under the Scheme at an exercise price of HK$0.219 per share.

On 3 September 2009, the Company granted share options to certain of its directors, employees at a nominal consideration of HK$1.00 for each lot of share option to subscribe for an aggregate of 62,400,000 shares under the Scheme at an exercise price of HK$0.091 per share.

On 13 November 2009, the Company granted share options to certain of its directors, employees and consultants at a nominal consideration of HK$1.00 for each lot of share option to subscribe for an aggregate of 18,720,000 shares under the Scheme at an exercise price of HK$0.1 per share.

During the Relevant Periods, the Company's share option granted under the scheme are as follows:

Year ended 31 December 2007

					Number of share options					
Date of grant	Category of eligible persons	Previous exercise price	Adjusted exercise price	Exercise period	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31/12/2007
		HK$	*HK$*							
31 July 2007	Directors	0.219	3.784	3 July 2007 to 5 March 2012	—	114,567	—	—	—	114,567
	Employees	0.219	3.784	3 July 2007 to 5 March 2012	—	57,284	—	—	—	57,284
				Total	—	171,851	—	—	—	171,851

Year ended 31 December 2008

				Number of share options					
Date of grant	Category of eligible persons	Exercise price	Exercise period	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31/12/2008
		HK$							
31 July 2007	Directors	3.784	3 July 2007 to 5 March 2012	114,567	—	—	—	—	114,567
	Employees	3.784	3 July 2007 to 5 March 2012	57,284	—	—	—	—	57,284
			Total	171,851	—	—	—	—	171,851

Year ended 31 December 2009

				Number of share options					
Date of grant	Category of eligible persons	Exercise price HK$	Exercise period	Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31/12/2009
31 July 2007	Directors	3.784	3 July 2007 to 5 March 2012	114,567	—	—	—	(114,567)	—
	Employees	3.784	3 July 2007 to 5 March 2012	57,284	—	—	—	(57,284)	—
3 September 2009	Directors	0.091	3 September 2009 to 2 September 2010	—	6,240,000	(6,240,000)	—	—	—
	Employees	0.091	3 September 2009 to 2 September 2010	—	12,480,000	(6,240,000)	—	—	6,240,000
	Consultants	0.091	3 September 2009 to 2 September 2010	—	43,680,000	(26,960,000)	—	—	16,720,000
13 November 2009	Employees	0.1	13 November 2009 to 12 November 2010	—	6,240,000	—	—	—	6,240,000
	Consultants	0.1	13 November 2009 to 12 November 2010	—	12,480,000	(12,480,000)	—	—	—
			Total	171,851	81,120,000	(51,920,000)	—	(171,851)	29,200,000

Note: The exercise price and number of share option have been adjusted due to the completion of the share consolidation on 6 April 2009.

The fair value of options granted under the Scheme measured at the date of grant during the year ended 31 December 2007 and 2009 was approximately HK$98,000 and HK$4,197,000 respectively. The following significant assumptions were used to derive the fair values using the Binomial Options Pricing Model:

Date of granted	**3 July 2007**	**3 September 2009**	**3 September 2009**	**13 November 2009**	**13 November 2009**
Total number of share options	2,970,000	18,720,000	43,680,000	6,240,000	12,480,000
Option value	0.0330	0.0377	0.0576	0.0275	0.0644
— Option life	4.7 years	1 year	1 year	1 year	1 year
— Expected tenor	4.7 years	half year	1 year	half year	1 year
— Exercise price	0.219	0.091	0.091	0.1	0.1
— Stock price at the date of grant	0.160	0.091	0.091	0.1	0.1
— Volatility	35%	153.62%	180.45%	99.18%	184.88%
— Risk free rate	4.5%	0.15%	0.21%	0.07%	0.11%

41. EMPLOYEE AWARD PLAN

The Company's employee award plan (the "Plan") was adopted by the Board of Directors on 24 July 2007 for the primary purpose of recruiting and motivating employees and directors to achieve superior performance. The Plan is valid and effective for 10 years commencing on 24 July 2007. Under the Plan, the Remuneration Committee of the Company may conditionally grant an award to any directors or employee of the Company and its subsidiaries. Upon vesting of the award, the grantee shall be entitled to a cash payment under the award if the award price exceeds the vesting price, subject to an overall limit as stated in the award letter.

The amount of award payment shall be determined in accordance with the following formula:

(Vesting price — Award price) x Award number

Vesting price means the average closing price of the Company's shares as stated in the daily quotation sheets issued by the stock exchange for five business days immediately preceding the vesting date.

The following table set out the movement in the Plan during the Relevant Periods:

Year ended 31 December 2007

Name and categories of grantees	Date of grant	Date of expiry	Award number	Award price	Overall limit of cash payment	Award granted during the year
				HK$	*HK$'000*	*HK$*
Director						
Gouw San Bo, Elizabeth	25 July 2007	31 December 2007	30,000,000	0.236	3,000	—
Lo Mun Lam, Raymond	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Richard Yen	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Sub-total			40,000,000		4,000	—
Employee						
In aggregate	25 July 2007	31 December 2007	85,000,000	0.236	8,500	—
Total			125,000,000		12,500	—

No grantee was entitled to any payment under the award during the Relevant Periods.

42. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page 35 of the Financial Information.

The Company

	Share premium	Contributed surplus	Convertible loan notes reserve	Share-based payment reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note i)	*(note ii)*	*(note iii)*		
At 1 January 2007	55,642	—	11,316	—	(43,833)	23,125
Redemption of convertible loan notes	—	—	(195)	—	—	(195)
Conversion of convertible loan notes	53,546	—	(11,121)	—	—	42,425
Placement of new shares, net	22,915	—	—	—	—	22,915
Recognition of equity-settled share-based payments	—	—	—	98	—	98
Net loss for the year	—	—	—	—	(89,146)	(89,146)
At 31 December 2007 and 1 January 2008	132,103	—	—	98	(132,979)	(778)
Issue of convertible loan notes	—	—	12,823	—	—	12,823
Conversion of convertible loan notes	1,674	—	(130)	—	—	1,544
Placement of new shares, net	1,285	—	—	—	—	1,285
Net loss for the year	—	—	—	—	(60,362)	(60,362)
At 31 December 2008 and 1 January 2009	135,062	—	12,693	98	(193,341)	(45,488)
Issue of convertible loan notes	—	—	241,878	—	—	241,878
Redemption of convertible loan notes	—	—	(101,942)	—	4,840	(97,102)
Capital reduction	—	22,564	—	—	—	22,564
Deferred tax of convertible loan notes *(note 38)*	—	—	(39,910)	—	—	(39,910)
Deferred tax released on early redemption of convertible loan notes *(note 38)*	—	—	14,929	—	—	14,929
Issue of new shares arising on acquisition of subsidiaries	2,001	—	—	—	—	2,001
Recognition of equity-settled share-based payments	—	—	—	4,197	—	4,197
Issue of new shares upon exercise of share option	7,145	—	—	(2,827)	—	4,318
Cancellation of share options	—	—	—	(98)	98	—
Issue of shares on open offer	49,066	—	—	—	—	49,066
Placement of new shares, net	2,210	—	—	—	—	2,210
Net loss for the year	—	—	—	—	(23,880)	(23,880)
At 31 December 2009	195,484	22,564	127,648	1,370	(212,283)	134,783

At 31 December 2009, in the opinion of the directors, there is no Company's reserves available for distribution to shareholders (2008: Nil; 2007: Nil).

Note:

(i) The contributed surplus account of the Company represents the capital reduction to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.49 on each issued consolidated share with total amount of approximately HK$22,564,000 directly transfer from share capital of the Company during the year ended 31 December 2009.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if it is, or would after the payment be, unable to pay its liabilities as they become due or the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) The convertible loan notes reserve represents the value of the unexercised equity component of convertible loan notes issued by the Company.

(iii) The share-based payment reserves of the Company and the Group arises on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 4.

43. JOINTLY CONTROLLED ENTITIES

The following amounts are included in the Group's Financial Information as a result of the proportionate consolidation of the below joint ventures:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	6	29	61
Current assets	700	939	469
Current liabilities	(1,431)	(5,275)	(26,302)
Non-current liabilities	—	—	—
Net liabilities	(725)	(4,307)	(25,772)
Turnover	1,803	2,523	8,801
Cost of sales	(1,255)	(1,917)	(4,697)
Other revenue and income	—	60	50,043
Selling and distribution expenses	—	(27)	(342)
Administrative expenses	(1,277)	(4,221)	(27,088)
Other operating expenses	—	—	(875)
Finance cost	—	—	(311)
Loss before tax	(729)	(3,582)	(25,531)
Taxation	—	—	—
Loss after tax	(729)	(3,582)	(25,531)

The Group has the following significant interests in joint ventures:

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Amazing Goal International Limited	British Virgin Island ("BVI")	US$100	19%	—	Investment holding
GL Retailing (Hong Kong) Limited (Formerly known as Golife (Hong Kong) Limited)	Hong Kong	HK$500,000	—	19%	Distribution of high-end apparel and accessories
Golife (Trading) Limited	Hong Kong	HK$300,000	—	19%	Distribution of high-end jewellery and accessories
CR Hong Kong Trading Limited	Hong Kong	HK$300,000	—	19%	Distribution of high-end apparel and accessories
Golife (Management) Limited	Hong Kong	HK$10,000	—	19%	Dormant
GOL (International) Limited	BVI	US$1	—	19%	Dormant
Peak Choice Limited	BVI	US$1	—	19%	Investment in securities
Sunfame Limited	BVI	US$100	—	19%	Dormant
Profit First Investments Limited	BVI	US$1	—	19%	Investment holding
Better Point Limited	BVI	US$1	—	19%	Investment holding

44. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of Shinhan-Golden and World East

On 8 April 2009, the Group acquired the entire issued share capital and the outstanding shareholders' loan of Shinhan-Golden and World East for total consideration of approximately HK$135,744,000. The fair value of identifiable assets and liabilities of the Shinhan-Golden and World East at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Shinhan-Golden	World East	Elimination on current account	Fair value
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	20,123	7	—	20,130
Investment properties	920,564	—	—	920,564
Amount due from Shinhan-Golden	—	386,166	(386,166)	—
Investment in associate	—	3,896	(3,896)	—
Properties held for sale	28,969	—	—	28,969
Accounts receivables	184	—	—	184
Prepayment, deposits and other receivables	1,689	4,971	—	6,660
Cash and bank balance	51,434	—	—	51,434
Amount due to Mega Shell Services Limited	(47,199)	(745)	—	(47,944)
Amount due to China Star Investment Holding Limited	—	(375,535)	—	(375,535)
Accounts payables and accruals	(13,252)	(217)	—	(13,469)
Receipts in advance	(39,645)	—	—	(39,645)
Amount due to World East	(386,166)	—	386,166	—
Bank loans, secured	(302,794)	—	—	(302,794)
Non-controlling interests	(3,896)	—	3,896	—
Deferred taxation	(55,363)	—	—	(55,363)
Net assets acquired	174,648	18,543	—	193,191
Sale loan				47,944
Gain on acquisition of subsidiaries				(105,391)
				135,744

Consideration satisfied by:	*HK$'000*
Fair value of shares issued *(note 1)*	2,119
Fair value of promissory note *(note 2)*	25,952
Fair value of convertible loan notes	100,000
Cash	6,847
Transaction cost directly attributable to this acquisition	826
Total consideration	135,744

Net cash inflow in respect of the acquisition of subsidiaries:

Cash consideration paid	(6,847)
Transaction cost paid	(826)
Bank balance and cash acquired	51,434
	43,761

Notes:

1. As part of the consideration for the acquisition, the 11,769,194 ordinary shares of the Company with par value of HK$0.01 each were issued. The fair value of issued ordinary shares of the Company, determined using the published price available at the date of acquisition of HK$0.18 per share, amounted to approximately HK$2,199,000.

2. The face value of promissory note in amount of HK$100,000,000 would be paid by the Company with a fixed term of five years and will not carry any interest. The fair value of promissory note in amount of HK$25,952,000 was based on the calculation of the discounted cash flow method with discount rate 30.97%.

(b) Acquisition of China Star Management Limited ("CSM") and Anglo Market International Limited ("AMI")

On 31 July 2009, the Group acquired the entire issued share capital of CSM and AMI for total consideration of approximately HK$3,138,000. The fair value of identifiable assets and liabilities of the CSM and AMI at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	CSM	**AMI**	**Elimination on current account**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	79	—	—	79
Amount due from AMI	643	—	(643)	—
Deposits paid	8,556	521	—	9,077
Accounts receivables	912	648	—	1,560
Prepayment, deposits and other receivables	956	158	—	1,114
Cash and bank balance	321	395	—	716
Amount due to Imperial Services Limited	(4,954)	(25)	—	(4,979)
Amount due to CSM	—	(643)	643	—
Accounts payables and accruals	(1,851)	(700)	—	(2,551)
Receipts in advance	(296)	(1,125)	—	(1,421)
Net assets acquired	4,366	(771)	—	3,595
Gain on acquisition of subsidiaries				(457)
				3,138
Consideration satisfied by:				
Cash				3,138
Net cash outflow in respect of the acquisition of subsidiaries:				
Cash consideration paid				3,138
Bank balance and cash acquired				(716)
				2,422

(c) Acquisition of Creative Formula Limited ("Creative Formula")

On 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of approximately HK$8,201,000. The fair value of identifiable assets and liabilities of Creative Formula at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value
	HK$'000
Property, plant and equipment	1,267
Film right	7,958
Other prepayments	26
Cash and bank balance	535
Accruals	(1,585)
Net assets acquired	8,201
Consideration satisfied by:	
Cash consideration	8,201
Net cash outflow in respect of the acquisition of subsidiary:	
Cash consideration paid	8,201
Bank balance and cash acquired	(535)
	7,666

45. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

(a) Disposal of Satellite Devices (BVI) Limited and its subsidiary called Satellite Devices Limited

As disclosed in note 14, the Company disposed of its entire interest in Satellite Devices (BVI) Limited which held a subsidiary called Satellite Devices Limited for a consideration of approximately HK$50,000 on 27 September 2007.

	HK$'000
Net liabilities disposed of:	
Amounts due to group companies	(100,521)
Other payables and accruals	(335)
	(100,856)
Gain on disposal of subsidiaries	385
Amounts waived by group companies	100,521
	50
Satisfied by:	
Cash	50
Net cash inflow in respect of the disposal of subsidiaries:	
Cash consideration received	50
Cash and bank balances disposal of	—
	50

(b) Deemed disposal of Amazing Goal International Limited ("Amazing Goal"), a then subsidiary of the Company

In July 2009, the Group's interest in Amazing Goal decreased from 100% to 50% following the allotment and issuance of 50 shares of Amazing Goal at a price of US$1 each to Chung Chiu (PTC) Limited ("Chun Chiu") pursuant to a subscription agreement. Gain on deemed disposal of partial interest in Amazing Goal as a subsidiary amounted to approximately HK$32,758,000.

After the transactions mentioned above, Amazing Goal became a jointly controlled entity of the Group.

Details of the net assets at the disposal date were as follows:

	HK$'000
Property, plant and equipment	393
Inventories	952
Other investment	1
Trade receivables	269
Deposits, prepayment and other receivables	3,067
Trade payables	(1,019)
Other payables and accruals	(11,443)
Amount due to the Company	(22,193)
Tax payables	(294)
Bank overdraft	(1,611)
Interest-bearing borrowings	(880)
Gain on deemed disposal of subsidiaries	(32,758)

46. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Financial Information, the Group and the Company had the following material transactions with related parties during the Relevant Periods:

(a) Related entities

		The Group		
		For the year ended 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Management fee income charged to a fellow subsidiary	*(i)*	—	120	1,296
Management fee charged by a related company	*(ii)*	984	984	4,680
Management fee charged by a fellow subsidiary	*(iii)*	—	—	1,416
Acquisition of subsidiaries from related companies	*(iv)*	—	—	147,094

Notes:

(i) Management fee income was charged at a rate mutually agreed between the Group and a fellow subsidiary and based on the cost of the administrative services provided by the Group.

(ii) Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests, by reference to sharing of office premises and supplies, and manpower in provision of administrative services to the Group.

(iii) Management fee was charged at a rate mutually agreed between the Group and the fellow subsidiary in which certain directors of the Company's subsidiary have beneficial interests, by reference to sharing of office premises and supplies, and manpower in provision of administrative services to the Group.

(iv) On 8 April 2009, the Group acquired the entire issued share capital and the outstanding shareholders' loan of Shinhan-Golden and World East for total consideration of approximately HK$135,755,000. On 31 July 2009, the Group acquired the entire issued share capital of China Star Management Limited and Anglo Market International Limited for approximately HK$3,138,000, and on 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of approximately HK$8,201,000.

(b) On 15 August 2007, Better Point Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Austen Limited in which Mr. Richard Yen, a director of the Company, has interest, to establish CR Hong Kong Limited which will principally engage in the holding of licensing rights including without limitation the investment in design, manufacturing and distribution of fashion and life style product of the brand called Cynthia Rowley.

(c) The Group's related company has guaranteed the trust receipt loans and bank overdrafts made to the Group's subsidiary up to HK$4,000,000 and HK$1,000,000 respectively at nil consideration. At 31 December 2007, such guarantee has been released by the related company.

(d) Compensation of key management personnel

	The Group		
	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	4,975	12,482	1,674
Provident fund convertors	12	36	10
	4,987	12,518	1,684

47. OPERATING LEASE ARRANGEMENT

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years.

During the year 2008, the Group has terminated all the shop tenancies before the expiration of the tenancy agreements, full provision has been made in the financial statements in respect of compensation for the early termination of shop tenancies.

At the balance sheet dates, the Group had future minimum lease payments under non-cancelable operating leases falling due as follows:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	14,783	17,315	—
In the second to fifth years, inclusive	13,581	11,483	—
	28,364	28,798	—

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rents have not been included above and only the minimum lease commitments have been included in the above table.

The operating lease rentals of certain retail shops in Taiwan are based solely on the sales of the outlets. In the opinion of the directors of the Group, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitments have not been included in above table.

Included in the above, the following minimum lease payments at the balance sheet dates were released owing to the cancellation of certain tenancy agreements with landlords after year end date.

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	—	6,647	—
In the second to fifth years, inclusive	—	4,832	—
	—	11,479	—

48. COMMITMENTS

In addition to the operating lease commitments detailed in note 47 above, the Group had the following commitments at the balance sheet date:

(a) Commitments under license agreement in respect of several brand name products:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Minimum purchases:			
Within one year	26,811	28,751	—
In the second to fifth years, inclusive	98,107	84,963	—
	124,918	113,714	—

(b) Capital commitments

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Contracted, but not provided for:			
Acquisition of a subsidiary *(note)*	89,086	—	—
Legal and professional fee related to the acquisition	981	—	—
	90,067	—	—

Note:

On 8 November 2007, the Company entered into an acquisition agreement in relation to the acquisition of 96.57% of the issued shares in Financière Solola and EUR1,400,000 convertible loan notes issued by Financière Solola for an initial consideration of EUR7,717,766 and an Earn Out payment with a maximum amount of EUR2,894,162 which is subject to the audited consolidated EBITDA of the Financière Solola Group for the year ended 31 December 2008 based on the French GAAP. The above amount only represents the initial consideration of EUR7,717,766, which is equivalent to approximately HK$89,086,000.

In addition, the Company agreed that if the acquisition is not completed on or before a final cut-off date which defined in the acquisition agreement, the Company shall pay to the sellers, a break-up fee of EUR1,000,000 on or before 7 May 2008 or, the date falling 5 days after final cut-off date, provided that no such break up fee shall be payable in the event of fraud, negligence or willful default on the part of the sellers or where the sellers fail to comply with any of their material obligations with the acquisition agreement.

The transaction has been voted down by the shareholders of the Company at an extraordinary general meeting held on 31 March 2008.

(c) Pursuant to a shareholders' agreement dated 21 February 2007 and a supplemental agreement dated 23 February 2007 entered into between Profit First Investments Limited ("Profit First"), a wholly owned subsidiary of the Company, and Zion Worldwide Limited ("Zion Worldwide"), a venturer of jointly controlled entity namely LOC Limited ("LOC"), Profit First has agreed to pay an earn-out payment to Zion Worldwide. The earn-out payment is based on the consolidated and audited net profit of LOC during the period from 1 March 2007 to 31 December 2010 with a minimum payment of HK$3,000,000 but in any event not exceeding HK$7,500,000. The commitment on the earn-out payment not provided is with minimum of HK$2,348,000 and HK$1,957,000 at 31 December 2007 and 2008 respectively.

(d) Pursuant to a shareholders' agreement dated 15 August 2007 entered into between Better Point Limited ("Better Point"), a wholly owned subsidiary of the Company, and Austen Limited ("Austen"), a venturer of a jointly controlled entity namely CR Hong Kong Limited ("CR Hong Kong"), Better Point and Austen have agreed to inject capital by equity and by way of shareholders' loans to CR Hong Kong in equal share in the total sum of HK$12,000,000. The proportion of the equity and shareholders' loans shall be agreed between Better Point and Austen. Better Point has the outstanding commitment of HK$5,532,000 at 31 December 2007 and 2008 for the capital injection into CR Hong Kong.

49. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2009 (2008: HK$70,122,000; 2007; HK$12,490,000).

50. FINANCIAL INSTRUMENTS

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Financial assets at fair value through profit or loss	1,806	231	1
Loans and receivables (including cash and cash equivalents)	21,044	15,941	428,423
	22,850	16,172	428,424
Financial liabilities			
Financial liabilities at fair value through profit or loss	459	2,153	—
Financial liabilities at amortised cost	31,115	69,122	371,942
	31,574	71,275	371,942

Fair value estimation

The fair value of financial assets and financial liabilities with standard terms and conditions and trade in active liquid are determined with reference to quoted market bid prices and ask prices respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification of repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007				
Financial assets of fair value through profit or loss	1,806	—	—	1,806
Derivative financial instruments	459	—	—	459

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2008				
Financial assets of fair value through profit or loss	231	—	—	231
Derivative financial instruments	2,153	—	—	2,153
At 31 December 2009				
Financial assets of fair value through profit or loss	1	—	—	1

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise convertible loan notes, interest-bearing bank loans, finance leases, and trade and bill payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as deposits and other receivables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of the risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the Financial Information.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

If the floating rates had been 50 basis points higher/lower, with all other variables held constant, the Group's profit before tax for the year ended 31 December 2009 would decrease/increase by approximately HK$200 (2008: loss before tax increase/decrease by HK$15,300; 2007: loss before tax increase/decrease by HK$67,000)

Foreign currency risk

The Group operates mainly in both the People's Republic of China and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

	Assets At 31 December			Liabilities At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	—	—	340,481	—	—	39,334

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in Renminbi. At 31 December 2009, if there is a 50 basis points higher/lower in the Hong Kong dollars against the Renminbi with other variables held constant, the Group's translation reserve would decrease/increase by approximately HK$1,506,000 (2008: Nil; 2007: Nil).

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group's financial liabilities at the balance sheet dates, based on the contracted undiscounted payments, was as follows:

	Weighted average effective interest rate	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total carrying amount *HK$'000*
31 December 2007							
Derivative financial liabilities							
Derivative financial instrument	—	459	—	—	—	459	459
Non-derivative financial liabilities							
Interest-bearing bank and other borrowings	2.75%-8.75%	13,563	557	248	—	14,368	14,368
Other payables and accruals	—	15,479	—	—	—	15,479	15,479
Trade payables	—	3,098	—	—	—	3,098	3,098
		32,599	557	248	—	33,404	33,404

	Weighted average effective interest rate	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total carrying amount *HK$'000*
31 December 2008							
Derivative financial liabilities							
Derivative financial instrument	—	2,153	—	—	—	2,153	2,153
Non-derivative financial liabilities							
Convertible loan notes	14.03%	3,157	—	59,678	—	62,835	33,731
Amount due to a jointly controlled entity	—	1,025	—	—	—	1,025	1,025
Interest-bearing bank and other borrowings	2.75%-8.75%	10,974	1,135	30	—	12,139	12,119
Other payables and accruals	—	19,337	—	—	—	19,337	19,337
Trade payables	—	2,402	—	—	—	2,402	2,402
		39,048	1,135	59,708	—	99,891	70,767

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009							
Non-derivative financial liabilities							
Convertible loan notes	13.61%-13.86%	—	—	12,579	359,757	372,336	17,596
Promissory note	13.86%	—	—	158,905	—	158,905	31,831
Amount due to a shareholder	—	155,535	—	—	—	155,535	155,535
Interest-bearing bank and other borrowings	2.75%-6.25%	130	—	—	—	130	130
Other payables and accruals	—	124,225	—	—	—	124,225	124,225
Trade payables	—	197	—	—	—	197	197
		280,087	—	171,484	359,757	811,328	329,514

Credit risk

The Group has no significant concentration of credit risk. The Group deals mainly with retail customers who pay with cash and credit cards. The Group's trade receivables mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping malls that collected sales proceeds in Taiwan on behalf of the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the Financial Information.

Fair value estimation

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

(i) the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices.

(ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except for the liability component of convertible loan notes and promissory note which recorded amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their respective fair values:

	At 31 December 31 December 2007		**At 31 December 31 December 2008**		**At 31 December 31 December 2009**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Promissory note	—	—	—	—	31,831	23,892
Convertible loan notes	—	—	33,731	27,859	17,596	53,679

Note:

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

52. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by the total of borrowings and equity. Borrowings include interest-bearing borrowings and convertible loan notes. Equity includes total equity less equity components of convertible loan notes.

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Borrowings:			
Interest-bearing bank and other borrowings	14,368	12,119	130
Convertible loan notes, the liability components	—	33,731	17,596
	14,368	45,850	17,726
Equity:			
Total equity	11,028	(44,650)	175,380
Gearing ratio	130.3%	N/A	10.1%

53. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31 December 2009:

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

b) On December 2009, the Company entered into the placing agreement with the placing agent, pursuant to which, the Company has conditionally agreed to place, through the placing agent, 200,000,000 placing shares by tranches provided that the number of placing shares for each tranche is in integral multiples of 50,000,000, on fully underwritten basis, to not fewer than six placees at a price of HK$0.30 per placing share.

   The completion of the first tranche placing of 100,000,000 placing shares took place on 25 January 2010 in accordance with the terms of the placing agreement. The 100,000,000 placing shares of the first tranche placing, representing approximately 42.51% of the issued share capital of the Company as enlarged by the first tranche placing, had been successfully placed and issued to not fewer than six placees at the placing price of HK$0.30 per placing share.

c) On 8 February 2010, the Company entered into a conditional sale and purchase agreement with an independent third party in relation to the disposal of the entire equity interests in Mega Shell and all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of Disposal. Mega Shell is a wholly-owned subsidiary of the Company and its subsidiaries owned investment properties in Beijing.

(i) Included below are the result of Mega Shell during the period from 2 June 2008 (date of incorporation) to 31 December 2008 and the consolidated results of Mega Shell and its subsidiaries for the year ended 31 December 2009 which have been include in the consolidated statements of comprehensive income of the Group:

	From 2 June 2008 (date of incorporation) to 31 December 2008	**From 1 January 2009 to 31 December 2009**
	HK$'000	*HK$'000*
Turnover	—	8,223
Cost of sales	—	(3,411)
Gross profit	—	4,812
Other revenue	—	1,013
Other income	—	105,391
Administrative expenses	—	(22,650)
Other operating expenses	—	(52,395)
Finance costs	—	(11,373)
Profit before tax	—	24,798
Tax credit	—	33,830
Profit for the period/year	—	58,628
Other comprehensive income		
Exchange differences arising on translation of foreign operations during the period/year	—	(537)
Total comprehensive income for the period/year	—	58,091

(ii) Included below are the assets and liabilities of Mega Shell as at 31 December 2008 and the consolidated assets and liabilities of Mega Shell and its subsidiaries at 31 December 2009 which have been include in the consolidated balance sheet of the Group:

	At 31 December	
	2008	**2009**
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	—	6,720
Investment properties	—	118,619
Total non-current assets	—	125,339
Current assets		
Trade receivables	—	184,734
Deposits, prepayments and other receivables	—	3,682
Properties held for sale	—	29,033
Amount due from immediate holding company	1	—
Cash and bank balances	—	155,747
Total current assets	1	373,196
Current liabilities		
Accruals	—	91,274
Amounts due to a related company	—	155,535
Amount due to immediate holding company	—	131,911
Receipts in advance	—	39,333
Tax payable	—	15,215
Total current liabilities	—	433,268
Net current assets/(liabilities)	—	(60,072)
Total assets less current liabilities	—	65,267
Non-current liabilities		
Deferred taxation	—	7,175
Net assets	1	58,092
Equity		
Issued capital	1	1
Reserves	—	58,091
	1	58,092

(iii) Included below are the cash flows of Mega Shell during the period from 2 June 2008 (date of incorporation) to 31 December 2008 and the consolidated cash flows of Mega Shell and its subsidiaries for the year ended 31 December 2009 which have been included in the consolidated statements of cash flows of the Group:

	From 2 June 2008 (date of incorporation) to 31 December 2008	**From 1 January 2009 to 31 December 2009**
	HK$'000	*HK$'000*
Operating activities		
Profit before tax	—	24,798
Adjustments for:		
Finance costs	—	11,373
Interest income	—	(632)
Depreciation of property, plant and equipment	—	9,891
Loss arising on change in fair value in respect of investment properties	—	52,395
Write off of property, plant and equipment	—	7,773
Discount on acquisition of subsidiaries	—	(105,391)
Operating cash flow before movements in working capital	—	207
Increase in trade receivables	—	(184,550)
Decrease in deposits, prepayments and other receivables	—	2,978
(Increase)/decrease in amount due from immediate holding company	(1)	1
Increase in accruals, deposit received and other payables	—	77,805
Increase in amount due to a related company	—	(162,983)
Increase in amount due to immediate holding company	—	131,911
Increase in receipts in advance	—	312
Cash used in operations	(1)	(134,319)
Interest received	—	632
Net cash used in operating activities	(1)	(133,687)

	From 2 June 2008 (date of incorporation) to 31 December 2008	From 1 January 2009 to 31 December 2009
	HK$'000	*HK$'000*
Investing activities		
Acquisition of subsidiaries	—	43,761
Purchases of items of property, plant and equipment	—	(4,142)
Proceeds on disposal of investment properties	—	565,266
Net cash from investing activities	—	604,885
Financing activities		
Interest paid	—	(11,373)
Proceeds from issue of shares	1	1
Repayment of bank loans	—	(302,794)
Net cash from/(used in) finance activities	1	(314,167)
Net increase in cash and cash equivalents	—	157,031
Cash and cash equivalents at beginning of period/year	—	—
Effect of foreign exchange rate changes	—	(1,284)
Cash and cash equivalents at end of period/year	—	155,747
Analysis of balances of cash and cash equivalents		
Cash and bank balances	—	155,747

d) The Company entered into a sale and purchase agreement with an independent third party in relation to an acquisition of a company engaged in design, managing and implementing integrated information system and advanced energy saving technology on 9 February 2010 has been terminated.

54. PARTICULARS OF INTERESTS IN SUBSIDIARIES

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

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Mega Shell Services Limited	BVI	US$1	100%	—	Investment holdings
Dance Star Group Limited	BVI	US$1	100%	—	Investment holdings
World East	BVI	US$1	—	100%	Investment holdings
Shinhan-Golden	BVI	US$10,000,000	—	100%	Investment holdings
北京莎瑪房地產開發有限公司	The PRC	US$15,000,000	—	100%	Property management
China Star Management Limited	Hong Kong	HK$290,000	—	100%	Artists management
Anglo Market International Limited	BVI	US$1	—	100%	Artists management
Creative Formula Limited	Hong Kong	HK$10,000,000	—	100%	Film production

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries companies in respect of any period subsequent to 31 December 2009 and up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiary companies in respect of any period subsequent to 31 December 2009.

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

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

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

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

5 May 2010

The Directors
China Star Film Group Limited
Unit 3407, 34/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 China Star Film Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out on pages 123 to 134 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's circular dated 5 May 2010 (the "Circular") in connection with the proposed disposal of the entire interest of Mega Shell Services Limited (the "Mega Shell") by the Company (the "Disposal") and all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of Disposal (the "Mega Shell Sale Loan"). 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 Disposal might have affected the relevant financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 123 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involved 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 purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

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

– the financial position of the Remaining Group (the Group after the Disposal) at 31 December 2009 or any future date, or

– the results and cash flows of the Remaining Group for the year ended 31 December 2009 or any future periods.

OPINION

In our opinion:

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

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

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

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

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

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared to illustrate the effect of the Disposal.

The following is the Unaudited Pro Forma Financial Information of the Remaining Group as if the Disposal had taken place on 31 December 2009 for the unaudited pro forma consolidated balance sheet and on 1 January 2009 for the unaudited pro forma consolidated income statement, consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

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

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

(i) Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group, assuming that the Disposal has been completed on 31 December 2009. The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group at 31 December 2009 as set out in Appendix I to the Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated balance sheet of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Remaining Group at the date to which it is made up to or at any future date.

	The Group at 31 December 2009	**Pro forma adjustment 1**	**Pro forma adjustment 2**	**The Remaining Group at 31 December 2009**
		(Note 1)	*(Note 2)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	8,027	(6,720)		1,307
Investment properties	118,619	(118,619)		—
Intangible assets	7,958			7,958
Goodwill	—			—
Total non-current assets	134,604			9,265
Current assets				
Trade receivables	186,716	(184,734)		1,982
Deposits, prepayments and other receivables	13,411	(3,682)		9,729
Financial assets at fair value through profit or loss	1			1
Properties held for sale	29,033	(29,033)		—
Cash and bank balances	230,463	(155,747)	134,856	209,572
Total current assets	459,624			221,284

	The Group at 31 December 2009	Pro forma adjustment 1 *(Note 1)*	Pro forma adjustment 2 *(Note 2)*	The Remaining Group at 31 December 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	197			197
Accruals, deposits received and other payables	124,225	(91,274)		32,951
Interest-bearing bank and other borrowings	130			130
Amount due to the Remaining Group	—	(131,911)	131,911	—
Amount due to a shareholder	155,535	(155,535)		—
Receipts in advance	42,428	(39,333)		3,095
Tax payable	15,303	(15,215)		88
Total current liabilities	337,818			36,461
Net current assets	121,806			184,823
Total assets less current liabilities	256,410			194,088
Non-current liabilities				
Promissory note	31,831			31,831
Convertible loan notes	17,596			17,596
Deferred taxation	31,603	(7,175)		24,428
Total non-current liabilities	81,030			73,855
NET ASSETS	175,380			120,233
Equity				
Issued capital	6,763			6,763
Reserves	168,617		(55,147)	113,470
	175,380			120,233

Notes to the Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group

1. The adjustment reflects the exclusion of the assets, liabilities and reserves of the Mega Shell and its subsidiaries (hereinafter collectively referred to as the "Mega Shell Group") at 31 December 2009, assuming the Disposal took place on 31 December 2009. The financial position of the Mega Shell Group at 31 December 2009 are extracted from page 116 of the financial information of the Group set out in Appendix I to the circular.

2. The adjustment reflects:

   (a) the net cash received of approximately HK$134,856,000, represented the cash consideration received of approximately RMB119,567,000 for the Disposal which translated into Hong Kong dollars at the prevailing rate of HK$1 = RMB0.8801 at 31 December 2009, and less the estimated transaction costs to be incurred in connection with the Disposal of approximately HK$1,000,000;

   (b) disposal of the Sale Loan at 31 December 2009 amounted to approximately HK$131,911,000, assuming the Disposal took place on 31 December 2009;

   (c) The adjustment of approximately HK$55,147,000 represents as follows:

	HK$'000
The loss on the Disposal *(Note d)*	55,684
The release of exchange reserves	(537)
	55,147

   (d) the loss on the Disposal of approximately HK$55,684,000 which was calculated based on the net cash proceeds from the Disposal of approximately HK$134,856,000 less (i) the net assets of the Mega Shell Group of approximately HK$58,092,000; (ii) the release of exchange reserves of approximately HK$537,000 and (iii) the release of the Sale Loan due to the Remaining Group in total of approximately HK$131,911,000, assuming the Disposal took place on 31 December 2009.

(ii) Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

The following is the unaudited pro forma consolidated income statement of the Remaining Group, assuming that the Disposal had been completed on 1 January 2009. The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 December 2009 as set out in Appendix I to the Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated income statement of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Remaining Group after completion for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2009	**Pro forma adjustment**	**Pro forma adjustment**	**The Remaining Group for the year ended 31 December 2009**
		(Note 3)	*(Note 4)*	
	HK$000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	24,223	(8,223)		16,000
Cost of sales	(13,858)	3,411		(10,447)
Gross profit	10,365			5,553
Other revenue	1,803	(1,013)		790
Other income	155,683	(105,391)		50,292
Selling and distribution costs	(342)			(342)
Administrative expenses	(67,115)	22,650		(44,465)
Other operating expenses	(86,799)	52,395		(34,404)
Loss on the Disposal	—		(55,684)	(55,684)
Finance costs	(21,880)	11,373		(10,507)
Loss before tax	(8,285)			(88,767)
Tax credit	34,384	(33,830)		554
Profit/(loss) for the year	26,099			(88,213)
Attributable to the owners of the Company	26,099	(58,628)	(55,684)	(88,213)

(iii) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

The following is the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group, assuming that the Disposal had been completed on 1 January 2009. The unaudited pro forma consolidated statement of comprehensive income is based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as set out in Appendix I to the Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Remaining Group after completion of the Disposal for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2009	**Pro forma adjustment**	**Pro forma adjustment**	**The Remaining Group for the year ended 31 December 2009**
		(Note 5)	*(Note 6)*	
	HK$000	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(loss) for the year	26,099	(58,628)	(55,684)	(88,213)
Other comprehensive income				
Exchange differences arising on translation of foreign operations during the year	(537)	537		—
Total comprehensive income for the year	25,562			(88,213)
Total comprehensive income attributable to owners of the Company	25,562	(58,091)	(55,684)	(88,213)

(iii) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

The following is the unaudited pro forma consolidated statement of cash flows of the Remaining Group, assuming that the Disposal had been completed on 1 January 2009. The unaudited pro forma consolidated statement of cash flows is based on the audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as set out in Appendix I to the Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated statement of cash flows of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow of the Remaining Group after completion of the Disposal for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2009	Pro forma adjustment	Pro forma adjustment	The Remaining Group for the year ended 31 December 2009
		(Note 7)	*(Note 8)*	
	HK$000	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities				
Loss before tax	(8,285)	(24,798)	(55,684)	(88,767)
Adjustments for:				
Finance costs	21,880	(11,373)		10,507
Interest income	(674)	632		(42)
Depreciation of property, plant and equipment	10,358	(9,891)		467
Loss on disposal of property, plant and equipment	122			122
Impairment of goodwill	55			55
Loss on change in fair value of investment properties	52,395	(52,395)		—
Loss on early redemption of convertible loan notes	2,638			2,638
Impairment of amount due from jointly controlled entities	30,892			30,892
Write off of property, plant and equipment	8,537	(7,773)		764
Provision for loss on early termination of license agreement	13,439			13,439
Equity-settled share option expenses	4,197			4,197
Gain on deemed disposal of subsidiaries	(32,758)			(32,758)
Gain on deemed disposal of joint controlled entities	(17,077)			(17,077)
Discount on acquisition of subsidiaries	(105,848)	105,391		(457)
Loss on the Disposal	—		55,684	55,684
Loss on disposal of financial assets at fair value through profit or loss	351			351

	The Group for the year ended 31 December 2009 *HK$000*	Pro forma adjustment *(Note 7)* *HK$'000*	Pro forma adjustment *(Note 8)* *HK$'000*	The Remaining Group for the year ended 31 December 2009 *HK$'000*
Operating cash flow before movements in working capital	(19,778)			(19,985)
Decrease in inventories	6,025			6,025
Decrease in trade receivables	2,120	184,550		186,670
Decrease in deposits, prepayments and other receivables	54,043	(2,978)		51,065
Increase in financial assets at fair value through profit or loss	(123)			(123)
Decrease in amount due from the Remaining Group	—	(1)		(1)
Decrease in derivative financial instruments	(2,153)			(2,153)
Decrease in trade payables	(572)			(572)
Increase/(decrease) in accruals, deposits received and other payables	46,276	(77,805)		(31,529)
Decrease in amount due to shareholders	(192,023)	162,983		(29,040)
Increase in amount due to the Remaining Group	—	(131,911)		(131,911)
Increase in receipts in advance	1,362	(312)		1,050
Cash (used in)/from operations	(104,823)			29,496
Interest received	674	(632)		42
Hong Kong profits tax recovered	938			938
Net cash (used in)/from operating activities	(103,211)			30,476

	The Group for the year ended 31 December 2009	**Pro forma adjustment**	**Pro forma adjustment**	**The Remaining Group for the year ended 31 December 2009**
		(Note 7)	*(Note 8)*	
	HK$000	*HK$'000*	*HK$'000*	*HK$'000*
Investing activites				
Acquisition of subsidiaries	33,673	(43,761)		(10,088)
Purchases of items of property, plant and equipment	(4,190)	4,142		(48)
Proceeds from the Disposal	—		134,856	134,856
Proceeds on disposal of investment properties	565,266	(565,266)		—
Proceeds from deemed disposal of subsidiaries	1,611			1,611
Proceeds from deemed disposal of jointly controlled entities	(74)			(74)
Net cash from investing activities	596,286			126,257

	The Group for the year ended 31 December 2009	Pro forma adjustment	Pro forma adjustment	The Remaining Group for the year ended 31 December 2009
		(Note 7)	*(Note 8)*	
	HK$000	*HK$'000*	*HK$'000*	*HK$'000*
Financing activities				
Interest paid	(11,799)	11,373		(426)
Proceeds from issue of convertible loan notes	160,000			160,000
Proceeds from placing new shares	2,326			2,326
Proceed from issue of new share upon exercise of share option	4,837			4,837
Proceed from issue of new shares on open offer	61,194			61,194
Redemption of convertible loan notes	(138,199)			(138,199)
Repayment of bank loans	(304,408)	302,794		(1,614)
Decrease in amounts due to jointly controlled entities	(31,917)			(31,917)
Decrease in trust receipt loans	(4,319)			(4,319)
Repayment of capital element of finance leases	(75)			(75)
Net cash (used in)/from finance activities	(262,360)			51,807
Net increase in cash and cash equivalents	230,715			208,540
Cash and cash equivalents at beginning of year	1,032			1,032
Effect of foreign exchange rate changes	(1,284)	1,284		—
Cash and cash equivalents at end of year	230,463			209,572
Analysis of balances of cash and cash equivalents				
Cash and bank balances	230,463			209,572

Notes to the Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

3. The adjustment reflect the exclusion of all income and expenses attributable to the Mega Shell Group for the year ended 31 December 2009, assuming the Disposal took place on 1 January 2009. The income and expenses of the Mega Shell Group for the year ended 31 December 2009 are extracted from page 115 of the financial information of the Group set out in Appendix I to the circular.

4. The adjustment reflects the loss on the Disposal of approximately HK$55,684,000 attributable to the Remaining Group which was calculated based on the cash proceeds from the Disposal of approximately RMB119,567,000 which translated into Hong Kong dollars at the prevailing rate of HK$1 = RMB0.8801 at 31 December 2009 less (i) the net assets of the Mega Shell Group of approximately HK$58,092,000 as at 31 December 2009; (ii) the release of exchange reserves of approximately HK$537,000; (iii) the release of the Sale Loan due to the Remaining Group in total of approximately HK$131,911,000; and (iv) the estimated transaction costs to be incurred in connection with the Disposal of approximately HK$1,000,000. Since the acquisition of Shinhan-Golden Faith International Development Limited and World East Investments Limited took place on 8 April 2009, which was later than 1 January 2009, it was not practicable to assume the Disposal was completed on 1 January 2009 and the gain or loss on the Disposal could be quantified. Therefore, it was assumed the Disposal was completed on 31 December 2009 in calculating the loss on Disposal.

Notes to the Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

5. The adjustment reflects the exclusion of all income and expenses as well as release of exchange reserves of the Mega Shell Group for the year ended 31 December 2009, assuming the Disposal took place on 1 January 2009.

6. The adjustment reflects the gain on the Disposal for the year ended 31 December 2009. To consist with note 4, it was assumed the Disposal was completed on 31 December 2009.

Notes to the Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

7. The adjustment reflects the exclusion of cash flows attributable to the Mega Shell Group for the year ended 31 December 2009, assuming the Disposal took place on 1 January 2009. The cash flows of the Mega Shell Group for the year ended 31 December 2009 are extracted from pages 117 and 118 of the financial information of the Group set out in Appendix I to the circular.

8. The adjustment reflects (i) the loss on the Disposal for the year ended 31 December 2009 (detail calculation please refer to note 4 of the unaudited pro forma consolidated income statement); and (ii) the net cash consideration received from the Disposal. To consist with note 4, it was assumed the Disposal was completed on 31 December 2009.

I. MANAGEMENT DISCUSSION AND ANALYSIS

The following information is the management discussion and analysis of the Remaining Group for each of the year ended 31 December 2009, 31 December 2008 and 31 December 2007.

For the year ended 31 December 2009

Financial Review

Turnover of the Remaining Group was HK$16.0 million for the year ended 31 December 2009, of which HK$8.8 million (2008: HK$74.1 million, as restated), and HK$7.2 million (2008: Nil) was generated from the distribution of high-end apparel and accessories through the investment in the jointly controlled entity and the provision of artists management services respectively, representing a decrease of approximately 78.4% as compared with the year ended 31 December 2008.

The gross profit of the segment of the distribution of high-end apparel and accessories was approximately HK$4.1 million, representing approximately 46.6% of turnover of the distribution of high-end apparel and accessories. Gross profit margin dropped as compared with 51.2% of the corresponding period last year as a result of extra sales discounts offered in the weak retail market during the first half of the year.

Following the acquisition of the China Star Management Limited and Anglo Market International Limited on 31 July 2009, turnover of approximately HK$7.2 million was contributed from the segment of the provision of artists management services. The gross profit of such segment was approximately HK$1.4 million.

Other income amounted to approximately HK$50.3 million, representing an increase of 1,297.2% over the previous year. Such increase was contributed by a discount on acquisition of approximately HK$0.4 million, gain on deemed disposal of subsidiaries of approximately HK$32.8 million and gain on deemed disposal of a jointly controlled entity of approximately HK$17.1 million recorded during the year.

Selling and distribution costs decreased by 90.6% to approximately HK$0.3 million from HK$3.2 million in prior year. Such decrease was in line with the decrease in the turnover generated from the segment of the distribution of high-end apparel and accessories.

Administrative expenses decreased by 51.4% to approximately HK$44.5 million from HK$91.6 million in prior year. Such decrease was mainly attributed to the scale down of the operation in the segment of the distribution of high-end apparel and accessories and the stringent cost control policy adopted by the management during the year.

Other operating expenses increased by 69.5% to approximately HK$34.4 million from HK$20.3 million in prior year. Such increase was caused by the loss on early redemption of convertible loan notes of approximately HK$2.6 million and the impairment losses on amount due from a jointly controlled entity of approximately HK$30.9 million.

Finance costs increased by 320% to approximately HK$10.5 million from HK$2.5 million in prior year. Such increase was mainly attributed to the increase in interest on bank loan and overdrafts wholly repayable within five years and effective interest expenses on convertible loan notes and promissory notes.

Loss attributable to the owners of the Company was HK$88.2 million (2008: loss attributable to the owners of the Company HK$75.3 million, as restated). The loss attributable to the owners of the Company was mainly due to the loss on disposal of subsidiaries amounted to approximately HK$55.7 million. Excluding the one time loss of approximately HK$55.7 million, the Remaining Group's net loss attributable to the owners was approximately HK$32.5 million.

Business Review

On 29 January 2009, the Company announced that Amazing Goal International Limited ("AG"), a wholly-owned subsidiary of the Company, entered into a subscription agreement pursuant to which Chung Chiu (PTC) Limited ("CC") has conditionally agreed to subscribe and AG has conditionally agreed to allot and issue subscription shares to CC at a consideration of US$50. The subscription shares represent 50% of the entire share capital of AG as enlarged by the allotment and issue of the subscription shares. The details of the transaction were set out in the circular of the Company dated 26 May 2009 and was approved by the shareholders at the special general meeting held on 6 July 2009. The transaction had been completed on 10 July 2009. Upon completion, AG has ceased to be a subsidiary of the Company and became a jointly controlled entity of the Company. The Company and CC has entered into a shareholders' agreement for the management of the jointly controlled entity. The Company's interests in AG will be accounted for by proportionate consolidation under HKAS 31 "Interests in Joint Ventures". The

Directors believe that the subscription will provide the Remaining Group with an opportunity to restructure the loss-making operations of the Remaining Group and reallocate the resources of the Remaining Group on other business operations. On 21 August 2009, CC increased its interest in AG to 81% by capitalising its advances to AG pursuant to the shareholders' agreement. The Remaining Group will consider exercising its right to top-up its interest in AG to a maximum of 50% by keeping track on the performance of AG from time to time. Turnover of approximately HK$8.8 million was contributed by that segment during the year.

On 21 July 2009, the Company and the noteholders of the convertible loan notes with an aggregate outstanding principal amount of HK$7 million (the "Convertible Loan Notes") proposed to enter a deed of amendments, pursuant to which, the conditions of the Convertible Loan Notes shall be modified (a) to extend the maturity date of the Convertible Loan Notes to the fifth anniversary of the date of issue instead of the third anniversary of the date of issue; and (b) to a mandatory conversion of any outstanding amount of the Convertible Loan Notes into shares by the noteholders at HK$0.239, subject to adjustment for standard anti dilution events, at the new maturity date (the "Proposed Alterations"). The details of the Proposed Alterations were set out in the circular of the Company dated 12 August 2009 and was approved by the shareholders at the special general meeting held on 7 September 2009. The deed of amendments was entered into between the Company and the noteholders on 5 October 2009.

On 31 July 2009, the Company announced that Dance Star Group Limited ("DS"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with China Star Entertainment Limited, of which its issued shares are listed on the Main Board of the Stock Exchange. Pursuant to the sale and purchase agreement, DS agreed to acquire the entire issued share capital of China Star Management Limited ("CSM") and Anglo Market International Limited ("AMI") from China Star Entertainment Limited for the consideration of HK$3,137,971. Completion took place upon signing of the sale and purchase agreement. Each of CSM and AMI is principally engaged in the business of artists management and has possessed existing resources in relation to artists management including a pool of non-contracted and contracted artists and experienced management in the media field. The Directors consider that such resources represent valuable assets for the Remaining Group to develop into the film business with an aim to diversify the revenue and earnings base of the Remaining Group. Turnover of approximately HK$7.2 million was contributed by that segment during the year.

On 2 October 2009, the Company had paid down the convertible loan notes issued to Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts", currently known as Xing Lin Medical Information Technology Company Limited) on 28 April 2009 in the principal amount of HK$100 million.

On 8 October 2009, DS entered into a sale and purchase agreement with Brilliant Arts, of which its issued shares are listed on the GEM Board of the Stock Exchange. Pursuant to the sale and purchase agreement, DS agreed to acquire the entire issued share capital of Creative Formula Limited ("Creative Formula") from Brilliant Arts for the consideration of HK$8,200,418. Completion took place upon signing of the sale and purchase agreement. Creative Formula is principally engaged in the business of film production and distribution. The principal asset of Creative Formula is the film rights (excluding Hong Kong Theatrical Right, Hong Kong Video Right, Airline Right, Hong Kong Cable Television Right, All Rights for Singapore and Malaysia, and Asian Satellite Television Right) of a film titled "Written By" 「再生號」. The Directors consider that the acquisition of Creative Formula is in line with the business strategy of the Remaining Group and the expansion into film production and distribution business will diversify the revenue and earnings base of the Remaining Group.

On 7 December 2009, the Company entered into a placing agreement with the placing agent, pursuant to which, the Company has conditionally agreed to place, through the placing agent, 200,000,000 new shares by tranches provided that the number of new shares for each tranche is in integral multiples of 50,000,000, on a fully underwritten basis, to not fewer than six placees at a price of HK$0.30 per new share. The placing had been approved by the shareholders at the special general meeting held on 15 January 2010. The net proceeds of approximately HK$59 million will be utilised for future acquisition or repayment its borrowings. The placing was completed in two tranches on 25 January 2010 and 5 February 2010 and 100,000,000 new shares were placed in each tranche of the placing.

Liquidity and Financial Resources

At 31 December 2009, the Remaining Group had total assets of approximately HK$230.5 million (2008: HK$27.2 million, as restated), including cash and bank balances of approximately HK$209.6 million (2008: HK$5.8 million, as restated). The increase in cash and bank balances was mainly contributed by cash inflow generated from investing and financing activities during the year.

During the year under review, the Remaining Group financed its operation with internally generated cash flows and the proceeds from the issuance of convertible loan notes and the issuance of new shares.

On 13 January 2009, the Remaining Group raised approximately HK$6.6 million before expenses, by way of open offer of 131,570,645 offer shares at a price of HK$0.05 per offer share on the basis of two offer shares for every five existing shares held on the record date. The net proceeds of approximately HK$5.7 million was utilised for the acquisition of investment properties located at Beijing, the PRC.

On 29 January 2009, the Remaining Group raised additional fund of HK$60 million by issuance of convertible loan notes to China Star Entertainment Limited, of which its issued shares are listed on the Main Board of the Stock Exchange, with a term of 10 years with zero coupon rate (the "CSE Loan Notes"). The proceeds raised from the issuance of the CSE Loan Notes was utilised as general working capital and/or repayment its borrowings as and when need.

On 23 April 2009, the Remaining Group entered into an agreement with a placing agent, whereby the Remaining Group has conditionally agreed to place through the placing agent, an aggregate of 11,560,000 placing shares on a fully underwritten basis to independent investors at a price of HK$0.205 per placing share. The net proceeds of HK$2.3 million from the placing was intended to be used for general working capital of the Remaining Group.

On 23 April 2009, the Company proposed to raise approximately HK$55.5 million before expenses, by way of open offer of not more than 555,506,552 offer shares at a price of HK$0.1 per offer share on the basis of eight offer shares for every one share held on the record date. The open offer was approved by the shareholders at the special general meeting held on 29 May 2009 and completed on 29 June 2009. The net proceeds from the open offer of approximately HK$54.4 million are intended to apply to reduce the Remaining Group's borrowings as and when needed, finance any future possible investment and/or for general working capital of the Remaining Group.

On 28 April 2009, the Remaining Group raised additional fund of HK$100 million by issuance of convertible loan notes to Brilliant Arts, with a term of 10 years with zero coupon rate. The proceeds raised from the issuance of the such convertible loan notes was utilised as general working capital and/or repayment its borrowings as and when need.

During the year ended 31 December 2009, certain option holders exercised their option rights to subscribe for an aggregate of 31,200,000 shares at an exercise price of HK$0.091 per share and an aggregate of 20,720,000 shares at an exercise price of HK$0.10 per share. The net proceeds from the exercise of option rights amounted to approximately HK$4.84 million.

At 31 December 2009, the total borrowings of the Remaining Group amounted to HK$56.1 million (2008: 45.9 million, as restated), comprising:

(a) a current account of approximately HK$6.6 million advanced by China Star Entertainment Limited which is unsecured, interest free and no fixed term of repayment;

(b) the liability component of approximately HK$31.8 million in respect of the promissory note with a principal amount of HK$100 million issued to Riche (BVI) Limited as part of the consideration of the acquisition of Shinhan-Golden Faith International Development Limited and World East Investments Limited which is unsecured, interest free and maturing in April 2014;

(c) the liability component of approximately HK$3.9 million in respect of the convertible loan notes with an aggregate principal amount of HK$60 million issued to China Star Entertainment Limited which is unsecured, interest free and maturing in January 2019;

(d) the liability component of approximately HK$8.1 million in respect of the convertible loan notes with an aggregate principal amount of HK$100 million issued to Riche (BVI) Limited as part of the consideration of the acquisition of Shinhan-Golden Faith International Development Limited and World East Investments Limited which is unsecured, interest free and maturing in January 2019;

(e) the liability component of approximately HK$3.2 million in respect of the convertible loan notes with a principal amount of HK$4.0 million issued to Win Win Fortune Limited which is unsecured, interest free and maturing in September 2013;

(f) the liability component of approximately HK$2.4 million in respect of the convertible loan notes with a principal amount of HK$3.0 million issued to Mr. Cheung Pui Kay which is unsecured, interest free and maturing in September 2013; and

(g) the unsecured bank borrowings of approximately HK$0.1 million.

The gearing ratio, expressed as percentage of total liabilities over total assets, was 47.9% (2008: 264.1%, as restated). The improvement in gearing ratio was mainly attributed to the broaden of the Company's capital base through various fund raising activities and repayment of the Remaining Group's bank borrowings during the year.

At 31 December 2009, the Remaining Group did not have any charge on its assets.

Foreign Exchange Risk

The Remaining Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need rise.

Commitments

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

Contingent Liabilities

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

Employees

At 31 December 2009, the Remaining Group had 20 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

Significant Investment

The Remaining Group did not enter into any new significant investment during the year ended 31 December 2009.

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

Save as the acquisition and disposal as disclosed in the "Business Review" under the "Management Discussion and Analysis" section, the Remaining Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 31 December 2009.

Future Plan for Material Investments and Capital Assets

Save as the proposed acquisition and disposal as disclosed in the "Future Plans" section under the "Chairman's Statement" section, the Remaining Group does not have any concrete plan for material investments or capital assets for the coming year.

Share Consolidation, Change in Board Lot Size, Capital Reorganisation and Change in Domicile

Pursuant to the resolutions passed on 9 February 2009, the domicile of the Company has been changed from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the "Change of Domicile"). Capital reorganisation (the "Capital reorganisation") has been effected by way of comprising (a) share consolidation that every ten shares of HK$0.05 each in the issued and unissued share capital be consolidated into one consolidated share of HK$0.50 each of the Company ("Consolidated Shares"); (b) capital reduction that the par value of all issued Consolidated Shares from HK$0.50 each to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.49 on each issued Consolidated Share; (c) diminution of the par value of each of the authorised but unissued Consolidated Shares from HK$0.50 each to HK$0.01 each by a diminution of HK$0.49 on each authorised but unissued Consolidated Share. The Change of Domicile and Capital Reorganisation has been completed on 16 March 2009 and 6 April 2009 respectively.

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

For the year ended 31 December 2008

Financial Review

Turnover of the Remaining Group was approximately HK$74.1 million for the year ended 31 December 2008, representing an increase of 18.9% compared with last year. Gross profit was HK$38 million, representing approximately 51.3% of turnover. Gross profit margin dropped as compared with 61.5% last year mainly due to sales discounts offered in the weak retail market. Loss attributable to shareholders after tax was HK$75.3 million. Within the total losses, HK$22.4 million was attributed by the termination of the acquisition of Financière Solola in April 2008 and certain related financing exercises. Excluding the one-time losses that were attributed from the termination of this acquisition, the Remaining Group's net loss attributable to shareholders was HK$52.9 million.

Besides the one-time losses, certain administrative expenses like rental expenses and staff costs increased mainly due to opening of new shops and provisions made arising from early termination of shop tenancies. During the year under review, the Remaining Group decided to cease the operations for three of its four fashion brands, namely Anya Hindmarch, Paule Ka and Cynthia Rowley in Hong Kong and Taiwan due to the effects of the financial crisis on luxury retail consumption. The Remaining Group believes that these effects will be long-lasting and decided to adopt a prudent strategy in terms of its luxury fashion retail business.

Business Review

Distribution business for two luxury European brands, Anya Hindmarch, and Paule Ka, continued to grow steadily. British accessory brand Anya Hindmarch remained as the Remaining Group's main revenue contributor accounting for 63% of the Remaining Group's turnover. Turnover from Anya Hindmarch was approximately HK$44.9 million, of which 66% was derived in Hong Kong and the remaining 34% from Taiwan. Turnover from the Paris-based women's wear brand Paule Ka was approximately HK$18.6 million.

Distribution business of the Remaining Group's 50% owned designer jewellery brand, Life of Circle, achieved satisfactory results through 3 POS in Hong Kong. During the year, distribution business for Life of Circle achieved a turnover of HK$7.5 million. The Remaining Group believes the Life of Circle brand has enormous long-term potential and it is a matter of time for the brand to reach the critical mass.

On 26 November 2008, Mega Shell Services Limited ("MS"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Riche (BVI) Limited ("Riche"), a wholly-owned subsidiary of China Star Investment Holdings Limited of which its issued shares are listed on the Main Board of the Stock Exchange. Pursuant to the sale and purchase agreement, MS has agreed to purchase the entire issued share capital and the outstanding shareholders' loan of Shinhan-Golden Faith International Development Limited ("SG") and World East Investments Limited ("WE") for a total consideration of HK$211,466,310. The consideration shall be satisfied by the Company in the manner that: (a) HK$5,884,597 by procuring the Company to allot and issue 117,691,940 consideration shares to Riche; (b) HK$100,000,000 by procuring the Company to issue convertible bond to Riche; (c) subject to the adjustment as provided in the sale and purchase agreement, HK$5,581,713 shall be payable in cash by MS to Riche; and (d) HK$100,000,000 by procuring the Company to issue promissory note to Riche. SG and WE are the shareholders of a joint-venture company, namely 北京莎瑪房地產開發有限公司 (Beijing Suoma Real Estate Development Limited**) (the "JV Company"), a company incorporated in the People's Republic of China (the "PRC"). The JV Company is the registered and beneficial owner of a property located in Inner Jianggou Gate of Dongcheng District, Beijing, the PRC. The property has been utilised as a high-end serviced apartment for rental purpose. The property has commenced operation in late June 2008 and is managed by SHAMA, one of the leading providers of boutique serviced apartments in the Hong Kong real estate market. The details of the transaction were set out in the circular of the Company dated 23 January 2009 and was approved by the shareholders in the extraordinary general meeting held on 16 February 2009.

Liquidity and Financial Resources

At 31 December 2008, the Remaining Group had total assets of approximately HK$27.2 million (2007: HK$45.2 million), including cash and bank balances of approximately HK$5.8 million (2007: HK$3.7 million). The increase in cash and bank balances was mainly contributed by cash inflow generated from financing activities during the year.

**: *English translation only*

To achieve a higher return from working capital, the Remaining Group also held short-term investments, mainly in equity listed in Hong Kong, totaling HK$0.2 million.

During the year under review, the Remaining Group financed its operation with internally generated cash flows and the proceeds from the issuance of convertible bonds and placing of new shares.

On 11 June 2008, the Company issued a convertible bond in the principal amount of HK$6.2 million for a term of one year with coupon rate of 2% per annum. The convertible bond is convertible into shares of the Company at an initial conversion price of HK$0.025, subject to adjustment, at any time after the date of issue and before the maturity date. HK$3 million convertible bond had been converted into 26,526,315 shares during the year (as adjusted due to the completion of the share consolidation of five issued and unissued shares into one consolidated share taken place on 13 August 2008). The outstanding principal amount of the convertible bond was HK$3.2 million at 31 December 2008.

On 16 July 2008, the Company issued a convertible bond in the principal amount of HK$7 million for a term of three years with coupon rate of 2% per annum. The convertible bond is convertible into shares of the Company at an initial conversion price of HK$0.025, subject to adjustment, at any time after the date of issue and before the maturity date. The outstanding principal amount of the convertible bond was HK$7 million at 31 December 2008.

On 25 September 2008, the Company issued a convertible bond in the principal amount of HK$35 million for a term of three years with zero coupon rate. The convertible bond is convertible into shares of the Company at an initial conversion price of HK$0.125 per share, subject to adjustment, at any time after the date of issue and before the maturity date. The outstanding principal amount of the convertible bond was HK$35 million at 31 December 2008.

On 10 December 2008, the Company raised approximately HK$3.98 million, before expense, by way of placing of 53,000,000 new shares to independent investors at a price of HK$0.075 per share. The net proceeds of HK$3.94 million were utilised to finance the proposed acquisition of the investment properties in the PRC by the Remaining Group.

The gearing ratio, expressed as percentage of total liabilities over the total assets, was 264.1%. At 31 December 2008, the Remaining Group did not have any charge on its assets.

At 31 December 2008, the Remaining Group had total borrowings of approximately HK$45.9 million, which included approximately HK$11.1 million with maturity within one year. All borrowings were denominated in Hong Kong dollar.

Treasury Policies

The Remaining Group's major exposure in foreign currency risk is arising from purchase transactions denominated in pound sterling and euro. Forward contracts were considered and entered into for hedging foreign currency risk.

Commitments

At 31 December 2008, the Remaining Group had operating lease commitments of HK$28.8 million and purchase commitments of HK$113.7 million.

Contingent Liabilities

As at 31 December 2008, GL Retailing (Hong Kong) Limited ("GLHK"), a directly wholly-owned subsidiary of the Company, was a defendant in a pending litigation and dispute arising from early termination of license agreements for a brand name product raised by GLHK. The licensor claims through the French Court, directly against GLHK only, but none of the directors or the Company, for (i) the outstanding purchase commitments under the license agreements, (ii) image compensation suffered by the Licensor and (iii) penalty in the sum of EUR6,374,745 (equivalent to approximately HK$70,122,000). The directors consider that the claim is enormously overstated for the reason that (i) it is unreasonable for the licensor to claim the total future purchase commitments which represent future commitments instead of any loss incurred by the licensor, and (ii) the directors do not agree that the licensor has incurred any loss on its image. The Company is now seeking legal advice on the litigation and an estimate of the final result of the litigation cannot be made. The directors consider that the claim is too remote and will be limited to a small fraction of the sum being claimed. No provision has been made in the financial statement for the year.

Employees

At 31 December 2008, the Remaining Group had 64 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other benefits include share options granted or to be granted under the share option scheme.

Significant Investment

The Remaining Group did not enter into any new significant investment during the year ended 31 December 2008.

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

The Remaining Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 31 December 2008.

Future Plan for Material Investments and Capital Assets

Save as the proposed acquisition of the PRC investment properties as mentioned under the "Business Review" in this section, the Remaining Group does not have any concrete plan for material investments or capital assets for the coming year.

Share Consolidation, Change in Board Lot Size, Capital Reorganisation and Change in Domicile

Pursuant to the resolutions passed on 12 August 2008, share consolidation was effected on 13 August 2008 that every five issued shares and unissued shares be consolidated into 1 consolidated share ("Consolidated Shares"). Upon the share consolidation became effective, the board lot size for trading of shares of the Company has been changed from 30,000 shares to 20,000 Consolidated Shares.

Pursuant to the resolutions passed on 9 February 2009, the domicile of the Company will be changed from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. Capital reorganisation will be effected by way of comprising (a) share consolidation that every ten shares of HK$0.05 each in the issued and unissued share capital be consolidated into one consolidated share of HK$0.50 each of the Company ("Consolidated Shares"); (b) capital reduction that the par value of all issued Consolidated Shares from HK$0.50 each to HK$0.01 each by canceling the paid-up capital to the extent of HK$0.49 on each issued Consolidated Share; (c) diminution of the par value of each of the authorised but unissued Consolidated Shares from HK$0.50 each to HK$0.01 each by a diminution of HK$0.49 on each authorised but unissued Consolidated Share. The change of domicile and capital reorganisation has not yet been completed as at the date of this report.

For the year ended 31 December 2007

Financial Review

Financial year 2007 was a significant and challenging year for the Remaining Group. It saw rapid development of brands represented by the Remaining Group and growth of the Remaining Group's distribution business. Significant financial and human resources were deployed in strengthening and re-structuring the management team and operational units to ensure the Remaining Group is able to meet the anticipated expansion of demand in 2008.

Turnover of the Remaining Group was approximately HK$62.3 million for the year, representing an increase of 230.1% compared with the period from 1 April 2006 to 31 December 2006. Gross profit was approximately HK$38.3 million, representing approximately 61.5% of turnover. Loss attributable to shareholders after tax was HK$92.9 million. In accordance with Hong Kong Accounting Standard 36, the Remaining Group recognised a one-time write-off of goodwill of HK$75.6 million; such goodwill was attributable to the acquisition of Golife (Hong Kong) Limited (formerly known as "Hip Kin Retailing Limited") in 2006. An impairment of intangible assets of HK$4 million was also recognised.

During the year, the Remaining Group added two new brands, Cynthia Rowley and Life of Circle, to its distribution business and commenced product design and development for both brands. As a result, certain one-off pre-opening expenses were incurred, which contributed negatively to the financial performance that would have been achieved otherwise.

Distribution Business

Distribution business for two luxury brands, Anya Hindmarch and Paule Ka, continued to grow steadily. British accessory brand Anya Hindmarch remained the Remaining Group's main revenue contributor accounting for 72% of the Remaining Group's turnover. Turnover from Anya Hindmarch was HK$43.8 million, of which 69% was derived in Hong Kong and the remaining 31% from Taiwan. Turnover from the Paris-based women's wear brand Paule Ka was HK$12.9 million.

In March 2007, designer jewellery and accessory brand, Life of Circle, was added to the Remaining Group's distribution portfolio. Two points of sale ("POS") of the brand commenced operation during the year in Hong Kong, with the third one scheduled to open in April 2008. During the year, distribution business for Life of

Circle achieved a turnover of HK$3.8 million and reported a loss of HK$2.6 million. The Remaining Group believes the Life of Circle brand has enormous long-term potential, and it is only a matter of time for the brand to reach the critical mass.

In September 2007, the Remaining Group became the licensee and distributor of New York-designer brand Cynthia Rowley in Hong Kong and mainland China. The Remaining Group had secured two premises in Hong Kong and one in Beijing for setting up POS of the brand, the first of which will open in May 2008. Under the licensing agreement, the Remaining Group plans to open up to 20 POS for the brand by 2013, some of which will be opened in second-tier cities in mainland China to be operated by individual franchisees.

During the year, the Remaining Group strengthened its management by recruiting managers for its distribution and marketing departments to ensure that the manpower of these departments are sufficient to support the expansion of the Remaining Group's distribution business in the Greater China region. With a number of new POS to open in 2008, the Directors believe the Remaining Group will be able to achieve greater economies of scale and brace the performance of the distribution business and operating margins in 2008.

Product Development

Life of Circle Limited, which was formed in February 2007, and in which the Remaining Group had a 50% interest is responsible for the design, sourcing, merchandise planning and wholesale of conceptual jewellery and accessories carrying the Life of Circle trademark.

The new Life of Circle operation, which gave the Remaining Group indirect interest of the trademark, has transformed the Remaining Group from a pure distribution company into also a brand development and management company. The Remaining Group now works closely with Life of Circle Limited to ensure marketability and profitability of Life of Circle products. The Remaining Group plans to double the number of new jewellery products and introduce a new line of corporate gifts in 2008 to meet market demand.

CR Hong Kong Limited, a company in which the Remaining Group had a 50% interest as at 31 December 2007, was granted the licensing rights to design, manufacture and distribute products carrying the Cynthia Rowley trademark in Hong Kong and mainland China. It handles the design, sourcing and merchandise planning of women's apparels and accessories under the Cynthia Rowley trademark.

Expecting Cynthia Rowley brand products to contribute revenues in a decent proportion to its total revenues in the next few years, the Remaining Group has deployed resources to strengthen product development and sourcing capabilities in Hong Kong and mainland China to support the brand. The different measures taken included conducting focused market researches and recruitment of designers and merchandisers for the brand.

Acquisition of French-brand Solola

On 8 November 2007, the Remaining Group signed an agreement with Crédit Lyonnais Capital Investissement, Crédit Lyonnais Développement 2, Mr. Pierre Hémar, Lion Capital Investissement, Nollius BV and Quilvest France ("the Sellers") to purchase the sale shares, representing 96.57% of the issued share capital of Financière Solola and FS Convertible Bonds at a total initial consideration of EUR7,717,766 (approximately HK$92,381,659). Upon conversion of the FS Convertible Bonds, the Company's interest in Financière Solola will increase to approximately 98.25%.

In addition to the initial consideration and upon satisfaction of certain EBITDA targets set in the agreement, the Remaining Group will pay to the Sellers the Earn Out – a one-off performance related payment of EUR2,894,162 (approximately HK$34,643,119). If the audited consolidated EBITDA of Financière Solola Group for the year ending 31 December 2008 based on the French GAAP is equal to or in excess of the EBITDA Target, the Earn Out shall be capped at EUR2,894,162 (approximately HK$34,643,119). (Note: Euro/Hong Kong Dollar = 11.97, as per circular dated 8 March 2008).

Financière Solola was incorporated on 6 February 2003 and the Financière Solola Group is principally engaged in the design and sale of women's apparels carrying the "Solola" brand. "Solola" products are sold in 13 boutiques of the brand in France as well as a network of over 500 wholesale points in France and worldwide.

The acquisition will give the Remaining Group equity ownership of an established French brand in Europe and will boost the Remaining Group's design and product development capabilities. On top of bringing in revenues and profits, Financière Solola becoming a member of the GoLife family is also conducive to the Remaining Group's plan to extend its POS network in Greater China and speed up business development in mainland China where demand for quality consumer brands is growing.

It is expected that, subject to satisfaction of the various conditions, including approval from shareholders of the Company, the proposed acquisition will be completed in the second quarter of 2008.

Future Plans and Strategies

Upon completion of the acquisition of the Solola brand, the Remaining Group will have five prestigious brands in its portfolio and thirty mono-branded POS in its distribution network. The Remaining Group aims to become an international premier lifestyle-product company, with emphasis on brand management, product development as well as distribution and marketing.

With China becoming the fastest growing economy in Asia, the Remaining Group will continue to focus on building a sizable POS network in mainland China, where there will be abundant opportunities for the Remaining Group's luxury lifestyle products.

The Remaining Group will continue to seek and identify unique international accessory and apparel brands with character, market potential and longevity to form distribution, product development and equity partnerships.

Corporate Planning and Administration

During the financial year, the management established a Corporate Planning and Administration division for the Remaining Group to oversee the finance as well as human resources and administration departments. The respective departments under this division support the Remaining Group's business operations, in areas including accounting, company secretarial functions, legal and compliance, human resources and investor relations.

To cope with the expanding operations in different countries, namely China, Taiwan and France, the division plans to commence an overall internal review of the Remaining Group's current systems and affairs as well as implement new internal control systems, including setting up corporate governance committees upon completion of such review as appropriate and necessary.

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

During the year under review, save for the acquisition of French-brand Solola as disclosed in the sub-section headed "Acquisition of French-brand Solola" in this section, the Remaining Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 31 December 2007.

Liquidity and Financial Resources

The Remaining Group had cash and bank balances of HK$9.7 million as at 31 December 2007, out of which HK$5.9 million was pledged for banking facilities. To achieve a higher return from working capital, the Remaining Group also held short-term investments, mainly in equity listed in Hong Kong, totalling HK$1 million of which HK$0.7 million was secured. Total borrowings as at 31 December 2007 amounted to HK$14.4 million, which included HK$13.6 million with maturity within one year. Except for borrowings of HK$1.6 million denominated in pound sterling, all other borrowings were denominated in Hong Kong dollar. The Remaining Group's gearing ratio, representing borrowings divided by the total of borrowings and equity, was 56.7%. The Remaining Group's major exposure in foreign currency risk was arising from purchase transactions. Forward contracts were entered into for hedging such transactions during the year.

As at 31 December 2007, the Remaining Group had operating lease commitments of HK$28.4 million, purchase commitments of HK$124.9 million, capital commitment for investment in Financière Solola Group of HK$89.1 million and other capital commitments of HK$7.9 million.

Employees

As at 31 December 2007, the Remaining Group had 73 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other benefits include share options granted or to be granted under the share option scheme.

II. STATEMENT OF INDEBTEDNESS

At the close of business on 31 March 2010, the total borrowings of the Group amounted to HK$213.55 million, comprising:

(a) the advance of approximately HK$155.5 million made by Riche (BVI) Limited arising from the acquisition of Shinhan-Golden and World East which is unsecured, interest free and maturing in April 2014;

(b) a current account of approximately HK$5.0 million advanced by Imperial International Limited which is unsecured, interest free and no fixed term of repayment;

(c) the liability component of approximately HK$34.3 million in respect of the promissory note with a principal amount of HK$100 million issued to Riche (BVI) Limited as part of the consideration of the acquisition of Shinhan-Golden and World East which is unsecured, interest free and maturing in April 2014;

(d) the liability component of approximately HK$4.3 million in respect of the convertible loan notes with an aggregate principal amount of HK$60 million issued to China Star Entertainment Limited which is unsecured, interest free and maturing in January 2019;

(e) the liability component of approximately HK$8.6 million in respect of the convertible loan notes with an aggregate principal amount of HK$100 million issued to Riche (BVI) Limited as part of the consideration of the acquisition of Shinhan-Golden and World East which is unsecured, interest free and maturing in January 2019;

(f) the liability component of approximately HK$5.8 million in respect of the convertible loan note with a principal amount of HK$7.0 million issued to Mr. Cheung Pui Kay which is unsecured, interest free and maturing in September 2013; and

(g) the unsecured bank borrowings of approximately HK$0.05 million.

Commitments

At the close business on 31 March 2010, the Group did not have any commitments.

Contingent Liabilities

At the close business on 31 March 2010, the Group had no contingent liabilities.

Disclaimer

Save as aforesaid or otherwise disclosed in this circular, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, none of the companies in the Group had any outstanding debt securities, bank overdraft and liabilities under acceptances, acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees at the close of business on 31 March 2010.

III. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account of the present internal resources of the Group, the Directors are of opinion that the Group has sufficient working capital for its normal business for the next twelve months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2009 (being the date to which the latest audited accounts of the Company were made up).

V. RECONCILIATION STATEMENT OF PROPERTY

Set out below is a statement of reconciliation among the valuation of the property interests held by the Group for investment purpose located in the People's Republic of China, as stated in the valuation report in Appendix IV to this circular, carrying value from the Group's audited consolidated balance sheet at 31 December 2009 set out in Appendix I to this circular and the unaudited carrying value of the property interests held by the Group for investment purpose at 31 March 2010. The statement below was prepared in accordance with Rule 5.07 of the GEM Listing Rules.

Property interests held by the Group for investment purpose:

	HK$'000
Carrying value of the property interests held by the Group for investment purpose at 31 December 2009 *(note 1)*	118,619
Valuation surplus	11,954
Valuation at 31 March 2010 *(note 2)*	130,573

Notes:

1. The carrying amount of the property interests held by the Group for investment purpose at 31 December 2009 was approximately HK$118,619,000 as per note 19 to the Group's audited consolidated balance sheet at 31 December 2009 as reproduced in Appendix I to this circular.

2. The valuation of the property interests at 31 March 2010 was approximately RMB114,800,000 which stated in the valuation report in Appendix IV to this circular and translated into Hong Kong dollars at the prevailing rate of HK$1 = RMB0.8792 at 31 March 2010.

GRANT SHERMAN APPRAISAL LIMITED

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

5 May 2010

The Directors
China Star Film Group Limited
Unit 3407, 34/F
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests to be disposed by China Star Film Group Limited ("the Company") or its subsidiaries (together referred as "the Group") located in the People's Republic of China ("PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 March 2010 (the "Valuation Date").

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

We have valued the property interest by direct comparison approach assuming sale in their existing state by making reference to comparable sales evidences as available in the relevant market.

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

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

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

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

In valuing the property interest, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser, Beijing Sino-Promise Law Firm on the PRC laws regarding the titles of the property in the PRC.

In the course of our valuation, we have relied on a considerable extent on the information provided by the Company on such matters as property title, statutory notices, easements, tenure, occupation, site and floor areas, identification of the property and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

Unless otherwise specified, all amounts are denominated in Renminbi.

We enclose herewith our valuation certificate.

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

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

PROPERTY INTERESTS HELD BY THE GROUP FOR INVESTMENT PURPOSE

VALUATION CERTIFICATE

Property	Description	Particulars of Occupancy	Market Value as at 31 March 2010 *(RMB)*
1st floor and the 2nd floor together with equipment room of the main building and the entire ancillary building located at No. 9 Gongyuan Xijie, Dongcheng District, Beijing, the PRC	Subject property consists of 1/F and 2/F together with equipment room of the main building and an ancillary building completed in about 2000. The total gross floor area of the subject property is about 6,769.98 sq.m. It mainly consists of 15 apartment rooms, a clubhouse, a retail floor and an equipment room.	As advised by the Company, as at the date of valuation, the retail floor and 15 apartment rooms are vacant.	114,800,000 *(see note (iii))*

Notes:

(i) According to a State-owned Land Use Rights Certificate No. 京市東涉外國有（2001出）字第10136號 (Jing Shi Dong She Wai Guo Yuo (2001 Chu) Zi Di No. 10136, the land use rights of a site having an area of approximately 5,679.75 sq.m. have been granted to 北京建國房地產開發有限公司 (renamed as 北京莎瑪房地產開發有限公司 ("JV Company") for apartment use for a term up to 20 May 2067.

(ii) According to a Building Ownership Certificate X 京房權証東字第019385號 (X Jing Fang Quan Zhen Dong Zi Di No. 019385), an area of 45,272.98 sq.m. has been granted to 北京莎瑪房地產開發有限公司.

(iii) As advised by the Company, we are instructed to assess portion of the area mentioned in Note (ii), including the ancillary building, 1/F and 2/F together with equipment room of the main building with a total gross floor area of about 6,769.98 sq.m.

(iv) We have been provided with a legal opinion on the subject property interest prepared by Beijing Sino-Promise Law Firm, the Company's PRC legal advisors, which contains, inter alia, the following information:

i. As at 31 March 2010, subject property with an area of 6,769.98 sq.m. is owned by JV Company as mentioned in Note (iii) above.

ii. JV Company is entitled to transfer, let or mortgage the subject property as mentioned in Note (iii).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, none of the Directors, or chief executive of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or 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 Part XV of the SFO (including interests or short positions which they were taken or deemed to Division 7 and 8 of have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

3. DISCLOSURE OF INTERESTS BY 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 and the chief executive of the Company, the following person had an interest or short positions in the 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 position in the Shares

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

Note:

1. As Riche (BVI) Limited is a wholly-owned subsidiary of China Star Investment Holdings Limited, China Star Investment Holdings Limited is deemed to be interested in the Shares and the underlying Shares owned by Riche (BVI) Limited.

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) or any director or proposed director is a director or employee of a company who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company 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 is, 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 a general meeting of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any existing or proposed service contracts with the Company or any other member of the Remaining Group (excluding contracts expiring or determinable by the Company within one year without payment of any compensation other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling Shareholders, management Shareholders or any of their respective associates have any interests in any business which compete or may compete with the business of the Remaining Group.

6. LITIGATION

As at the Latest Practicable Date, the Remaining Group had the following litigation outstanding:

CR Hong Kong Limited ("CRHK") (formerly known as GL Retailing (Hong Kong) Limited), a wholly-owned subsidiary of the JCE, was a defendant in a pending litigation and dispute arising from early termination of license agreement for a brand name product (the "Licensing Agreement") initiated by CRHK. The licensor of the Licensing Agreement (the "Licensor") claims, through the French Court, directly against CRHK only, but none of the Directors or the Company, for (i) the outstanding purchase commitments under the License Agreement, (ii) image compensation suffered by the Licensor and (iii) penalty in the sum of EUR6,374,745. The directors of CRHK consider that the claim is enormously overstated for the reasons that (i) it is unreasonable for the Licensor to claim the total future purchase commitments which represent future commitments instead of any loss incurred by the Licensor, and (ii) the directors of CRHK do not agree that the Licensor has incurred any loss on its image. CRHK is now seeking legal advice on the litigation and an estimate of the final result of the litigation cannot be made. The directors of CRHK made a full provision on the penalty, of which approximately HK$13,439,000 has been proportionately consolidated into the Group's consolidated financial statements for the year ended 31 December 2009.

Save for the above, the Directors do not aware of any other litigation or claims of material importance pending or threatened against any member of the Remaining Group.

7. MATERIAL CONTRACTS

The following contracts were entered into by the Group (not being contracts entered into in the ordinary course of business) during the period of two years immediately preceding the date of this circular and are or may be material:

(a) the subscription agreement dated 30 May 2008 entered into between the Company and Far East Holdings International Limited for the subscription of the convertible bonds in the principal amount of HK$7,000,000 to be issued by the Company for a term of three years with a coupon rate of 2% per annum;

(b) the subscription agreement dated 30 May 2008 entered into between the Company and JL Investments Capital Limited for the subscription of convertible bonds in the principal amount of HK$6,200,000 to be issued by the Company for a term of one year with a coupon rate of 2% per annum;

(c) the subscription agreement dated 9 July 2008 entered into between the Company and Goldig Properties Limited for the subscription of convertible bonds in the principal amount of HK$35,000,000 to be issued by the Company for a term of three years with zero coupon rate;

(d) the placing agreement dated 19 November 2008 entered into between the Company and the Kingston Securities Limited for the placing of 53,000,000 new shares of HK$0.05 each of the Company, on fully underwritten basis, at an issue price of HK$0.075 per new share;

(e) the underwriting agreement dated 19 November 2008 entered into between Kingston Securities Limited and the Company in relation to the proposed issue of the 131,570,645 new shares of HK$0.05 each of the Company by way of the open offer at an offer price of HK$0.05 per new share;

(f) the subscription agreement dated 26 November 2008 entered into between the Company and China Star Entertainment Limited in relation to the subscription and issue of the convertible bonds in the principal amount of HK$60 million for a term of ten years with zero coupon rate;

(g) the subscription agreement dated 26 November 2008 entered into between the Company and Brilliant Arts Multi-Media Holding Limited in relation to the subscription and issue of the convertible bonds in maximum aggregate principal amount of HK$100 million for a term of ten years with zero coupon rate;

(h) the supplemental agreement dated 27 November 2008 entered into between Kingston Securities Limited and the Company in relation to the amendments to the underwriting agreement dated 19 November 2008;

(i) the conditional sale and purchase agreement dated 26 November 2008 entered into among Mega Shell Services Limited, a wholly-owned subsidiary of the Company, the Riche (BVI) Limited, a wholly-owned subsidiary of China Star Investment Holdings Limited, and the Company in relation to the sale and purchase of the entire issued shares and the outstanding shareholders' loan of Shinhan-Golden Faith International Development Limited and World East Investments Limited for a total consideration of HK$211,466,310 (subject to adjustment);

(j) the subscription agreement dated 19 January 2009 entered into between Amazing Goal International Limited and Chung Chin (PTC) Ltd. in relation to the subscription of 50% of the entire issued share as enlarged by the allotment and issue of the Subscription Shares of Amazing Goal International Limited at a subscription price of US$50;

(k) the placing agreement dated 23 April 2009 entered into between Kingston Securities Limited and the Company in relation to the placing of 11,560,000 new shares of HK$0.01 each of the Company, on a fully underwritten basis, at an issue price of HK$0.205 per new share;

(l) the underwriting agreement dated 23 April 2009 entered into between Kingston Securities Limited and the Company in relation to the proposed issue of not less than 462,551,352 and not more than 555,506,552 new shares of HK$0.01 each of the Company by way of the open offer at an offer price of HK$0.10 per new share;

(m) the sale and purchase agreement dated 31 July 2009 entered into among Dance Star Group Limited, a wholly-owned subsidiary of the Company, and China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of China Star Entertainment Limited in relation to the acquisition of two artists management services company, namely China Star Management Limited and Anglo Market International Limited, at a total consideration of HK$3,137,971;

(n) the conditional sale and purchase agreement dated 8 August 2009 entered into between Beijing Suoma and 北京銀座興業房地產經紀有限公司 (Beijing Yinzuo Xingye Real Estate Agency Company Limited**) in relation to sale and purchase of the Disposed Properties;

(o) the sale and purchase agreement dated 8 October 2009 entered into between the Brilliant Arts Multi-Media Holding Limited and Dance Star Group Limited relating to the acquisition of Creative Formula Limited at a consideration of HK$8,200,418;

(p) the placing agreement dated 7 December 2009 entered into between Kingston Securities Limited and the Company in relation to the placing of 200,000,000 new Shares, on a fully underwritten basis, at an issue price of HK$0.30 per new Shares;

(q) the Acquisition Agreement;

(r) the Termination Agreement;

(s) the Disposal Agreement; and

(t) the Disposal Supplemental Agreement.

8. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Group.

None of the Directors has any direct or indirect interests 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 2009, being the date to which the latest published audited consolidated accounts of the Group were made up.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	**Qualifications**
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Grant Sherman Appraisal Limited	Independent professional valuer

1. As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Grant Sherman Appraisal Limited did not have any shareholding, directly or indirectly, 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.

2. Each of HLB Hodgson Impey Cheng and Grant Sherman Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

3. As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Grant Sherman Appraisal Limited did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up.

10. DIRECTORS

Executive Directors

Lai Hok Lim (Chairman)

Mr. Lai, aged 49, was appointed as executive Director on 10 November 2008 and as authorised representative, chairman and a member of remuneration committee of the Company on 16 November 2008 and as chief executive officer and compliance officer of the Company on 20 April 2009. Mr. Lai is a practicing solicitor in Hong Kong since 1989. He graduated from the University of Hong Kong with a bachelor of arts degree and holds a bachelor of arts (law) degree from the University of Sussex in the United Kingdom and a bachelor of law degree from Beijing University in the PRC. Mr. Lai was an independent non-executive director of Brilliant Arts Multi-Media Holding Limited (now known as Xing Lin Medical Information Technology Company Limited) (stock code: 8130), a company listed on GEM, from July 2007 to November 2008.

Mr. Wong Chi Chiu

Mr. Wong Chi Chiu, aged 31, was appointed as an executive Director on 25 January 2010. He has over 9 years experience in corporate finance and auditing with participation in activities including, mergers and acquisitions, initial public offerings and fund raising exercises. He holds a bachelor of business administration degree in accounting from The Hong Kong University of Science and Technology.

Independent non-executive Directors

Yip Tai Him

Mr. Yip, aged 39, was appointed as independent non-executive Directors and members of remuneration committee and audit committee on 13 December 2008 and chairman of the audit committee of the Company on 1 January 2009. Mr. Yip has over 16 years of experience in auditing, accounting and corporate finance. He is a member of the Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants. Mr. Yip is experienced with internal controls and is well versed with the skills and techniques in preparing, auditing, reviewing and analysing comparable and complicated financial statements. Mr. Yip is currently: (i) an independent non-executive director of Wing Lee Holdings Limited (stock code: 876), a company which is listed on the Main Board of the Stock Exchange; (ii) an independent non-executive director of China Cyber Port (International) Company Limited (stock code: 8206), a company which is listed on GEM; (iii) an independent non-executive director of iOne Holdings Limited (stock code: 982), a company which is listed on Main Board of the Stock Exchange; (iv) an independent non-executive director of GCL — Poly Energy Holdings Limited (stock code: 3800), a company listed on Main Board of the Stock Exchange; and (v) an independent non-executive director of Vinco Financial Group Limited (stock code: 8340), a company which is listed on GEM. Mr. Yip was: (i) an executive director of Brilliant Arts Multi-Media Holding Limited (now known as Xing Lin Medical Information Technology Company Limited) (stock code: 8130), a company which is listed on GEM; and (ii) an independent non-executive director of Aurum Pacific (China) Group Limited (stock code: 8148), a company which is listed on GEM.

Law Yiu Sang, Jacky

Mr. Law, aged 45, was appointed as an independent non-executive Director and member of audit committee and remuneration committee of the Company on 13 December 2008. Mr. Law holds a bachelor of laws degree from Manchester Metropolitan University. He is a member of the Hong Kong Institute of Arbitrators. From 2006 to 2007, Mr. Law was a member of The Chartered Institute of Arbitrator. Mr. Law has previously worked in a number of different law firms and has over 18 years experience in assisting in management and legal documentation.

Chio Chong Meng

Ms. Chio, aged 40, was appointed as an independent non-executive Director and member of audit committee and remuneration committee of the Company on 1 January 2009. Mr. Chio holds a bachelor of arts degree from York University in Canada. She has worked with a reputable hotel chain in Macau for a number of years and acquired extensive hotel management experience in the area of sales, finance and business support. She is now the general manager of a hotel in Macau.

11. AUDIT COMMITTEE

The Company established an audit committee, comprising of all independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng, with written terms of reference in compliance with the GEM Listing Rules. Rule 5.28 of the GEM Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive Directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise. The main duties of the audit committee include (a) to review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer or external auditors before submission to the board; (b) to review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The audit committee held four meetings during the year ended 31 December 2009, to review the financial results and reports, financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditors. For biographical details of the members of the audit committee of the Company, please refer to all the independent non-executive Directors under the sub-section headed "Directors" in this Appendix.

12. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is located at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary of the Company is Mr. Chan Kin Wah, Billy, 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.

(e) The compliance officer of the Company is Mr. Lai Hok Lim, the chairman of the Company, a practicing solicitor in Hong Kong.

(f) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese version.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours from the date of this circular up to the date of the SGM.

(a) the memorandum of association and Bye-laws;

(b) the financial information of the Group, the text of which is set out in Appendix I to this circular;

(c) the letter from HLB Hodgson Impey Cheng on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;

(d) the annual reports of the Company for the years ended 31 December 2008 and 2009;

(e) the report from Grant Sherman Appraisal Limited on the Property, the text of which is set out in Appendix IV to this circular;

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

(g) the written consents referred to in the paragraph headed "Experts and consents" in this Appendix;

(h) a circular of the Company dated 23 January 2009 in relation to a proposed acquisition of Shinhan-Golden and World East and their subsidiaries and the respective sales loans and transactions contemplated thereunder;

(i) a circular of the Company dated 15 May 2009 in relation to the open offer of the Shares not less than 555,506,552 new shares of HK$0.01 each of the Company on the basis of eight new shares for every one existing share held on the record date;

(j) a circular of the Company dated 26 May 2009 in relation to the proposed disposal of Amazing Goal International Limited and its subsidiaries;

(k) a circular of the Company dated 12 August 2009 in relation to the proposed alteration of the terms of the convertible bonds issued by the Company;

(l) a circular of the Company dated 9 September 2009 in relation to the proposed disposal of Disposed Properties;

(m) a circular of the Company dated 23 December 2009 in relation to (i) the share consolidation of every five issued shares of HK$0.01 each of the Company into one issued consolidated share of HK$0.05 ("the "Consolidated Share"); (ii) the reduction of par value of the issued Consolidated Shares from HK$0.05 each to HK$0.01 each by canceling HK$0.04 of the paid-up capital on each issued Consolidated Share; and (iii) the private placing of 200,000,000 new Consolidated Shares on a fully underwritten basis to placees; and

(n) this circular.

CHINA STAR FILM GROUP LIMITED
中國星電影集團有限公司

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

(Stock Code: 8172)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of China Star Film Group Limited (the "**Company**") will be held at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 24 May 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the sale and purchase agreement dated 8 February 2010 entered into between the Company and Keen Modern Limited (the "**Purchaser**") (as amended by a supplemental agreement dated 22 April 2010) pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire the entire issued share capital of Mega Shell Services Limited ("**Mega Shell**") and all the obligations, liabilities and debts owing or incurred by Mega Shell to the Company at a total consideration of RMB119.57 million (the "Sale and Purchase Agreement", a copy of which has been produced to this meeting and marked "A" and initialed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved and the execution of the Sale and Purchase Agreement by a director of the Company (the "**Director**") be and is hereby approved, confirmed and ratified in all respects; and

   (b) the Directors (or any one of them) be and are hereby authorised to take such steps, make such arrangements, do all such acts and things and exercise such discretion in connection with, relating to or arising from the matters contemplated herein, as they/he/she may from time to time consider necessary, desirable or expedient to give effect to such matters and this resolution as they/he/she may deem fit"

2. “**THAT**

(a) the payment of a special dividend of HK$0.12 for each ordinary share in the issued share capital of the Company held by the shareholders whose names appear on the register of members of the Company as at 10 May 2010 payable at such time and date as the directors of the Company may, in their absolute discretion determined be and is hereby approved;

(b) the Directors (or any one of them) be and are hereby authorised to take such steps, make such arrangements, do all such acts and things and exercise such discretion in connection with, relating to or arising from the matters contemplated herein, as they/he/she may from time to time consider necessary, desirable or expedient to give effect to such matters and this resolution as they/he/she may deem fit”

By Order of the Board
China Star Film Group Limited
Lai Hok Lim
Chairman

Hong Kong, 5 May 2010

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

Head office and principal place of business in Hong Kong:
Unit 3407, 34/F.
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy can vote on a poll. A proxy need not be a member of the Company.

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 notarially certified copy of such power or authority, at the office of the Company’s Hong Kong branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.