THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

China Star Cultural Media Group Limited
中國星文化產業集團有限公司*

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

(Stock Code: 8172)

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) INCREASE IN AUTHORISED SHARE CAPITAL;
(4) AMENDMENT TO BYE-LAWS;
(5) APPOINTMENT OF DIRECTORS;
AND
(6) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

REORIENT Financial Markets Limited

Independent financial adviser to the Independent Board Committee

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 33 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 34 to 35 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee is set out on pages 36 to 80 of this circular.

A notice convening the SGM to be held at United Conference Centre, Room 1, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 16 March 2015 at 10:00 a.m. is set out on pages 172 to 175 of this circular.

A form of proxy for the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 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 holding the meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.chinastarcmg.com.hk.

18 February 2015

* *for identification purpose only*

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher 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 of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

Page

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

"acting in concert"	has the same meaning as ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 18 December 2014 in connection with, among other things, the Subscription and the Whitewash Waiver
"Appointment of Directors"	subject to approval of the Shareholders, the appointment of Ms. Wu Li as an executive Director, Mr. Zou Xiao Chun as a non-executive Director, and Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard as independent non-executive Directors which will take effect from the Completion Date
"associate(s)"	has the same meaning as ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business or a day on which the Stock Exchange is open for the transaction of business, as the context so requires
"BVI"	British Virgin Islands
"Bye-laws"	Bye-laws of the Company
"Company"	China Star Cultural Media Group Limited (stock code: 8172), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the Ordinary Shares of which are listed on GEM
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement

"Completion Date"	the date on which Completion occurs
"connected person(s)"	has the same meaning as ascribed to it under the GEM Listing Rules
"Conversion Share(s)"	Ordinary Share(s) to be allotted and issued upon conversion of the Preferred Share(s)
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"First Charm"	First Charm Investments Limited
"Group"	the Company and its subsidiaries
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board established by the Board, comprising all the independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription and the Whitewash Waiver and as to voting
"Independent Financial Adviser"	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Subscription (including the Specific Mandate) and the Whitewash Waiver

"Independent Shareholders"	(a) for the purpose of the Subscription (including the Specific Mandate), the Share Capital Resolution and the amendment to Bye-laws, Shareholders other than the Subscribers, their respective associates and other Shareholders who have a material interest in the Subscription (including the Specific Mandate), the Share Capital Resolution and the amendment to Bye-laws; and (b) for the purpose of the Whitewash Waiver, Shareholders other than the Subscribers and their respective concert parties and any other Shareholders who are interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver
"Jiaxuan"	Jiaxuan Group Company Limited (稼軒集團有限公司)
"Last Trading Day"	21 November 2014, being the last trading day of the Ordinary Shares immediately prior to the date of the Announcement
"Latest Practicable Date"	16 February 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Long Stop Date"	31 March 2015 (or such other date as may be agreed by the parties to the Subscription Agreement in writing)
"Ordinary Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company from time to time
"Ordinary Shares Subscription"	the subscription of the Ordinary Subscription Shares under the Subscription Agreement
"Ordinary Subscription Shares"	1,379,804,865 new Ordinary Shares, in aggregate, to be subscribed for by the Subscriber(s)
"PRC"	the People's Republic of China (which for the purpose of the Subscription Agreement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)

"Preferred Share(s)"	after the Share Capital Resolution having been passed, 1,379,804,862 convertible preferred shares of HK$0.01 each in the capital of the Company, comprising the Tranche A Preferred Shares and the Tranche B Preferred Shares
"Public Documents"	the annual, interim and quarterly reports, circulars and announcements of the Company published on the website of GEM
"Relevant Period"	the period commencing on 18 June 2014, being the date falling six months before the date of the Announcement, up to and including the Latest Practicable Date
"REORIENT Global"	REORIENT Global Limited
"RFML"	REORIENT Financial Markets Limited
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at United Conference Centre, Room 1, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 16 March 2015 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve, among others, the Subscription and the transactions contemplated thereunder (including the Specific Mandate), the Whitewash Waiver, the Share Capital Resolution, the amendment to Bye-laws and the Appointment of Directors

"Share Capital Resolution"	the proposed increase in authorised share capital of the Company from HK$30,000,000 to HK$100,000,000 by (i) the creation of an additional 5,000,000,000 Ordinary Shares and (ii) the creation of 2,000,000,000 new Preferred Shares, such that following the Share Capital Resolution, the authorised share capital of the Company will be HK$100,000,000 divided into 8,000,000,000 Ordinary Shares and 2,000,000,000 Preferred Shares
"Shareholder(s)"	holder(s) of Ordinary Share(s)
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of the Subscription Shares and the Conversion Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber(s)"	Jiaxuan, Vision Path, First Charm and REORIENT Global, or any of them as the context may suggest
"Subscription"	the subscription of the Subscription Shares under the Subscription Agreement
"Subscription Agreement"	the agreement entered into between the Company and the Subscribers dated 24 November 2014 in respect of the Subscription, as amended by a supplemental agreement dated 16 February 2015 entered into between the parties thereto
"Subscription Price"	HK$0.20 per Subscription Share
"Subscription Shares"	collectively, the Ordinary Subscription Shares, the Tranche A Preferred Shares and the Tranche B Preferred Shares
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC as amended from time to time
"Tranche A Preferred Shares"	689,902,432 new Preferred Shares, in aggregate, to be subscribed for by the Subscribers under the Tranche A Preferred Shares Subscription

"Tranche A Preferred Shares Subscription"	the subscription of the Tranche A Preferred Shares under the Subscription Agreement
"Tranche B Preferred Shares"	689,902,430 new Preferred Shares, in aggregate, to be subscribed for by the Subscribers under the Tranche B Preferred Shares Subscription
"Tranche B Preferred Shares Subscription"	the subscription of the Tranche B Preferred Shares under the Subscription Agreement
"Vision Path"	Vision Path Limited
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all of the Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and any parties acting in concert with any of them which would, if the Subscription proceeds, otherwise arise as a result of Completion and full conversion of the Preferred Shares
"%"	percentage

China Star Cultural Media Group Limited
中國星文化產業集團有限公司*

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

(Stock Code: 8172)

Executive Directors:
Mr. Leung Wai Man
Ms. Li Yee Mei

Independent Non-executive Directors:
Mr. Yip Tai Him
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
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

18 February 2015

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) INCREASE IN AUTHORISED SHARE CAPITAL;
(4) AMENDMENT TO BYE-LAWS;
(5) APPOINTMENT OF DIRECTORS;
AND
(6) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement and the Company's announcement dated 16 February 2015. On 24 November 2014 (after trading hours), the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to

* *for identification purpose only*

allot and issue, a total of 2,759,609,727 Subscription Shares, comprising 1,379,804,865 new Ordinary Shares and 1,379,804,862 new Preferred Shares at an issue price of HK$0.20 per Subscription Share. On 16 February 2015, the Company and the Subscribers entered into a supplemental agreement to the Subscription Agreement to vary certain terms of the Subscription relating to the Subscribers' Director nomination rights. Further details are set out in the Company's announcement dated 16 February 2015.

The purpose of this circular is to give you, among other things, (i) information of the Subscription (including the Specific Mandate), the Whitewash Waiver, the Share Capital Resolution and the amendment to Bye-laws; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Subscription and the Whitewash Waiver; (iv) the notice of SGM; and (v) other information as required under the GEM Listing Rules and the Takeovers Code.

SUBSCRIPTION AGREEMENT

Date	:	24 November 2014
Issuer	:	The Company
Subscribers	:	(i) Jiaxuan (ii) Vision Path (iii) First Charm (iv) REORIENT Global

The Subscribers and their respective ultimate beneficial owners are independent of the Company and its connected persons. Please refer to the section headed "Information on the Subscribers" for more information on the Subscribers.

Subscription Shares

The Subscription comprises the Ordinary Shares Subscription, the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription. As set out under the paragraph headed "Subscription Price" below, 5% of the consideration for the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription will be payable upon Completion while the remaining consideration for the Tranche A Preferred Shares Subscription will be payable within 180 days after the Completion Date and the remaining consideration for the Tranche B Preferred Shares Subscription will be payable on or before the first anniversary of the Completion Date. Save for the aforesaid, the Tranche A Preferred Shares and the Tranche B Preferred Shares rank pari passu and have the same rights as further set out under the paragraph headed "Information on the Preferred Shares" below.

The following sets out the Subscription Shares to be subscribed for by each of the Subscribers:

	Ordinary Shares Subscription		Tranche A Preferred Shares Subscription		Tranche B Preferred Shares Subscription		Total	
	No. of Ordinary Shares	*Consideration HK$ million*	*No. of Preferred Shares*	*Consideration HK$ million*	*No. of Preferred Shares*	*Consideration HK$ million*	*No. of Ordinary Shares^*	*Consideration HK$ million*
Jiaxuan	965,863,405	193.2	482,931,702	96.6	482,931,702	96.6	1,931,726,809	386.4
Vision Path	206,970,730	41.4	103,485,365	20.7	103,485,364	20.7	413,941,459	82.8
First Charm	151,778,535	30.4	75,889,268	15.2	75,889,267	15.2	303,557,070	60.8
REORIENT Global	55,192,195	11.0	27,596,097	5.5	27,596,097	5.5	110,384,389	22.0
	1,379,804,865	276.0	689,902,432	138.0	689,902,430	138.0	2,759,609,727	552.0

Note:

^ On the basis that the conversion rights attaching to the Preferred Shares are fully exercised.

The 1,379,804,865 Ordinary Subscription Shares represent approximately (i) 150.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) 60.0% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares. The aggregate nominal value of the Ordinary Subscription Shares is HK$13,798,048.65.

Upon conversion of the Tranche A Preferred Shares in full, 689,902,432 Conversion Shares will be allotted and issued, representing (i) approximately 75.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 23.1% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under the Tranche A Preferred Shares (on the basis that no Tranche B Preferred Shares are converted into Ordinary Shares and assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares). The aggregate nominal value of the 689,902,432 Conversion Shares under the Tranche A Preferred Shares is HK$6,899,024.32.

Upon conversion of the Tranche B Preferred Shares in full, 689,902,430 Conversion Shares will be allotted and issued, representing (i) approximately 75.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 18.7% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under both the Tranche A Preferred Shares and the

Tranche B Preferred Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares). The aggregate nominal value of the 689,902,430 Conversion Shares under the Tranche B Preferred Shares is HK$6,899,024.30.

Subscription Price

The Subscription Price of HK$0.20 per Subscription Share represents (i) a discount of approximately 71.4% to the last trading price (before suspension) of HK$0.70 per Ordinary Share as quoted on GEM on 21 November 2014, being the Last Trading Day; (ii) a discount of approximately 64.3% to the average closing price of approximately HK$0.561 per Ordinary Share for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 63.5% to the average closing price of approximately HK$0.5475 per Ordinary Share for the last ten consecutive trading days up to and including the Last Trading Day; (iv) a discount of 84.0% to the closing price of HK$1.25 per Ordinary Share as quoted on GEM on the Latest Practicable Date; and (v) a premium of approximately 5.3% over the unaudited net asset value per Ordinary Share of approximately HK$0.19 as at 30 June 2014 based on the Company's interim report for the six months ended 30 June 2014 and the Company's issued Ordinary Shares as at the Latest Practicable Date.

The Subscription Price was arrived at after arm's-length negotiations between the Company and the Subscribers after taking into account the prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares and the unaudited net asset value per Ordinary Share as at 30 June 2014. Although the Subscription Price represents discounts to the recent trading prices prior to the Last Trading Day as shown above, the liquidity of the Ordinary Shares on the Stock Exchange was low where the average daily turnover of the Ordinary Shares for the six months prior to and including the Last Trading Day merely represents approximately 0.29% of the issued Shares as at the Latest Practicable Date. Taking into account that the Subscription Price represents a premium of approximately 5.3% over the unaudited net asset value per Ordinary Share of approximately HK$0.19 as at 30 June 2014 as set forth above, the Directors consider that the Subscription Price is fair and reasonable and in the interests of the Company and Shareholders as a whole.

The aggregate Subscription Price amounts to approximately HK$552 million which shall be payable in cash by the Subscribers in proportion to their Subscription Shares subscribed in the following manners:

(i) at Completion, the Subscription Price of the Ordinary Shares Subscription of approximately HK$276 million and 5% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription of approximately HK$13.8 million;

(ii) on a date falling within 180 days after the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the date falling on the last day of such 180 days period after the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), 95% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription of approximately HK$131.1 million; and

(iii) on a date falling before the first anniversary of the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the first anniversary of the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), 95% of the aggregate Subscription Price of the Tranche B Preferred Shares Subscription of approximately HK$131.1 million.

RFML is the financial adviser to the Company in connection with the Subscription and the Whitewash Waiver. REORIENT Global, a fellow subsidiary of RFML, shall be entitled to apply the financial advisory fee (or any part thereof) payable by the Company to RFML to set off against an equivalent amount of the subscription money payable by REORIENT Global in connection with the Subscription.

Upon Completion, the Preferred Shares shall be issued and credited as partly paid. Payment of the remaining Subscription Price of the Preferred Shares as set out in paragraphs (ii) and (iii) above are subject further to fulfilment of the following conditions by the Company:

(a) Completion having occurred in accordance with the terms and conditions of the Subscription Agreement;

(b) the approval by the Independent Shareholders at the SGM for the Specific Mandate not having been or proposed to be withdrawn, amended or revoked; and

(c) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on GEM at all times from the Completion Date to the payment date (save for any temporary suspension not more than 20 trading days (or such other period as such Subscriber may agree), and the Stock Exchange approval with respect to the listing and dealing in such Conversion Shares not having been revoked or cancelled or amended.

In the event that the Company fails to fulfil the above conditions on or before the relevant payment date (or such later date as the relevant Subscriber may otherwise agree to defer in writing in accordance with the Subscription Agreement), the relevant Subscriber shall be entitled not to pay the balance of the aggregate Subscription Price of the relevant

Preferred Shares, and may in its absolute discretion by written notice to the Company: (1) defer payment of such balance by not more than 28 days to such other date as the relevant Subscriber may specify; or (2) elect not to proceed further with its outstanding payment obligation of its balance of the aggregate Subscription Price of the relevant Preferred Shares, and accordingly the Company shall repurchase the relevant Preferred Shares from the relevant Subscriber at an amount equivalent to the Subscription Price received by the Company for the relevant number of Preferred Shares from such Subscriber.

In the event that the relevant Subscriber fails to pay its remaining Subscription Price for the Preferred Shares as set out in paragraphs (ii) and (iii) above on or before the relevant payment date (or such later date as the Company may otherwise agree to defer in writing in accordance with the Subscription Agreement), the Company shall be entitled not to convert the relevant Preferred Shares and may in its absolute discretion by written notice to the relevant Subscriber: (1) defer payment of such balance by not more than 28 days to such other date as the Company may specify; or (2) in the event that by the last day of the relevant payment date, the relevant Subscriber has not paid in full its balance of the aggregate Subscription Price for the relevant Preferred Shares, forfeit such Preferred Shares issued to such Subscriber.

Information on the Preferred Shares

A summary of the principal terms of the Preferred Shares is set out below:

Issue price:	HK$0.20 per Preferred Share
Dividends:	None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.
Return on capital:	The Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.
Transferability:	Any Preferred Shares, subject to it having been fully paid up, shall be freely transferable. For the avoidance of doubt, no partly paid Preferred Shares can be transferred.

Voting:	The holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder(s) thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holder(s) may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares.
Conversion:	Subject to the minimum public float requirement under Rule 11.23(7) of the GEM Listing Rules and the payment in full of the Subscription Price of the Preferred Shares, the Preferred Shares shall be convertible into Ordinary Shares by the holder of the Preferred Shares serving the conversion notice to the Company on any Business Day within the conversion period, without the payment of any additional consideration therefor, into such number of fully-paid Conversion Shares. The Company's obligation to effect conversion of fully paid Preferred Shares into Conversion Shares shall be subject to the minimum public float requirement under the GEM Listing Rules being met. Conversion of the Preferred Shares shall be effected in such manner as the Directors shall subject to the Bye-laws and to any other applicable law and regulations, from time to time determine, including without limitation, by way of redemption or repurchase or by way of re-designation of Preferred Shares into Ordinary Shares without further approval of the Shareholders.

Conversion period:	The period commencing from the Completion Date and ending on the second anniversary of the Completion Date.
Conversion price:	HK$0.20, subject to customary adjustment for, among other matters, subdivision or consolidation of Ordinary Shares, capitalisation of profits or reserves, capital distributions and rights issue. For details, please refer to Appendix III of this circular "*Proposed Amendments to the Bye-laws and Terms of the Preferred Shares — 9A.(7) Conversion Adjustments*".
Conversion rate:	One Preferred Share is convertible into one Ordinary Share (subject to adjustment of the conversion price), which is determined by dividing the Subscription Price by the conversion price per Ordinary Share in effect at the time of conversion, provided that the conversion price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible.
Redemption:	Other than the repurchase as set out in the section headed "Subscription Price" above, the Preferred Shares shall be non-redeemable.

Mandate for the issue of the Subscription Shares

The Subscription Shares and the Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

Ranking

The Ordinary Subscription Shares and the Conversion Shares will rank pari passu in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Ordinary Subscription Shares and the Conversion Shares respectively.

Listing application

No application will be made for the listing of, or permission to deal in, the Preferred Shares on GEM or any other stock exchange. An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Subscription Shares and the Conversion Shares.

Conditions of the Subscription

The Subscription is conditional upon satisfaction (or waiver by the Subscribers jointly in respect of paragraphs (g), (h), (i) and (m) below or waiver by the Company in respect of paragraph (l) below) of the following conditions:

(a) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on GEM at all times from the date of the Subscription Agreement to the Completion Date (save for any temporary suspension pending the Announcement (or such other period as the Subscribers may agree) and neither the Stock Exchange nor the SFC having indicated that either one of them will qualify, object to, cancel or withdraw such listing and/or dealings in the Ordinary Shares (including the Ordinary Subscription Shares) for reasons related to or arising from the transactions contemplated under the Subscription Agreement;

(b) the passing of resolutions (special resolution or ordinary resolution, as the case may be) by the Shareholders (other than those who are required by the GEM Listing Rules and/or the Takeovers Code to abstain from voting) at the SGM approving, among other things:

(i) the execution, consummation and completion of the Subscription Agreement;

(ii) the Share Capital Resolution;

(iii) the Specific Mandate; and

(iv) amendment to Bye-laws in respect of, among others, the creation, allotment and issue of a class of Preferred Shares with the rights, obligations and privileges attaching thereto;

(c) the Executive having granted to Jiaxuan and parties acting in concert with it the Whitewash Waiver (and such grant not having been revoked or withdrawn) and any necessary conditions prior to Completion, if any, attached to it having been fulfilled;

(d) the Company having obtained approval of the Independent Shareholders at the SGM for the Whitewash Waiver;

(e) the listing committee of the Stock Exchange having granted listing of and permission to deal in the Ordinary Subscription Shares and the Conversion Shares and such approval and granting of permission not having been withdrawn or revoked;

(f) the Group having obtained all consent from the relevant governmental or regulatory authorities which are necessary to be obtained for the execution and performance of the Subscription Agreement and any of the transactions contemplated under the Subscription Agreement;

(g) the warranties given by the Company under the Subscription Agreement remaining true, accurate and not misleading in all material respects at Completion by reference to the facts and circumstances subsisting as at the Completion Date;

(h) the Company having complied fully with the pre-completion obligations set out in the Subscription Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Subscription Agreement;

(i) since the date of the Subscription Agreement save as set out in the Public Documents, there being no material adverse change in respect of the Company's ability to perform its obligations under the Subscription Agreement or the business, assets and liabilities, condition or results of operations of the Group as a whole subsisting;

(j) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the transactions contemplated under the Subscription Agreement, nor shall any action have been taken by any person seeking any of the foregoing, and no statute, rule, regulation or order shall have been enacted, enforced or deemed applicable to the transactions contemplated under the Subscription Agreement and, which makes the consummation of which illegal;

(k) no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the Subscription Agreement or the consummation of the transactions contemplated under the Subscription Agreement having been enacted or taken by any governmental or official authority whether in Hong Kong, the PRC or elsewhere;

(l) the warranties of each of the Subscribers set out in the Subscription Agreement remaining true, accurate and not misleading in all material respects at Completion by reference to the facts and circumstances subsisting as at the Completion Date; and

(m) a legal opinion dated no earlier than three Business Days before the Completion Date to be issued by the Company's Bermuda counsel and addressed to the Company and the Subscribers as to Bermuda law on (i) the due incorporation and good standing of the Company; (ii) the capacity of the Company entering into the Subscription Agreement; (iii) the performance by the Company of its obligations under the Subscription Agreement will not violate the memorandum of association of the Company or the Bye-laws nor any applicable law in Bermuda; and (iv) matters relating to the allotment and issue of the Preferred Shares and the conversion thereof and other matters customary for transactions of this nature.

In the event that any of the above conditions are not fulfilled or waived (as applicable) prior to the Long Stop Date, then none of the Company nor the Subscribers shall be bound to proceed with the transactions contemplated under the Subscription Agreement and the Subscription Agreement shall cease to be of any effect save as to any antecedent breach of the Subscription Agreement. Hence, among other things, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders at the SGM, the Subscription will not proceed.

As at the Latest Practicable Date, none of the above conditions had been satisfied or waived.

Completion

Subject to fulfillment or waiver (as applicable) of the conditions precedent of the Subscription Agreement, Completion shall take place on the fifth Business Day from and excluding the day on which the last of the aforesaid conditions precedent (b), (c), (d), (e) and (f) to Completion has been fulfilled. At Completion, the Subscribers shall subscribe for, and the Company shall allot and issue to such Subscribers, their respective number of the Ordinary Subscription Shares, the Tranche A Preferred Shares and the Tranche B Preferred Shares.

Upon Completion, the 1,379,804,865 Ordinary Subscription Shares will be allotted and issued as fully paid and the 1,379,804,862 new Preferred Shares will be allotted and issued as partly paid. The new Preferred Shares which are partly paid shares at Completion do not carry any voting rights in the Company.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group is principally engaged in the provision of artist management services and film production and distribution. For the year ended 31 December 2013, the Group reported turnover of approximately HK$15.7 million and a loss attributable to Shareholders of approximately HK$12.8 million.

Jiaxuan (one of the Subscribers) is an investment holding company ultimately owned as to 55% by Mr. Wong Kwong Yu and as to 45% by Ms. Ma Qing. Mr. Wong Kwong Yu is the founder of GOME Electrical Appliances Holding Limited which is a leading chain-store retailer of home appliances and consumer electronic products in the PRC. Ms. Ma Qing is the spouse of Mr. Xu Zhongmin. Mr. Xu is a director of Jiaxuan and was the founder of Jingwen Records Co., Ltd.（京文唱片）("Jingwen"). Jingwen was a music producer and distributor in the PRC fostering a number of famous artists including Han Hong（韓紅）, Cui Jian（崔健）and Wang Feng（汪峰）. It published and distributed albums of Mao Yamin（毛阿敏）, Li Yundi（李雲迪）, Lang Lang（朗朗）and other famous artists in the PRC. While Jingwen was developing the local original music, it introduced music albums and video contents from international producers and distributors including Warner Bros. Records, EMI, Universal Music, Universal Picture, Discovery Channel and National Geographic Channel. It extended its business to publication of books and investment in multi-media educational materials. Mr. Xu is actively involved in the investment in TV programmes and artist management business and has been involved in producing concerts in the PRC and performance shows in Las Vegas, the United States of America. In view of Mr. Xu's experience in the entertainment industry in the PRC, it is envisaged that he will take part in the management of the Group's future business development in the PRC. The Subscribers group (comprising Jiaxuan and other financial investors), in particular Jiaxuan, believes that the investment in the Group will allow them to form a strategic relationship in the entertainment business through a listed platform with potentials of ongoing fund raising in future. The other financial investors' decision to invest in the Group was made after having considered the potential future development of the Group under the new management and additional financial strength upon completion of the Subscription.

In 2010, at the Beijing Second Intermediate Court of the PRC, Mr. Wong was convicted of offences relating to insider dealing, illegal business and bribery and was sentenced to 14 years' imprisonment while Mr. Xu was convicted of offences relating to insider dealing, divulging inside information and bribery and was sentenced to three years' imprisonment. Mr. Wong is serving his sentence while Mr. Xu has served his sentence.

The Directors are of the view that despite Mr. Wong's and Mr. Xu's offences, taking into account the experience, expertise and business network in the PRC, in particular the entertainment industry in the PRC, that Jiaxuan would bring in, the Subscription represents a valuable opportunity for the Group to have Jiaxuan as a solid strategic corporate investor which would become the controlling shareholder of the Company following Completion. The Directors consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; (iii) provide the Company with the financial flexibility necessary for the Group's future business development and the capability to capture any prospective investment opportunities as and when they arise; and (iv) strengthen the Group's capability to develop the PRC market. The Directors are confident that the Subscribers will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Shareholders as a whole.

The Directors (including members of the Independent Board Committee whose opinion is set out in the Letter from the Independent Board Committee in this circular) consider that the terms of the Subscription Agreement are fair and reasonable and the Subscription is in the interest of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE

The Company had no outstanding convertible securities, options, warrants or derivatives in issue which are convertible or exchangeable into Ordinary Shares as at the Latest Practicable Date.

The table below sets out the effect of the Subscription on the shareholding structure of the Company immediately upon (i) Completion of the Subscription; (ii) conversion in full of the Tranche A Preferred Shares; and (iii) conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares, assuming no other Ordinary Shares will be allotted and issued between the Latest Practicable Date and the date until all Tranche A Preferred Shares and Tranche B Preferred Shares have been fully converted:

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Ordinary Subscription Shares and before the allotment and issue of any Conversion Shares		Immediately after completion of the Subscription and conversion in full of the Tranche A Preferred Shares *(Note)*		Immediately after completion of the Subscription and the conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares *(Note)*	
	Number of Ordinary Shares	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*
The Subscribers								
Jiaxuan	–	–	965,863,405	42.00	1,448,795,107	48.46	1,931,726,809	52.50
Vision Path	–	–	206,970,730	9.00	310,456,095	10.38	413,941,459	11.25
First Charm	–	–	151,778,535	6.60	227,667,803	7.62	303,557,070	8.25
REORIENT Global	–	–	55,192,195	2.40	82,788,292	2.77	110,384,389	3.00
Subtotal	–	–	1,379,804,865	60.00	2,069,707,297	69.23	2,759,609,727	75.00
Public Shareholders								
Existing public Shareholders	919,869,909	100.00	919,869,909	40.00	919,869,909	30.77	919,869,909	25.00
Subtotal	919,869,909	100.00	919,869,909	40.00	919,869,909	30.77	919,869,909	25.00
Total	**919,869,909**	**100.00%**	**2,299,674,774**	**100.00%**	**2,989,577,206**	**100.00%**	**3,679,479,636**	**100.00%**

Note: These columns are set out for illustration purpose only. The allotment and issue of the Conversion Shares are subject to the Tranche A Preferred Shares or the Tranche B Preferred Shares (as the case may be) having been fully paid up and the public float requirements under the GEM Listing Rules.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of artists management services and film production and distribution.

INFORMATION ON THE SUBSCRIBERS

Jiaxuan is an investment holding company incorporated in the British Virgin Islands with limited liability and is owned as to 55% by Eagle King Investment Holding Limited (a company wholly owned by Mr. Wong Kwong Yu) and as to 45% by Great Majestic Global Holdings Limited (a company wholly owned by Ms. Ma Qing). Further information on Jiaxuan, Mr. Wong Kwong Yu and Mr. Xu Zhongmin (being a director of Jiaxuan and the spouse of Ms. Ma Qing) is set out under the paragraph headed "Reasons for and benefits of the Subscription" in the "Letter from the Board" section of this circular.

Vision Path is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately wholly owned by Ms. Yu Nan. Ms. Yu Nan is an individual investor focusing on equity and listed securities investment in different sectors including, technology, Internet and media. Her investments are mainly in Hong Kong and the PRC.

First Charm is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately wholly owned by Mr. Ko Chun Shun, Johnson.

REORIENT Global, a company incorporated in Hong Kong with limited liability, is principally engaged in provision of administrative services and is a fellow subsidiary of RFML, the financial adviser to the Company. Both REORIENT Global and RFML are wholly owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. REORIENT Group Limited is principally engaged in securities broking, placing and underwriting, and provision of consultancy and advisory services. Mr. Ko Chun Shun, Johnson, the sole beneficial owner of First Charm (one of the Subscribers), is the chairman, an executive director and the controlling shareholder of REORIENT Group Limited.

DEALING AND INTEREST OF THE SUBSCRIBERS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, save for the Subscription, each Subscriber has confirmed that, neither the Subscribers nor any parties acting in concert with any of them:

(a) owned, controlled or had direction over any outstanding options, warrants, or any securities that are convertible into Ordinary Shares or any derivatives in respect of securities in the Company, or held any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(b) had received an irrevocable commitment to vote for the Subscription and/or the Whitewash Waiver;

(c) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(d) had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any of the Subscribers, which might have been material to the Subscription and/or the Whitewash Waiver, with any other persons;

(e) had any agreement or arrangement to which it is a party which relates to the circumstances in which it might or might not invoke or seek to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver; or

(f) had dealt in Ordinary Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Ordinary Shares, during the Relevant Period.

FUTURE INTENTIONS OF JIAXUAN REGARDING THE GROUP

Jiaxuan intends to strengthen the existing film production business of the Group to more actively produce films and TV programmes. To achieve this purpose, Jiaxuan intends that the Group would consider opportunities for (i) acquiring film rights of popular Korean programmes and reproducing such programmes for audience in the PRC; and (ii) co-operating with well-known international producers to make movies. In parallel with developing the Group’s existing business, Jiaxuan intends that the Group would organise exhibitions, performance shows and concerts in major cities in the PRC and establish an online platform, including acquiring and producing media contents such as videos, and live performances and concerts to be provided on such platform. It is also the intention that the Group would cooperate with an independent technology company, such as by way of establishing joint ventures and/or making equity investment in the technology company, to provide on-line news search and video-on-demand services to Internet users. Definitive terms of the cooperation have not been reached yet and such cooperation may or may not proceed.

Jiaxuan intends that in 2015 and 2016, the Group will invest in Korea-related media contents, film scripts and production, organise an exhibition, hold three concert series, produce two movies and a TV programme and establish an online platform including producing online contents. It is intended that Jiaxuan will engage the Group to organise a concert series (being one of the concert series to be held by the Group). If materialised, such engagement will constitute a connected transaction for the Company following Completion subject to compliance with the GEM Listing Rules. It is envisaged that all of the net proceeds from the Subscription will be utilised to fund the Group's development plan. It is anticipated that the Company will continue to review its business plan during the course of its development and further develop its business in 2016 in particular which would further utilise its cash reserve. On the basis of the Group's development plan and investment schedule as intended by Jiaxuan, the net proceeds from the Subscription will be utilised in 2015 and 2016 and the Group's assets should not be composed wholly or substantially of cash or short-dated securities following Completion. The Group's planned use of the net proceeds from the Subscription is expected to be allocated as follows:

(in HK$'million)	**For the six months ending**				
	30 June 2015	**31 December 2015**	**30 June 2016**	**Total**	**% of net proceeds**
Korean media resources	—	—	16	16	3.0%
Exhibitions, performance shows and concerts	100	172	51	323	60.4%
Production of TV programmes and movies	41	91	20	152	28.4%
Online platform and contents	—	—	44	44	8.2%
Total	**141**	**263**	**131**	**535**	**100.0%**

The Company plans to utilise HK$16 million of the net proceeds of the Subscription to invest in Korea-related media contents such as acquisition of film scripts and investment in movie production. The Company plans to organise an exhibition in relation to a mobile game and hold three concert series in major cities in the PRC commencing in the first half of 2015 and ending in the first half of 2016. The Company plans to utilise HK$323 million of the net proceeds of the Subscription to finance part of the production and promotion costs of the exhibition and concerts. The Company plans to produce two movies which are expected to commence filming in the first half of 2015 and to be shown in theaters in the second half of 2015 and in 2016 respectively. With regard to one of the movies, in December 2014, the Company entered into an agreement with a business partner in respect of the investment and production of the movie. The Company plans to produce a reality TV programme to be shown on a satellite TV station in the PRC at the end of 2015 and early 2016. The Company plans to utilise HK$152 million of the net proceeds of the Subscription to finance part of the production and promotion costs of the movies and TV programme. The Company plans to produce a live concert series to be attended by audience and shown on a website to be established by the Group. The Company plans to utilise HK$44 million of the net proceeds of the Subscription to finance part of the production and promotion costs in relation to such online contents. The Company will update the status of the above planned use of the net proceeds from the Subscription in its quarterly results announcements. The Company plans to utilise substantial amounts from the net proceeds of the Subscription to fund the Group's expansion plan in the PRC. Given the early stage of development of the Group's entertainment business in the PRC during which the Company will be building its reputation in the entertainment industry in the PRC, the Group would incur substantial costs in its development plan and the financial results of the Group may be affected accordingly. The Company will make announcement(s) to provide update on the financial results of the Group as and when appropriate.

Other than the above, Jiaxuan does not intend to introduce major changes to the business of the Group including any redeployment of the fixed assets of the Group and termination of employment of the employees of the Group, other than in the ordinary course of business. Save for the above, Jiaxuan did not have any proposal, terms, timetable, agreement, arrangement, understanding, intention or negotiation with any party about any arrangement or injection of assets or businesses into the Group as at the Latest Practicable Date. Jiaxuan will continually assess the performance and prospects of the Group's business and make any necessary strategic business development plans in response to the prevailing economic outlook and market conditions from time to time.

Proposed appointment of Directors

The Subscribers have recommended four persons to be appointed as Directors with effect from the Completion Date. The nomination committee of the Board, comprising all three independent non-executive Directors, has reviewed the skills, experience and qualifications of the respective candidates, and consider that they are suitably qualified to become Board members and therefore recommend them to be appointed as Directors. The Board has therefore proposed such persons as candidates for election as Directors subject to approval of the Shareholders at the SGM. Ms. Wu Li is proposed to be appointed as an executive Director, Mr. Zou Xiao Chun is proposed to be appointed as a non-executive Director, and Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard are proposed to be appointed as independent non-executive Directors. If the appointments of the above candidates as Directors are approved by the Shareholders at the SGM, their appointments as Directors will take effect from the Completion Date. Further announcement(s) will be made by the Company upon appointment of the above candidates as Directors in compliance with the Listing Rules.

The biographical details of the above candidates proposed to be appointed as Directors are set out below:

Ms. Wu Li

Ms. Wu Li, aged 36, graduated from the University of Electronic Science and Technology of China ((中國)電子科技大學) with a Bachelor degree in English for Science and Technology and has completed the Post Graduate Courses in Integrated Marketing Communications (IMC) in the Institute for China Business of The University of Hong Kong School of Professional and Continuing Education. Ms. Wu has over 14 years of experience in cultural and media sector and has extensive marketing experience. She was a senior officer in Jingwen Records Co., Ltd. responsible for the production, promotion and copyrights management of audio and video products from 2000 to 2006. She joined Beijing Hwellso Pharmaceutical Co., Ltd.（北京華素製藥股份有限公司）in 2006 and was the Brand Director and an assistant to the chairman of the company when she left the company in 2013. Currently she is a director and vice president of the Cultural Entertainment Division of an entertainment-related company controlled by Mr. Wong Kwong Yu.

Ms. Wu has not entered into any service contract with the Company and she will be subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Ms. Wu as an executive Director is to be determined by the Board with reference to her experience, duties, responsibilities within the Group and prevailing market conditions. As at the Latest Practicable Date, Ms. Wu did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Ms. Wu has not held any directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Ms. Wu confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Mr. Zou Xiao Chun

Mr. Zou Xiao Chun, aged 45, graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University)(南昌大學(原江西大學)法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate(中國律師資格證書)in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate(中國稅務師資格證書)in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination(國家公證員資格考試合格證書)in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist(工業經濟師)in October 1996. Mr. Zou has been a practising lawyer for 20 years and has practised in legal areas relating to capital markets in the PRC for 10 years. In June 2006, Mr. Zou founded Beijing John & Law Firm(北京市中逸律師事務所)and he still serves as a founding partner of this firm. Between 2001 and 2011, Mr. Zou has been acting as the retainer legal adviser for Beijing Eagle Investment Co. Ltd(北京鵬潤投資有限公司)and Beijing Gome Electrical Appliance Co., Ltd(北京國美電器有限公司), both of which are owned or controlled by Mr. Wong Kwong Yu. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited(北京中關村科技發展(控股)股份有限公司)(a company listed on the Shenzhen Stock Exchange) and since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited(國美控股集團有限公司), a company owned or controlled by Mr. Wong Kwong Yu. Between June 2011 and June 2014, Mr. Zou was a director and vice chairman of Sanlian Commercial Co., Limited(三聯商社股份有限公司)(a company listed on the Shanghai Stock Exchange). Since December 2010, Mr. Zou has been an executive director of GOME Electrical Appliances Holdings Ltd. (together with its subsidiaries, the "GOME Group"), a company listed on the main board of the Stock Exchange and controlled by Mr. Wong Kwong Yu. From December 2010 to December 2013, Mr. Zou also served as the Vice President and then the Senior Vice President of the GOME Group.

Mr. Zou has not entered into any service contract with the Company and he will be subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Mr. Zou as a non-executive Director is to be determined by the Board with reference to his experience, duties, responsibilities within the Group and prevailing market conditions. As at the Latest Practicable Date, Mr. Zou did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Zou has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Mr. Zou confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Mr. Ng Wai Hung

Mr. Ng Wai Hung, aged 51, is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has been admitted as a Hong Kong solicitor since 1992. Mr. Ng has been an independent non-executive director of Fortune Sun (China) Holdings Limited since June 2006, Tech Pro Technology Development Limited since April 2011, GOME Electrical Appliances Holding Limited since June 2011, Trigiant Group Limited since August 2011, Sustainable Forest Holdings Limited since February 2013 and On Time Logistics Holdings Limited since June 2014, all being companies listed on the Stock Exchange. Mr. Ng was also an independent non-executive director of HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from January 2008 to September 2014. Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) from September 2008 to February 2010, KTP Holdings Limited (currently known as Ares Asia Limited) from November 1999 to February 2011, Tomorrow International Holdings Limited (currently known as Talent Property Group Limited) from March 2000 to January 2012 and Perception Digital Holdings Limited from January 2013 to August 2014, all being companies listed on the Stock Exchange.

Mr. Ng has not entered into any service contract with the Company and he will be subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Mr. Ng as an independent non-executive Director is to be determined by the Board with reference to his experience, duties, responsibilities within the Group and prevailing market conditions. As at the Latest Practicable Date, Mr. Ng did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Ng has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Mr. Ng confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Mr. Lam Cheung Shing Richard

Mr. Lam Cheung Shing Richard, aged 56, is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam was admitted to the Master Degree of Business Administration in the Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm and promoted to be a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Mr. Lam is the deputy chairman and chief executive officer of Everchina Int'l. Holdings Company Limited ("Everchina"), a company listed on the Stock Exchange, since June 2009. Prior to joining Everchina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also an independent non-executive director of Eagle Legend Asia Limited from May 2013 to December 2014, an executive director of Kai Yuan Holdings Limited from December 2001 to July 2008 and re-designated as a non-executive director from July 2008 to November 2008, and an executive director of China Pipe Group Limited from June 2007 to February 2009, all being companies listed on the Stock Exchange.

Mr. Lam has not entered into any service contract with the Company and he will be subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Mr. Lam as an independent non-executive Director is to be determined by the Board with reference to his experience, duties, responsibilities within the Group and prevailing market conditions. As at the Latest Practicable Date, Mr. Lam did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Lam has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Mr. Lam confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

After Completion, the Board will from time to time review its composition and may appoint additional person(s) to be Directors as appropriate in accordance with the Bye-laws and in compliance with the GEM Listing Rules.

Maximum number of Directors appointed by the Board

Under the Company's Bye-laws, the Board may appoint Director to fill a casual vacancy on the Board or, subject to authorisation by Shareholders in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Shareholders in general meeting. A resolution will be proposed at the SGM for the Shareholders to consider, if thought fit, to approve and authorise the Directors to appoint additional Directors up to a maximum number of 20.

USE OF PROCEEDS

The aggregate gross proceeds from the Subscription amounts to approximately HK$552 million payable by the Subscribers to the Company as follows: approximately HK$289.8 million on the Completion Date, approximately HK$131.1 million within 180 days after the Completion Date and approximately HK$131.1 million before the first anniversary of the Completion Date (on the basis that the payment of the remaining consideration for the Preferred Shares is not deferred and the Preferred Shares are not forfeited or repurchased by the Company in accordance with the terms of the Subscription Agreement). The aggregate net proceeds from the Subscription amounts to approximately HK$535 million and is planned to be applied as follows:

— as to HK$16 million for investment in Korean media resources including scripts, film directors, artists and copyrights, and artist management and training;

— as to HK$323 million for organising exhibitions, performance shows and concerts;

— as to HK$152 million for the investment and production of TV programmes and movies; and

— as to the remaining HK$44 million for the establishment of an online platform to provide media contents on the Internet.

The net proceeds per Subscription Share upon completion of the Subscription and payment in full of the Subscription Price represent a net price of approximately HK$0.19 per Subscription Share.

The payment of the remaining Subscription Price of the Preferred Shares in the aggregate amount of HK$262.2 million is subject to certain conditions as set out in the section headed "Subscription Price" above and may or may not be made. In the event payment of the remaining Subscription Price of the Preferred Shares is not made, the Company will review its development plans as envisaged under the above planned use of proceeds and the Company may consider raising funds to implement the development plans or scale back the development plans as appropriate.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the fund raising activities conducted by the Company in the past 12 months immediately preceding the date of the Announcement.

Date of announcement	Description	Net proceeds	Intended use of proceeds	Actual use of proceeds
3 April 2014	Placing of 100,000,000 new shares at HK$0.23 per share	Approximately HK$22.1 million	Working capital, capital expenditures and general corporate purposes	(i) Approximately HK$4.3 million of the proceeds was utilised for the acquisition of China Star Movie Limited as announced by the Company on 14 April 2014; (ii) approximately HK$3.0 million of the proceeds was used for general corporate purposes; and (iii) the remaining proceeds have not been utilised.
24 April 2014	Placing of 300,000,000 new shares at HK$0.28 per share	Approximately HK$81.0 million	Film production and/or general working capital purpose	The proceeds have not been utilised.

APPLICATION FOR WHITEWASH WAIVER

Upon Completion, Jiaxuan (being one of the Subscribers) will be interested in 965,863,405 Ordinary Shares, representing 42.00% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares. Upon full conversion of the Preferred Shares, Jiaxuan will in aggregate be interested in 1,931,726,809 Ordinary Shares representing 52.50% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares.

Vision Path, First Charm and REORIENT Global, who are also the Subscribers, are considered as parties acting in concert with Jiaxuan. Upon Completion, the Subscribers and their respective concert parties will in aggregate be interested in 1,379,804,865 Ordinary Shares representing 60.00% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares. Upon full conversion of the Preferred Shares, the Subscribers and their respective concert parties will in aggregate be interested in 2,759,609,727 Ordinary Shares representing 75.00% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares.

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and any parties acting in concert with any of them, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Subscribers have made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion of the Subscription is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders on a vote by way of poll at the SGM.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscribers and their respective concert parties in the Company will exceed 50% upon Completion. The Subscribers and their respective concert parties may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

INCREASE IN AUTHORISED SHARE CAPITAL AND AMENDMENT TO BYE-LAWS

The Company had an authorised share capital of HK$30,000,000 divided into 3,000,000,000 ordinary shares of HK$0.01 each as at the Latest Practicable Date. In view of the Subscription, the Board proposes the Share Capital Resolution to increase the authorised share capital of the Company from HK$30,000,000 to HK$100,000,000 by (i) the creation of an additional 5,000,000,000 Ordinary Shares and (ii) the creation of 2,000,000,000 new Preferred Shares, such that following the Share Capital Resolution, the authorised share capital of the Company will be HK$100,000,000 divided into 8,000,000,000 Ordinary Shares and 2,000,000,000 Preferred Shares.

The Board further proposes to amend the Bye-laws to, among others, reflects (i) the Share Capital Resolution; and (ii) the creation and issue of the Preferred Shares with the rights, privileges and restrictions set out thereto. The Bye-laws are proposed to be amended in the manner as set out in Appendix III to this circular. Such amendments to the Bye-laws are conditional upon, among others, the passing of the special resolution by Independent Shareholders at the SGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, being all the independent non-executive Directors, has been established to give recommendations to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. Somerley Capital Limited has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee in respect of the fairness and reasonableness of the Subscription and the Whitewash Waiver.

SGM

The SGM will be convened and held at United Conference Centre, Room 1, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 16 March 2015 at 10:00 a.m. for the purposes of considering and, if thought fit, approving, among other things, the Subscription and the transactions contemplated thereunder (including the Specific Mandate), the Whitewash Waiver, the Share Capital Resolution, the amendment to Bye-laws and the Appointment of Directors by way of a poll. For the purpose of the Subscription (including the Specific Mandate), the Share Capital Resolution, the amendment to Bye-laws and the Appointment of Directors, any Shareholders and its associates who have material interest in such matters shall abstain from voting on the resolutions to be proposed at the SGM to approve such matters. For the purpose of the Whitewash Waiver, the Subscribers and their respective concert parties and other Shareholders who are interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver shall abstain from voting on the resolutions to be proposed at the SGM to approve the Whitewash Waiver. None of the Shareholders has a material interest (other than being a Shareholder) in the Subscription (including the Specific Mandate), the Whitewash Waiver, the Share Capital Resolution, the amendment to Bye-laws or the Appointment of Directors as at the Latest Practicable Date. No Shareholders are required to abstain from voting at the SGM in respect of the resolutions relating to the aforesaid matters.

A notice convening the SGM is set out on pages 172 to 175 of this circular. A proxy form for use at the SGM is enclosed herewith. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 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 holding the meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or at any adjourned meeting(s) should you so wish.

RECOMMENDATION

The Directors (including the members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Subscription Agreement are fair and reasonable and the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the Subscription (including the Specific Mandate) and the Whitewash Waiver.

Your attention is drawn to:

(a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 34 to 35 of this circular; and

(b) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the text of which is set out on pages 36 to 80 of this circular.

The Directors consider that the Share Capital Resolution, the amendment to Bye-laws and the Appointment of Directors are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions.

ADDITIONAL INFORMATION

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

Warning: The Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent set out under the section headed "Conditions of the Subscription" in this circular, including approval by the Independent Shareholders at the SGM for the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive. As such, the Subscription may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
For and on behalf of the Board
China Star Cultural Media Group Limited
Leung Wai Man
Executive Director

China Star Cultural Media Group Limited
中國星文化產業集團有限公司*

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

(Stock Code: 8172)

18 February 2015

To the Independent Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 18 February 2015 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, (i) the terms of the Subscription Agreement are fair and reasonable; (ii) the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Subscription and the Whitewash Waiver at the SGM. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 36 to 80 of the Circular.

* *for identification purpose only*

Having considered the terms of the Subscription (including the Specific Mandate), the Whitewash Waiver and the advice of the Independent Financial Adviser, we are of the opinion that (i) the terms of the Subscription Agreement are fair and reasonable; (ii) the Subscription (including the Specific Mandate) is in the interests of the Company and the Shareholders as a whole; and (iii) the grant of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully
For and on behalf of the
Independent Board Committee

Mr. Yip Tai Him	**Mr. Law Yiu Sang, Jacky**	**Mr. Fung Wai Ching**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

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

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

18 February 2015

To: *the Independent Board Committee and*
the Independent Shareholders

Dear Sirs,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subscription pursuant to the Subscription Agreement (including the Specific Mandate); and (ii) the Whitewash Waiver. Details of the Subscription (including the Specific Mandate) and the Whitewash Waiver are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 18 February 2015 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Upon Completion, the Subscribers (namely Jiaxuan, Vision Path, First Charm and REORIENT Global) and their respective concert parties will in aggregate be interested in 1,379,804,865 Ordinary Shares representing approximately 60.0% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares. Upon full conversion of the Preferred Shares, the Subscribers (namely Jiaxuan, Vision Path, First Charm and REORIENT Global) and their respective concert parties will in aggregate be interested in 2,759,609,727 Ordinary Shares representing 75.0% of the issued Ordinary Shares as at the Latest Practicable

Date as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares. Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and any parties acting in concert with any of them, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Subscribers had made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders on a vote by way of poll at the SGM, whereby the Subscribers, their respective associates and parties acting in concert with them, and other Shareholders who are involved or interested in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver shall abstain from voting. The granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the SGM are part of the conditions of the Subscription which cannot be waived. If the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Subscription Agreement will not become unconditional and the Subscription will not proceed.

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, has been established to advise the Independent Shareholders on (1) whether the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders at the SGM. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, the Subscribers or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement (including the Specific Mandate) and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscribers or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Circular; and (ii) the interim report and third quarterly report of the Company for the six months ended 30 June 2014 and nine months ended 30 September 2014 respectively; and (iii) the annual reports of the Company for the two years ended 31 December 2012 and 2013. We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Circular are true, accurate and complete as at the Latest Practicable Date. Independent Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Subscribers or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering (1) whether the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders at the SGM, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Subscription Agreement

The Group is principally engaged in the provision of artist management services and film production and distribution. The Group recorded revenue of approximately HK$4.4 million for the nine months ended 30 September 2014 contributed by its artist management segment. This represents a decrease of approximately 65.5% as compared with the nine months ended 30 September 2013 due to tough business competition. For the nine months ended 30 September 2014, the Group recorded loss for the period of approximately HK$2.8 million, representing a decrease of approximately 59.4% as compared with loss of approximately HK$6.9 million for the corresponding period of 2013. A one-off gain on disposal of subsidiaries amounted to approximately HK$5.3 million was recorded by the Group for the nine months ended 30 September 2014. If excluding such one-off gain, the Group would have recorded loss for the period of approximately HK$8.1 million for the nine months ended 30 September 2014, representing an increase of approximately 17.4% as compared to the loss for the corresponding period in 2013.

The Group recorded losses for the three years ended 31 December 2011, 2012 and 2013, and the nine months ended 30 September 2014. Given the poor financial results, the executive Directors consider that further resources are required to strengthen the Group's financial position, and the Group's business and development have to be refined. As set out in the Company's 2014 third quarterly report, while strengthening and developing the business of the Group are of utmost importance, the Group will continue to identify other appropriate investment opportunities to penetrate into other business sectors. In response to this, the executive Directors intend to draw on the Group's expertise in artist management, film production and distribution to expand into other sectors of the entertainment businesses such as organisation of exhibition, performance shows and concerts, and investment and production of television programmes and movies. It is stated in the "Letter from the Board" contained in the Circular that, Mr. Xu Zhongmin ("Mr. Xu"), (a director of Jiaxuan (one of the Subscribers) and also the spouse of Ms. Ma Qing (who is indirectly interested in 45% in Jiaxuan)) was the founder of Jingwen Records Co., Ltd. ("Jingwen"). It is stated in the official website of Jingwen that Jingwen was established in 1994. Jingwen, engages in music production and distribution in the PRC fostering a number of famous PRC artists, and publishes and distributes albums of certain famous artists in the PRC. While Jingwen develops the local original music, it also introduces music albums and video contents from renowned international producers and distributors. Moreover, it is engaged in publication of books and investment in multi-media educational materials. We understand from the executive Directors that Mr. Xu's brother is a controlling shareholder of Jingwen and Mr. Xu is currently involved in the daily operations of Jingwen. In addition, Mr. Xu is actively involved in the investment in television programmes and artist management business and has been involved in producing concerts in the PRC and performance shows in Las Vegas, the United States of America. Further details of Jingwen and Mr. Xu are set out in the "Letter from the Board" contained in the Circular. The executive Directors consider that Subscription will enable the Group, through Jiaxuan, to establish a strategic alliance with Jingwen and leverage on Jingwen's experience, expertise and business network in the PRC, in particular, those relating to the PRC entertainment industry.

Jiaxuan, following Completion, will become the controlling shareholder of the Company. Based on the reasons as set out above, the executive Directors consider that Jiaxuan, which can bring in connections with Jingwen, is a suitable strategic partner for the Group. The executive Directors further consider that the introduction of Jiaxuan as a strategic partner will benefit the Group's long term development, in particular, the expansion and development of businesses in other sectors in the entertainment industry discussed above. Moreover, the Subscription will enable the Group to raise additional funds, improve the financial position and liquidity of the Group as well as provide the Company with the financial flexibility to further develop its business and capture any prospective investment opportunities as and when they arise. Accordingly, the executive Directors believe that it is in the interests of the Company and the Shareholders as a whole to proceed with the Subscription by entering into the Subscription Agreement.

After acquisition of Ordinary Shares in early August 2012, Eternity Investment Limited ("Eternity"), a company listed on the Stock Exchange, became a substantial Shareholder of the Company. It is stated in the 2013 annual report of the Company that since Eternity has engaged in film distribution business in the PRC since 2001, this presents a good opportunity for the Group to form a strategic alliance with Eternity by leverage its expertise, network and connections in film distribution in the PRC. We note from the announcement of Eternity dated 19 December 2014 that Eternity disposed of 75.8 million Ordinary Shares on 19 December 2014, representing approximately 8.2% of the issued share capital of the Company as at 19 December 2014. Following the disposal, the shareholding interest held by Eternity in the Company dropped from approximately 15.9% to approximately 7.7% as at 19 December 2014. We also note from the announcement of Eternity dated 13 January 2015 that Eternity's shareholders approved a disposal mandate sought by Eternity to dispose of up to 146.64 million Ordinary Shares for a period of 12 months from the date on which the disposal mandate is approved by shareholders of Eternity. It is stated in the announcement and circular of Eternity dated 19 December and 23 December 2014 respectively that the investment in the Company is for the purpose of forming a strategic alliance with Culture Landmark Investment Limited ("Culture Landmark") (a company listed on the Stock Exchange) and the Company in order to secure a stable supply of films from the Company for revitalising Eternity's film distribution business. However, such investment in the Company does not produce the intended results and Culture Landmark is no longer a Shareholder. Accordingly, Eternity intends to dispose of all remaining Ordinary Shares held by it. We understand from executive Directors that it is uncertain whether the strategic alliance with Eternity can be maintained. On this basis, we concur with the executive Directors' view that it is in the interests of the Company to establish a strategic alliance with Jiaxuan through the Subscription. Coupled with the Subscription Price considered by us to be fair and reasonable as set out in the sub-section headed "Peer comparison" below of this letter, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Subscription Agreement

Set out below is a summary of principal terms of the Subscription Agreement. Further details of terms of the Subscription Agreement are set out in the "Letter from the Board" contained in the Circular.

(a) The Subscription Agreement

Date: 24 November 2014

Issuer: The Company

Subscribers:
(i) Jiaxuan
(ii) Vision Path
(iii) First Charm
(iv) REORIENT Global

Pursuant to the Subscription Agreement, the Subscribers have conditionally agreed to subscribe for a total of 2,759,609,727 Subscription Shares, comprising 1,379,804,865 new Ordinary Shares and 1,379,804,862 new Preferred Shares (including Tranche A Preferred Shares and Tranche B Preferred Shares) at an issue price of HK$0.20 per Subscription Share. Details of the Subscription Shares to be subscribed for by each of the Subscribers are set out in the table in the sub-section headed "Subscription Shares" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular. On 16 February 2015, the Company and the Subscribers entered into a supplemental agreement to the Subscription Agreement to vary certain terms of the Subscription relating to the Subscribers' Director nomination rights and the Company's obligation to procure such appointment, details of which are set out in the Company's announcement dated 16 February 2015.

(b) The Subscription Price

The Subscription Price is HK$0.20 per Subscription Share. As stated in the sub-section headed "Subscription Price" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular, the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers after taking into account the then prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares and the unaudited net asset value per Ordinary Share as at 30 June 2014.

The aggregate Subscription Price amounts to approximately HK$552 million, shall be payable in cash by the Subscribers in proportion to their Subscription Shares subscribed in such manners: (i) at Completion, (1) the Subscription Price of the Ordinary Shares Subscription of approximately HK$276 million; and (2) 5% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription of approximately HK$13.8 million; (ii) on a date falling within 180 days after the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the date falling on the last day of such 180 days period after the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), 95% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription of approximately HK$131.1 million; and (iii) on a date falling before the first anniversary of the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the first anniversary of the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), 95% of the aggregate Subscription Price of the Tranche B Preferred Shares Subscription of approximately HK$131.1 million.

As set out in the Company's 2014 interim report, the Group's cash and cash equivalents amounted to approximately HK$138.1 million, representing approximately 76.6% of the Group's total assets as at 30 June 2014. Rule 19.82 of the GEM Listing Rules stipulates that where for any reason 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. If the entire proceeds from the Subscription of approximately HK$552 million are to be received at Completion, the executive Directors consider that this may render the Company's assets to consist substantially of cash immediately after Completion, and may result in the Company not suitable for listing under the GEM Listing Rules. Thus, the executive Directors have taken into account this factor to determine the payment term of the Subscription during the commercial negotiations with the Subscribers and consider that the payment arrangement under the Subscription Agreement as set out above to be, on balance, in the interests of the Company and its Shareholders. In view of (a) the benefits of the Subscription as set out in the sub-section headed "Background to and reasons for the Subscription Agreement" above of this letter; (b) the Subscription Price considered to be fair and reasonable as discussed in this letter below; and (c) the implication and requirements of Rule 19.82 of the GEM Listing Rules, we consider that the payment arrangement under the Subscription Agreement to be acceptable.

Upon Completion, the Preferred Shares shall be issued and credited as partly paid. Payment of the remaining Subscription Price of the Preferred Shares as set out in (ii) and (iii) above are subject further to fulfillment of conditions by the Company in accordance with the Subscription Agreement. Under certain circumstances as stipulated in the Subscription Agreement, the Subscribers may elect to defer or not to proceed further with its outstanding payment obligation of its balance of the aggregate Subscription Price of the relevant Preferred Shares and the Company shall accordingly repurchase the relevant Preferred Shares at an amount equivalent to the Subscription Price received by the Company for such Preferred Shares. On the other hand, in the event the relevant Subscriber fails to pay its remaining Subscription Price for the Preferred Shares as set out in (ii) and (iii) above, the Company shall be entitled not to convert the relevant Preferred Shares and in certain circumstances forfeit such Preferred Shares issued to such Subscriber in accordance with the terms of the Subscription Agreement.

Further details in relation to the above are set out in the sub-section headed "Subscription Price" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular.

(c) The size of the Subscription, rights of the Subscription Shares and the Specific Mandate

As at the Latest Practicable Date, there were 919,869,909 Ordinary Shares in issue and the 1,379,804,865 Ordinary Subscription Shares represented (i) approximately 150.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) assuming there is no change in the issued share capital of the Company other than the issue of the Ordinary Subscription Shares up to Completion, approximately 60.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Ordinary Subscription Shares.

Upon conversion of the Tranche A Preferred Shares in full, 689,902,432 Conversion Shares will be allotted and issued, representing (i) approximately 75.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 23.1% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under the Tranche A Preferred Shares (on the basis that no Tranche B Preferred Shares are converted into Ordinary Shares and assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement, and that there is no other change in the number of issued Ordinary Shares).

Upon conversion of the Tranche B Preferred Shares in full, 689,902,430 Conversion Shares will be allotted and issued, representing (i) approximately 75.0% of the issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 18.7% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under both the Tranche A Preferred Shares and the Tranche B Preferred Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement, and that there is no other change in the number of issued Ordinary Shares). Further details regarding the effect of the Subscription on the Company's shareholding structure are set out in the section headed "Effect on shareholding structure" in the "Letter from the Board" contained in the Circular. Upon Completion, the 1,379,804,865 Ordinary Subscription Shares will be allotted and issued as fully paid and the 1,379,804,862 new Preferred Shares will be allotted and issued as partly paid.

The Ordinary Subscription Shares and the Conversion Shares will rank pari passu in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Ordinary Subscription Shares and the Conversion Shares respectively. The new Preferred Shares which are partly paid shares at Completion do not carry any voting rights in the Company. Details relating to voting rights of Preferred Shares (where fully paid) are set out in the sub-section headed "Information on the Preferred Shares" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular. No application will be made for the listing of, or permission to deal in, the Preferred Shares on GEM or any other stock exchange. An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Subscription Shares and the Conversion Shares.

The Subscription Shares and the Conversion Shares will be allotted and issued pursuant to the Specific Mandate, of which approval will be sought from the Independent Shareholders at the SGM.

(d) Information on the Preferred Shares

Pursuant to the Subscription Agreement, one Preferred Share (with issue price of HK$0.20 per Preferred Share) is convertible into one Ordinary Share (subject to adjustment of the conversion price) at an initial conversion price of HK$0.20 during the period commencing from the Completion Date and ending on the second anniversary of the Completion Date. The initial conversion price of HK$0.20 is subject to customary adjustment for, among other matters, subdivision or consolidation of Ordinary Shares, capitalisation of profits or reserves, capital distributions, rights issue or grant to all Shareholders any options or warrants to subscribe for new Ordinary Shares at a price which is less than 90% of then market price (as defined in Appendix III to the Circular), issue of any securities wholly for cash which can be convertible into or exchangeable into Ordinary Shares at a price which is less than 90% of then market price (as defined in Appendix III to the Circular), modification of rights of conversion or exchange or subscription attached for any convertible or exchangeable securities and the total effective consideration per Ordinary Share initially receivable for such securities to be less than 90% of then market price (as defined in Appendix III to the Circular), and issue wholly for cash of any Ordinary Shares at a price per Ordinary Share which is less than 90% of then market price (as defined in Appendix III to the Circular). Conversion is subject to the minimum public float requirement under the GEM Listing Rules and the payment in full of the Subscription Price of the Preferred Shares. None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution. Any Preferred Shares, subject to it having been fully paid up, shall be freely transferable. No partly paid Preferred Shares can be transferred. Other than the repurchase and forfeiture under certain circumstances as stated in the Subscription Agreement, the Preferred Shares shall be non-redeemable. Further details in relation to the terms of the Preferred Shares are set out in the sub-section headed "Information on the Preferred Shares" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular (for principal terms) and Appendix III to the Circular.

(e) Conditions of the Subscription

Completion of the Subscription is conditional upon satisfaction (or waiver by the Subscribers jointly or the Company (as the case may be)) of certain conditions. Certain conditions, including (1) the obtaining of the Independent Shareholders' approval of, among other things, the Whitewash Waiver, the Subscription Agreement and the Specific Mandate; and (2) the granting of the Whitewash Waiver by the Executive, cannot be waived in any event. It is set out in the "Letter from the Board" contained in the Circular that the SGM will be convened for the purposes of considering and, if thought fit, approving, among other things, the Subscription and the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver by way of a poll. Further details of conditions of the Subscription are set out in the sub-section headed "Conditions of the Subscription" in the section headed "Subscription Agreement" in the "Letter from the Board" contained in the Circular.

Completion shall take place on the fifth Business Day from and excluding the day on which the last of the specified conditions precedent of the Subscription Agreement have been fulfilled. If the conditions are not fulfilled or waived (as applicable) prior to the Long Stop Date (i.e. 31 March 2015 or such other date as may be agreed by the parties to the Subscription Agreement in writing), none of the Company nor the Subscribers shall be bound to proceed with the transactions contemplated under the Subscription Agreement and the Subscription Agreement shall cease to be of any effect save as to any antecedent breach of the Subscription Agreement. As at the Latest Practicable Date, none of the conditions have been satisfied or waived.

3. Future intentions of Jiaxuan regarding the Group

As set out in the section headed "Future intentions of Jiaxuan regarding the Group" in the "Letter from the Board" contained in the Circular, Jiaxuan intends to strengthen the existing film production business of the Group to more actively produce films and television programmes. Jiaxuan intends that the Group would consider opportunities for (a) acquiring film rights of popular Korean programmes and reproducing such programmes for audience in the PRC; and (b) co-operating with well-known international producers to make movies. In parallel with developing the Group's existing business, Jiaxuan also intends that the Group would organise exhibitions, performance shows and concerts in major cities in the PRC and establish an online platform, including acquiring and producing media contents such as videos, and live performances and concerts to be provided on such platform. It is also the intention that the Group would cooperate with an independent technology company, such as by way of establishing joint ventures and/or making equity investment in the technology company, to provide on-line news search and video-on-demand services to Internet users. Definitive terms of the cooperation have not been reached yet and such cooperation may or may not proceed.

As advised by executive Directors, the Company discussed with Jiaxuan in formulating the usage of net proceeds from the Subscription as set out in the "Letter from the Board" contained in the Circular. It is stated in the "Letter from the Board" contained in the Circular that Jiaxuan intends that in 2015 and 2016, the Group will invest in Korea-related media contents, film scripts and production, organise an exhibition, hold three concert series, produce two movies and a television programme and establish an online platform including producing online contents. It is also stated that given the early stage of development of the Group's entertainment business in the PRC during which the Company will be building its reputation in the entertainment industry in the PRC, the Group would incur substantial costs in its development plan and the financial results of the Group may be affected accordingly. Further details are set out in the section headed "Future intentions of Jiaxuan regarding the Group" in the "Letter from the Board" contained in the Circular. It is further stated that on the basis of the Group's development plan and investment schedule as intended by Jiaxuan, the net proceeds from the Subscription will be utilised in 2015 and 2016, and the Group's assets should not be composed wholly or substantially of cash or short-dated securities following Completion. In view of the usage of net proceeds from the Subscription in full in 2015 and 2016, the executive Directors consider that the Company would not become a "cash company" as a result of the Subscription. The Group is currently engaged in certain aspect of the entertainment business. We are of the view that the Subscription will enable the Company to (1) raise a substantial amount of funds for the Group to invest in other business opportunities in the entertainment industry; and (2) establish a strategic alliance with Jingwen (through Jiaxuan) which possesses experience in the PRC entertainment industry. All of these can strengthen the business of the Group which, in our view, is in the interests of the Company and the Shareholders as a whole.

We note that Jiaxuan is an investment holding company ultimately owned as to 55% by Mr. Wong Kwong Yu ("Mr. Wong") and as to 45% by Ms. Ma Qing, who is the spouse of Mr. Xu. Details of the conviction of offences and sentences received by Mr. Wong and Mr. Xu are set out in the section headed "Reasons for and benefits of the Subscription" in the "Letter from the Board" contained in the Circular. The executive Directors are of the view that the business connections of Jiaxuan and Jingwen, particularly in PRC entertainment industry, will be valuable to the Company. We understand from the executive Directors that the directors of Jiaxuan confirm that they have no intention to engage Mr. Wong to take an active role in the management of the Company and they have no intention to procure Jiaxuan to exercise its powers as controlling Shareholder of the Company after Completion to nominate Mr. Wong to be a Director or to take an active role in the management of the Company. It is stated in the "Letter from the Board" contained in the Circular that in view of Mr. Xu's experience in the entertainment industry in the PRC, it is envisaged that he will take part in the management of the Group's future business development in the PRC. The Subscribers have recommended Ms. Wu Li, Mr. Zou Xiao Chun, Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard to be appointed as Directors with effect from the Completion Date. The Board has proposed such persons as candidates for election as Directors subject to approval of the Shareholders at the SGM. Further details of the biographical details of the proposed Directors are set out in the sub-section headed "Proposed appointment of Directors" in the "Letter from the Board" contained in the Circular. After Completion, the Board will from time to time review its composition and may appoint additional person(s) to be Directors as appropriate in accordance with the Bye-laws and in compliance with the GEM Listing Rules. Other than those disclosed in the section headed "Future intentions of Jiaxuan regarding the Group" in the "Letter from the Board" contained in the Circular, Jiaxuan does not intend to introduce major changes to the business of the Group including any redeployment of the fixed assets of the Group and termination of employment of the employees of the Group, other than in the ordinary course of business. Jiaxuan will continually assess the performance and prospects of the Group's business and make any necessary strategic business development plans in response to the prevailing economic outlook and market conditions from time to time. Further details of the Group's development plan as intended by Jiaxuan are set out in the section headed "Future intentions of Jiaxuan regarding the Group" in the "Letter from the Board" contained in the Circular.

4. Financial information and prospects of the Group

(a) Financial performance

The following is a summary of the (i) unaudited condensed consolidated results of the Group for the nine months ended 30 September 2013 and 2014 (as extracted from the Company's 2014 third quarterly report); and (ii) audited consolidated results of the Group for the three years ended 31 December 2011 (as extracted from the Company's 2012 annual report), 2012 and 2013 (both 2012 and 2013 results are extracted from the Company's 2013 annual report). Further details of the results and other financial information of the Group are set out in Appendix I to the Circular.

	For the nine months ended 30 September		For the year ended 31 December		
	2014	**2013**	**2013**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(restated)	(restated)
				(Note 1)	*(Note 2)*
Continuing operations					
Turnover	4,350	12,592	15,698	26,547	44,330
Cost of sales	(3,173)	(9,031)	(10,948)	(20,430)	(34,927)
Gross profit	1,177	3,561	4,750	6,117	9,403
Other revenue and other income	491	332	2,445	442	135
Gain on derecognition of convertible loan notes	—	1,935	—	—	—
Administrative expenses	(9,052)	(12,270)	(19,139)	(17,864)	(11,384)
Impairment loss recognized in respect of goodwill	(9)	—	—	—	—
Other operating expenses	—	—	—	—	(6,387)
Finance costs	—	(563)	(563)	(686)	(603)
Share of (losses)/profits of joint ventures	(630)	80	(322)	(17)	—
Gain on disposal of subsidiaries	5,261	—	—	—	—
Loss before tax	(2,762)	(6,925)	(12,829)	(12,008)	(8,836)
Income tax expense	—	—	—	—	—

	For the nine months ended 30 September		For the year ended 31 December		
	2014	**2013**	**2013**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (restated) *(Note 1)*	*HK$'000* (restated) *(Note 2)*
Loss for the period/ year from continuing operations	(2,762)	(6,925)	(12,829)	(12,008)	(8,836)
Discontinued operation *(Note 3)*					
Loss for the year from discontinued operation	—	—	—	(3,092)	(11,415)
Loss for the year	—	—	(12,829)	(15,100)	(20,251)
Loss for the period/year attributable to:					
Owners of the Company	(2,762)	(6,925)	(12,828)	(15,100)	(20,251)
Non-controlling interests	—	—	(1)	—	—
	(2,762)	(6,925)	(12,829)	(15,100)	(20,251)
Total comprehensive loss attributable to:					
Owners of the Company	(2,762)	(6,925)	(12,828)	(15,100)	(20,251)
Non-controlling interests	—	—	(1)	—	—
	(2,762)	(6,925)	(12,829)	(15,100)	(20,251)
Dividend	—	—	—	—	—
Loss per share					
From continuing and discontinuing operations					
Basic and diluted	HK$(0.4) cent	HK(1.37) cents	HK(2.54) cents	HK(2.99) cents	HK(4.00) cents
From continuing operations					
Basic and diluted	HK$(0.4) cent	HK(1.37) cents	HK(2.54) cents	HK(2.38) cents	HK(1.75) cents
From discontinued operation					
Basic and diluted	N/A	N/A	N/A	HK(0.61) cent	HK(2.25) cents

Notes:

1. As set out in the Company's 2013 annual report, the change in accounting of the Group's investments in China Star Film Group Limited, a joint venture of the Group, has been applied in accordance with the relevant transitional provisions set out in the Hong Kong Financial Reporting Standard 11 "Joint arrangements". Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investments in China Star Film Group Limited and its subsidiaries. Details are set out in the Company's 2013 annual report and the section headed "Audited consolidated financial information for the year ended 31 December 2013" in Appendix I to the Circular.

2. As set out in the Company's 2012 annual report, on 29 June 2012, the Group completed the disposal of its wholly-owned subsidiary, Infrared Engineering and Consultants Limited ("Infrared"). The business which is solely carried out by Infrared became a discontinued operation of the Group. Details are set out in the Company's 2012 annual report. As a result, the 2011 consolidated income statement is restated according to the Hong Kong Financial Reporting Standard 5 "Non-current assets held for sale and discontinued operations" to re-present the items related to the discontinued operation.

3. As set out in the Company's 2011, 2012 and 2013 annual reports, upon completion of the disposal of certain wholly owned subsidiaries by the Group, the business of certain operations which is solely carried out by the wholly owned subsidiaries (before disposal), became discontinued operations of the Group. Details are set out in the Company's 2011, 2012 and 2013 annual reports and the section headed "Audited consolidated financial information for the year ended 31 December 2013" in Appendix I to the Circular (for details in relation to discontinued operation for the year ended 31 December 2012 only).

(i) Revenue

The Group has two business segments, namely artist management and film production and distribution.

For the period ended 30 September 2014, revenue of the Group was approximately HK$4,350,000 solely generated from the provision of artist management, representing a decrease of approximately 65.5% as compared to approximately HK$12,592,000 for the corresponding period in 2013. Such decrease in revenue was due to the tough business competition as compared with the corresponding period in 2013. The gross profit margin for the period ended 30 September 2014 was approximately 27.1% as compared to 28.3% for the period ended 30 September 2013.

For the years ended 31 December 2011, 2012 and 2013, revenue of the Group amounted to approximately HK$44,330,000, HK$26,547,000 and HK$15,698,000 respectively. The decrease in the Group's revenue for the year ended 31 December 2013 was primarily due to the tough business competition as compared with the year ended 31 December 2012. Over 99.0% of the total revenue for each of the three years mentioned above were contributed by the segment of artist management. The gross profit margin was approximately 21.2%, 23.0% and 30.3% for the year ended 31 December 2011, 2012 and 2013 respectively.

(ii) Administrative expenses

Administrative expenses comprised mainly of legal and professional fees, staff costs, operating leases and other general administrative expenses incurred by the Group.

For the period ended 30 September 2014, administrative expenses decreased by approximately 26.2% to approximately HK$9,052,000 from approximately HK$12,270,000 for the period ended 30 September 2013. It was mainly attributable to (a) a decrease in expenses on operating leases of approximately HK$2,305,000 for the period ended 30 September 2014 as compared to that for the period ended 30 September 2013; and (b) a decrease in salaries and allowances of approximately HK$2,554,000 as compared to that for the period ended 30 September 2013.

For the year ended 31 December 2013, administrative expenses increased by 7.1% to approximately HK$19,139,000 from approximately HK$17,864,000 for the year ended 31 December 2012. This was mainly attributable to (a) an increase of approximately HK$1,106,000 in expenses on operating leases, as compared to that for the year ended 31 December 2012; (b) an increase of approximately HK$2,830,000 in impairment loss on film rights and deposits to artists as no such amount was incurred for the year ended 31 December 2012; and (c) an increase of approximately HK$863,000 in salaries and allowance as compared to the corresponding year in 2012, which was partly offset by the decrease in legal and professional fees amounted to approximately HK$1,886,000 as compared to that in 2012. For the year ended 31 December 2011, the administrative expenses of the Group were approximately HK$ 11,384,000.

(iii) Share of (losses)/profits of joint ventures

China Star Film Group Limited, a joint venture of the Group, is principally engaged in film production and distribution. For the nine months ended 30 September 2013 and 2014, profit of HK$80,000 and loss of approximately HK$630,000 of joint venture were recorded respectively. For the year ended 31 December 2012 and 2013, loss of HK$17,000 and approximately HK$322,000 of joint venture were recorded in each of the years respectively.

China Star Film Group Limited has two films in the preproduction phase. Due to the scheduling of the film casts and revision to the scripts, shooting of these two films has been delayed, and its completion date and the release date of the said films have not been determined.

(iv) Loss for the period/year attributable to owners of the Company

During the period ended 30 September 2014, loss for the period attributable to owners of the Company decreased by approximately HK$4,163,000 from approximately HK$6,925,000 for the period ended 30 September 2013 to approximately HK$2,762,000 of the corresponding period in 2014. Such decrease was mainly attributable by (a) one-off gain on disposal of subsidiaries amounted to approximately HK$5,261,000 for the nine months ended 30 September 2014; and (b) a decrease in the administrative expenses amounted to approximately HK$3,218,000 as compared to that in 2013, partly offset by (a) a decrease in gross profit by approximately HK$2,384,000 as compared to that in the corresponding period in 2013; and (b) no gain on derecognition of convertible loan notes was recorded for the period ended 30 September 2014 as compared to a gain of approximately HK$1,935,000 recorded for the corresponding period in 2013.

During the year ended 31 December 2013, loss for the year attributable to owners of the Company decreased by approximately HK$2,272,000, from approximately HK$15,100,000 for the year ended 31 December 2012 to approximately HK$12,828,000 for the year ended 31 December 2013. Such decrease was mainly attributable by (a) no loss of discontinued operation was recorded for the year ended 31 December 2013, as compared to approximately HK$3,092,000 recorded for the year ended 31 December 2012; and (b) an increase in other revenue and other income by approximately HK$2,003,000 in 2013 as compared to that for the year ended 2012, partly offset by (a) an increase in administrative expenses amounted to approximately HK$1,275,000 in 2013 as compared to the amount in 2012; and (b) a decrease in gross profit amounted to approximately HK$1,367,000 in 2013 comparing to the gross profit for the year of 2012. For the year ended 31 December 2011, loss for the year attributable to owners of the Company was approximately HK$20,251,000.

(b) Financial position

Set out below are the (a) unaudited condensed consolidated statement of financial position of the Group as at 30 June 2014 (as extracted from the Company's 2014 interim report); and (b) audited consolidated statement of financial position of the Group as at 1 January 2012, 31 December 2012 and 2013 (all are extracted from the Company's 2013 annual report). Further details of the financial position of the Group as at those dates and other financial information are set out in Appendix I to the Circular.

	30 June 2014 *HK$'000*	**31 December 2013** *HK$'000*	**31 December 2012** *HK$'000* (restated) *(Note 1)*	**1 January 2012** *HK$'000* (restated) *(Note 1)*
ASSETS				
Non-current assets				
Property, plant and equipment	10	1,721	2,244	364
Film rights (and films in progress)	6,475	912	1,188	1,188
Goodwill	—	—	—	3,280
Interests in joint ventures	27,670	28,317	28,639	28,656
Total non-current assets	34,155	30,950	32,071	33,488
Current assets				
Trade receivables	70	50	53	1,300
Deposits, prepayments and other receivables	7,976	3,116	9,963	7,898
Amount due from joint ventures	6	6	12	6
Cash and cash equivalents	138,138	48,780	53,533	70,111
Total current assets	146,190	51,952	63,561	79,315

	30 June 2014 HK$'000	31 December 2013 HK$'000	31 December 2012 HK$'000 (restated) (Note 1)	1 January 2012 HK$'000 (restated) (Note 1)
LIABILITIES				
Current liabilities				
Trade payables	—	—	71	11
Accruals and other payables	687	5,292	2,820	3,734
Receipts in advance	3,749	3,408	4,348	6,251
Convertible loan notes	—	—	5,637	—
Total current liabilities	4,436	8,700	12,876	9,996
Net current assets	141,754	43,252	50,685	69,319
Total assets less current liabilities	175,909	74,202	82,756	102,807
Non-current liability				
Convertible loan notes	—	—	—	4,951
Total non-current liability	—	—	—	4,951
Net assets	175,909	74,202	82,756	97,856
EQUITY				
Share capital	9,056	5,056	5,056	5,056
Reserves	166,853	69,137	77,700	92,800
Equity attributable to owners of the Company	175,909	74,193	82,756	97,856
Non-controlling interests	—	9	—	—
Total equity	175,909	74,202	82,756	97,856

Note:

1. Figures relating to financial position of the Group as at 31 December 2012 and 1 January 2012 have been restated resulting from change in accounting policies. Please refer to note 1 in paragraph (a) headed "Financial performance" above for further details.

(i) Major assets

Assets of the Group mainly include (a) cash and cash equivalents; (b) interests in joint ventures; (c) deposits, prepayments and other receivables; and (d) film rights (and films in progress). As at 30 June 2014, the Group had total assets of approximately HK$180,345,000, representing an increase of approximately 117.5% as compared to total assets of approximately HK$82,902,000 as at 31 December 2013. The Group's cash and cash equivalents amounted to approximately HK$138,138,000 as at 30 June 2014, which accounted for 76.6% of the total assets, representing an increase of approximately 183.2% as compared to that as at 31 December 2013. Increase in cash and cash equivalents was mainly attributable to the net proceeds from placing of new Ordinary Shares by the Company in April 2014 and June 2014. The Group's interests in joint ventures amounted to approximately HK$27,670,000 as at 30 June 2014, which accounted for 15.3% of the total assets, representing a decrease of approximately 2.3% as compared to that as at 31 December 2013. Deposits (part of them represent the deposits paid for artist management and film production), prepayments and other receivables increased from HK$3,116,000 as at 31 December 2013 to HK$7,976,000 as at 30 June 2014. For film rights (and films in progress), the amount as at 30 June 2014 increased to approximately HK$6,475,000 from approximately HK$912,000 as at the year ended 2013. It is stated in the section headed "Material change" in Appendix I to the Circular that China Star Film Group Limited, a company held as to 50% by the Company, proposed a capital reduction of its issued shares and a distribution to its shareholders of the credit arising from the capital reduction in July 2014. As a result, the amount of the Company's investment in jointly controlled entities was reduced and the Company's cash and bank balances were increased. In addition, in October 2014, the Group acquired listed securities on the Stock Exchange at a total consideration of approximately HK$14.8 million. As a result of an increase in the market price of the listed securities, the Group would record a gain on change in fair value of investments of approximately HK$2.3 million for the year ended 31 December 2014. Further details of the material change statement are set out in the section headed "Material change" in Appendix I to the Circular.

(ii) Major liabilities

Liabilities of the Group mainly include (a) receipts in advance; (b) accruals and other payables; and (c) convertible loan notes (as at 1 January 2012 and 31 December 2012 only). As at 30 June 2014, the Group's total liabilities amounted to approximately HK$4,436,000, representing a decrease of approximately 49.0% as compared to approximately HK$8,700,000 as at 31 December 2013. Receipts in advance represents trade deposits received, which accounted for approximately 84.5% of the total liabilities as at 30 June 2014, representing an increase in 10.0% comparing to the amount as at 31 December 2013. Accruals and other payables amounted to HK$ 687,000 as at 30 June 2014, which accounted for approximately 15.5% of the total liabilities, representing a decrease in approximately 87.0% as compared to the amount as at 31 December 2013.

(c) Prospects of the Group

In view of the increased living standard and spending power of the population in the PRC, the executive Directors are of the view that the cultural industry will maintain growth momentum, especially in the development of films, television programmes, and online entertainment and media. All these will bring development opportunities for the Group and allow the Group to expand its business into other areas in the entertainment industry. The Group faces a number of challenges in its business such as intense competition in the PRC entertainment and media related industry. The number of talented artists and their performance will also affect the Group's business. The lengthy and capital-intensive nature of film and television programmes production may limit the number of films and television programmes which can be produced by the Group each year, and also timing for completion and release of such films and television programmes may be subject to uncontrollable factors. Moreover, the tastes of audience and market trends are changing constantly and are critical to the economic success of a film or television programme. Poor audience acceptance may lead to the Group's failure to recoup costs invested and generate sufficient funds for business.

5. Analysis of the historical price performance of the Ordinary Shares

(a) Comparison of the Subscription Price

The Subscription Price represents:

(i) a discount of approximately 59.6% to the closing price of HK$0.495 per Ordinary Share as quoted on the Stock Exchange on 20 November 2014, being the full trading day immediately prior to the Last Trading Day;

(ii) a discount of approximately 71.4% to the closing price (before suspension) of HK$0.700 per Ordinary Share as quoted on the Stock Exchange on 21 November 2014, being the Last Trading Day;

(iii) a discount of approximately 64.3% to the average closing price of HK$0.561 per Ordinary Share for the last 5 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 63.5% to the average closing price of HK$0.5475 per Ordinary Share for the last 10 consecutive trading days up to and including the Last Trading Day;

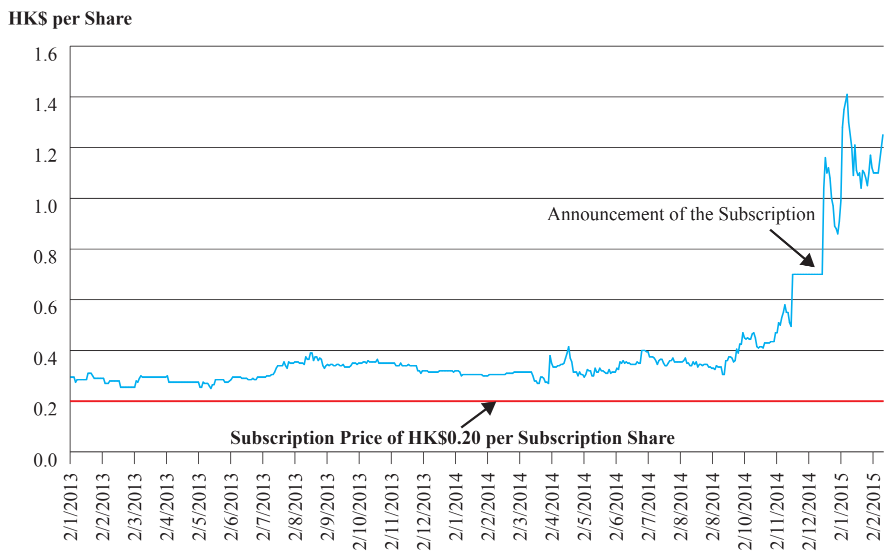
(v) a discount of 84.0% to the closing price of HK$1.250 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 3.7% over the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share of approximately HK$0.1928 per Ordinary Share as at 30 September 2014, which is calculated by dividing the unaudited consolidated net assets attributable to the Shareholders as at 30 September 2014 of approximately HK$174.63 million by the number of issued Ordinary Shares as at 30 September 2014 of approximately 905.65 million.

(b) Ordinary Share price performance

As illustrated in the chart below, the closing price of the Ordinary Shares fluctuated shortly before the announcement of the Subscription. Accordingly, we are of the view that it is appropriate to illustrate the closing Ordinary Share price for a longer time span for the period from 1 January 2013 up to and including the Latest Practicable Date (being approximately two years before the Latest Practicable Date) (the "Review Period") so as to avoid any short term fluctuation in closing Ordinary Share price. The chart below illustrates the daily closing price per Ordinary Share during the Review Period.

Share price chart



Source: Bloomberg

The Ordinary Share closing price of the Company fluctuated in a range of between HK$0.250 and HK$0.375 from 1 January to 20 August 2013 and closed at HK$0.390 per Ordinary Share on 21 August 2013. The Company published a number of announcements during this period in relation to, among other things, the Company's 2012 annual results, 2013 first quarterly results and 2013 interim results. Since 22 August 2013 till 3 April 2014, the Ordinary Share closing price showed a downward trend generally and closed in a range from HK$0.270 to HK$0.390 per Ordinary Share. On 3 April 2014 (after trading hours), the Company published an announcement in relation to placing of up to 100,000,000 new Ordinary Shares representing approximately 19.8%

of the then issued share capital of the Company as at the date of the placing announcement. The Ordinary Share closing price increased from HK$0.270 per Ordinary Share on 3 April 2014 to HK$0.380 per Ordinary Share on 4 April 2014, representing an increase of approximately 40.8%. As set out in the Company's 2014 first quarterly report, the placing was completed on 15 April 2014 and raised net proceeds of approximately HK$22 million for used in the Group's working capital, capital expenditures and general corporate purposes.

The Ordinary Share price of the Company closed in a range from HK$0.295 per Ordinary Share to HK$0.580 per Ordinary Share from 5 April to 19 November 2014. The Company published a number of announcements during this period in relation to, among others things, (a) the acquisition of the entire equity interest in China Star Movie Limited and the sale loan (as detailed in the Company's announcement dated 14 April 2014); (b) proposed placing of new Ordinary Shares (as detailed in the Company's announcement dated 24 April 2014); (c) inside information in relation to the possible investment and film distribution arrangement; and the entering into framework agreement for the possible investment and film distribution arrangement (as detailed in the Company's announcements dated 7 May 2014 and 8 May 2014 respectively); (d) the Company's 2014 first quarterly results (as detailed in the Company's announcement dated 13 May 2014); (e) change of Company name; change of stock short name and change of Company website (as detailed in the Company's announcement dated 1 August 2014); (f) the Company's 2014 interim results (as detailed in the Company's announcement dated 14 August 2014); (g) the disposal of shares by a substantial Shareholder (as detailed in the Company's announcement dated 24 September 2014); (h) the disposal of the entire equity interest in China Star Movie Limited and the sale loan; resignation of Executive Director, chairman and authorized representative; and appointment of Executive Director and authorized representative (as detailed in the Company's announcement dated 7 October 2014); and (i) the Company's 2014 third quarterly results (as detailed in the Company's announcement dated 12 November 2014).

The Ordinary Share price closed at HK$0.495 per Ordinary Share on 20 November 2014. On 21 November 2014 (i.e. the Last Trading Day), the Company announced suspension of trading in the Ordinary Shares with effect from 3:19 pm on the same day pending the release of the Announcement. The Ordinary Shares were closed at HK$0.700 per Ordinary Share prior to the suspension, representing an increase of approximately 41.4% as compared to the closing Ordinary Share price of HK$0.495 on 20 November 2014. On 18 December 2014 (after trading hours), the Company published the Announcement and resumed trading on 19 December 2014. The Ordinary Share price surged and closed at HK$1.040 per Ordinary Share on 19 December 2014, representing an increase of approximately 48.6% as compared to the closing price of HK$0.700 on 21 November 2014.

The Ordinary Shares closed at a price of HK$1.250 per Ordinary Share as at the Latest Practicable Date. The Subscription Price represents a discount of 84.0% to the closing price of the Ordinary Shares as at the Latest Practicable Date.

As set out above, the Ordinary Share closing price surged significantly after the publication of the Announcement. The surge might be related to market expectations of the benefits that will be brought to the Group as a result of the Subscription. There is no assurance that the closing price of the Ordinary Shares will remain at such a high level if the Subscription does not proceed or cannot be completed for any reason. Moreover, the Subscription Price is at all time below the closing prices of the Ordinary Shares during the Review Period.

6. Comparable issues

As set out in the section headed "Effect on shareholding structure" of the Announcement and in the "Letter from the Board" contained in the Circular, the Subscribers did not hold any shares of the Company as at the date of the Announcement and the Latest Practicable Date. Upon Completion and full conversion of the Preferred Shares, the Subscribers and their respective parties acting in concert will in aggregate be interested in 75% of the issued Ordinary Shares, assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no change in the issued share capital of the Company other than the issue of the Ordinary Subscription Shares and the Conversion Shares from the Latest Practicable Date and up to the date for full conversion of the Tranche A Preferred Shares and the Tranche B Preferred Shares, resulting in a change in control of the Company. The Subscribers had made an application to the Executive for the Whitewash Waiver.

For the purpose of our analysis, we have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best efforts basis for all share issues (the "Comparable Issues") announced since 1 January 2013 and up to the date immediately prior to the Latest Practicable Date by companies listed on the Stock Exchange (a) with the application of an whitewash waiver; (b) involving placing/subscription/issue of new shares and convertible securities of the listed companies (where the shares (or the underlying shares for cases with convertible securities) were to be listed on the Stock Exchange) in cash to/by a subscriber resulting in the subscriber group and its controlling shareholders, which did not hold any shares of such listed companies prior to such placing/subscription/issue, holding more than 30% of the voting rights and becoming the single largest shareholder of such listed companies, and leading to a change in control of such listed companies upon completion of the placing/subscription/issue; and (c) the whitewash waiver having been approved by the respective independent shareholders of listed companies. We have excluded (i) placing/subscription/issues announced by listed companies which, as at the date of announcement and/or currently, were/are under prolonged suspension; and (ii) transactions involving open offers or rights issues of new shares and convertible securities, which are usually made at discounts under open offers or rights issues. It should be noted that all the subject companies involved in the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company. Circumstances leading to the subject companies to proceed with the placing/subscription/issue may also be different from that of the Company. However, as the Comparable Issues fulfill the above criteria with similar deal structures to the Subscription, and can provide a general reference of this type of transaction in Hong Kong market, we consider them to be an appropriate basis to assess the fairness of the Subscription Price.

To the best of our knowledge, the Comparable Issues represent all placing/subscription/issues meeting the said criteria above. The table below illustrates the details of the Comparable Issues:

Date of announcement	Company name	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the announcement *(note 1)* % *(approximate)*	average closing share price for the 5 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	average closing share price for the 10 trading days immediately prior to the announcement *(note 1)* % *(approximate)*
8 May 2013	Greenland Hong Kong Holdings Limited (formerly known as "SPG Land (Holdings) Limited" ("SPG Land")) (stock code: 337) *(note 2)*	(25.3)	(10.2)	5.1
26 June 2013	New Focus Auto Tech Holdings Limited ("New Focus") (stock code: 360) *(note 3)*	(47.8)	(52.4)	(51.4)
10 October 2013	China New Town Development Company Limited ("China New Town") (stock code: 1278) *(note 4)*	(46.0)	(44.8)	(41.0)
20 November 2013	GR Properties Limited (formerly known as "Buildmore International Limited") (stock code: 108)	(55.0)	(54.1)	(55.2)
23 January 2014	Alibaba Health Information Technology Limited (formerly known as "CITIC 21CN Company Limited") (stock code: 241)	(63.9)	(61.8)	(61.2)

Date of announcement	Company name	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the announcement *(note 1)* % *(approximate)*	average closing share price for the 5 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	average closing share price for the 10 trading days immediately prior to the announcement *(note 1)* % *(approximate)*
13 February 2014	GCL New Energy Holdings Limited (formerly known as "Same Time Holdings Limited" ("Same Time")) (stock code: 451) *(note 5)*	(47.1)	(44.0)	(42.3)
11 March 2014	Alibaba Pictures Group Limited (formerly known as "ChinaVision Media Group Limited" ("ChinaVision")) (stock code: 1060) *(note 6)*	(21.9)	(8.8)	9.4
10 June 2014	Kong Sun Holdings Limited ("Kong Sun") (stock code: 295) *(note 7)*	(1.4)	(6.3)	3.2
13 June 2014	KuangChi Science Limited (formerly known as "Climax International Company Limited") (stock code: 439)	(76.1)	(74.9)	(75.2)
	Mean (simple average)	**(42.7)**	**(39.7)**	**(34.3)**
	Maximum	**(1.4)**	**(6.3)**	**9.4**
	Minimum	**(76.1)**	**(74.9)**	**(75.2)**
	The Subscription	**(71.4)**	**(64.3)**	**(63.5)**

Source: relevant announcements of the companies for the Comparable Issues

Notes:

1. The closing share prices are sourced from Bloomberg.

2. As mentioned in the announcement of SPG Land dated 8 May 2013, a special dividend of HK$1.275 per share was proposed by SPG Land after the completion of the subscription of shares by the subscriber. Since the subscriber had waived its entitlement to the special dividend and the shares of SPG Land were traded cum the special dividend, we have compared the subscription price of HK$1.9 per share (as set out in the announcement of SPG Land dated 8 May 2013) to the adjusted closing share prices of SPG Land to reflect the effect of the special dividend (being the closing price of shares of SPG Land on each relevant trading day less the special dividend of HK$1.275 per share).

3. As set out in the announcement of New Focus dated 26 June 2013, the Company entered into an investment agreement with an investor pursuant to which the investor agreed to subscribe for both ordinary shares and convertible bonds of New Focus. The above price comparison is based on the simple average of the discounts represented by (a) subscription price of HK$0.30 for the ordinary shares and (b) conversion price of HK$0.2328 for the convertible bonds, against closing share prices of New Focus of different periods prior to and including the last day of trading prior to the announcement.

4. China New Town published an announcement on 18 January 2013 in relation to, among other things, the discussions with several independent third parties regarding possible investment in China New Town in the form of subscription of new shares. As stated in the announcement of China New Town dated 10 October 2013, the subscription price of HK$0.27 per share was determined with reference to, among other things, average closing price of its shares for the three months period prior to the suspension of trading of the shares on the "undisturbed trading date". It was further disclosed in the announcement of China New Town dated 10 October 2013 that 14 January 2013 was the "undistributed trading date", i.e. the last trading day of the shares before the release of the aforesaid announcement dated 18 January 2013. Accordingly, we have taken 14 January 2013 as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 14 January 2013.

5. Same Time published an announcement after trading hour on 29 October 2013 in relation to, among other things, the memorandum of understanding in respect of a possible subscription of new shares and convertible bonds in Same Time. Pursuant to the memorandum of understanding, the subscription price was determined at HK$4.0 per share with reference to, among other things, the then recent trading performance of the shares of Same Time. As stated in the announcement of Same Time dated 13 February 2014, the subscription price of HK$4.0 per share was arrived at with reference to, among other things, trading performance of the shares of Same Time prior to the date of the memorandum of understanding. Accordingly, we have taken 29 October 2013 as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 29 October 2013.

6. Trading in shares of ChinaVision was suspended with effect from 9:30 a.m. on 25 February 2014 pending the release of its announcement dated 11 March 2014. 2.32 million shares of ChinaVision were traded on 25 February 2014 with a closing share price of HK$0.64 on the same day. We have taken 25 February 2014 as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 25 February 2014.

7. As stated in the announcement of Kong Sun dated 10 June 2014, the subscription price of HK$0.36 per share was arrived at with reference to, among other things, the then prevailing market prices of the shares of Kong Sun prior to the memorandum of understanding dated 29 March 2014. Accordingly, we have taken 28 March 2014 (i.e. the last day of trading immediately prior to 29 March 2014) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 28 March 2014.

The 9 Comparable Issues above have generally involved a placing, subscription or issue of new shares and convertible securities at discounts to their respective historical trading prices, except for the 10-day average price comparison of SPG Land, ChinaVision and Kong Sun.

As set out in the table above, the Subscription Price represents (a) a discount of approximately 71.4% to the closing Ordinary Share price on the Last Trading Day; (b) a discount of approximately 64.3% for the 5 trading days immediately prior to and including the Last Trading Day; and (c) a discount of approximately 63.5% for the 10 trading days immediately prior to and including the Last Trading Day. All of these are:

(1) within the range of discounts and premium, and close to the high end of discount range of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement, as well as the average closing share price for each of the 5 and 10 trading days; and

(2) less favourable than the mean of the range of discounts and premium of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement, as well as the average closing share price for each of the 5 and 10 trading days.

7. Peer comparison

As mentioned in the sub-section headed “Background to and reasons for the Subscription Agreement” above of this letter, the Group is principally engaged in the provision of artist management services and film production and distribution. The Ordinary Shares closed at HK$0.700 per Ordinary Share on the Last Trading Day as mentioned in the sub-section headed “Analysis of the historical price performance of the Ordinary Shares” above of this letter. Based on (a) the total number of 919,869,909 Ordinary Shares issued as at the date of the Announcement and (b) the closing price of HK$0.700 per Ordinary Share on the Last Trading Day, the market capitalisation of the Company was approximately HK$643.9 million as at the date of the Announcement. Accordingly, we have conducted a search on Bloomberg on a best effort basis for companies (the “Comparable Companies”): (i) primarily listed on the Stock Exchange which, based on their latest published annual reports, are principally engaged in both, among other things, artist management and films and television programmes production and distribution with 50% or more total revenue generating from businesses of provision of artist management and films and television programmes production and distribution; and (ii) with a market capitalisation of HK$1.2 billion or below as at the Latest Practicable Date. To the best of our knowledge, the Comparable Companies set out in the table below represent all the companies comparable to the Company based on the above criteria. As the Group has reported a net loss for the year ended 31 December 2013, historical price to earnings analysis cannot be performed. We have performed the historical price to book ("P/B") analysis detailed below.

Historical P/B analysis

The table below sets out the comparison of historical P/Bs of the Company and the Comparable Companies:

Company	**Market capitalisation as at the Latest Practicable Date** *(Approximate HK$'million)* *(Note 1)*	**Consolidated net assets attributable to equity holders** *(Approximate HK$'million)* *(Note 2)*	**Historical P/B** *(Approximate times)* *(Note 3)*
China 3D Digital Entertainment Limited ("China 3D Digital") (stock code: 8078)	106.1	387.945	0.273
National Arts Entertainment and Culture Group Limited (stock code: 8228)	779.9	1,002.603	0.778
See Corporation Limited ("See Corporation") (stock code: 491)	1,032.9	551.246 *(Note 4)*	1.874
Mean (simple average)			**0.975**
Maximum			**1.874**
Minimum			**0.273**
The Subscription			**1.037** *(Note 5)*

Notes:

1. Market capitalisation of the Comparable Companies is sourced from Bloomberg.

2. Figures are extracted from the latest published quarterly report or interim results announcements of the Comparable Companies available as at the date before the Latest Practicable Date.

3. The historical P/Bs of the Comparable Companies are calculated based on their respective consolidated net assets attributable to equity holders set out in their latest published quarterly report or interim results announcements available as at the date before the Latest Practicable Date and their respective closing market capitalisation as at the Latest Practicable Date.

4. As set out in the announcement of See Corporation dated 30 October 2014, See Corporation group entered into a sale and purchase agreement in relation to a very substantial acquisition of assets relating to post production services in Hong Kong, Shanghai and Beijing from Mr. Nicholas Tse. The aforesaid very substantial acquisition had been completed on 28 January 2015.

   See Corporation published its unaudited interim results announcement for the six months ended 31 December 2014 on 12 February 2015, which is the latest published financial information available as at the date before the Latest Practicable Date. However, as the aforesaid very substantial acquisition was completed on 28 January 2015 (i.e. after the interim period end), the effect of the very substantial acquisition was not reflected in the latest unaudited financial statements of See Corporation for the six months ended 31 December 2014. As set out in the announcement of See Corporation dated 30 October 2014, the aforesaid very substantial acquisition involved acquisition of assets relating to post production services in Hong Kong, Shanghai and Beijing by the Group and issuance of 350 million consideration shares (representing approximately 23.42% of the issued shares of See Corporation as at the date of the aforesaid announcement or approximately 18.98% of the enlarged issued shares of See Corporation immediately after the issue of consideration shares) by See Corporation. After trading hour on 28 January 2015, See Corporation published an announcement in relation to, among other things, completion of the aforesaid very substantial acquisition. The closing market capitalisation of See Corporation increased from approximately HK$717.3 million on 28 January 2015 to approximately HK$959.1 million on 29 January 2015. As stated above, the effect of the very substantial acquisition was not reflected in the unaudited financial statements of See Corporation for the six months ended 31 December 2014, which is the latest published financial information available as at the date before the Latest Practicable Date. Since financial position of See Corporation has been changed after completion of the aforesaid very substantial acquisition, we are of the view that performing the historical P/B analysis based on the unaudited financial information of See Corporation for the six months ended 31 December 2014 is not appropriate. As set out in Appendix IV to the circular of See Corporation dated 31 December 2014 in relation to the aforesaid very substantial acquisition, (a) the audited consolidated net assets attributable to equity holders of See Corporation as at 30 June 2014 was approximately HK$500.73 million; and (b) the unaudited pro forma consolidated net assets attributable to equity holders of See Corporation assuming completion of the very substantial acquisition having been taken place was approximately HK$577.53 million. The difference between (a) the audited consolidated net assets attributable to equity holders of See Corporation as at 30 June 2014 and (b) the unaudited pro forma consolidated net assets attributable to equity holders of See Corporation assuming completion of the very substantial acquisition having been taken place is approximately HK$76.80 million. In order to illustrate the effect of the very substantial acquisition, we have therefore calculated the consolidated net assets attributable to equity holders of See Corporation by aggregating (a) the unaudited consolidated net assets attributable to equity holders as at 31 December 2014 of See Corporation of approximately HK$474.45 million; and (b) the difference in consolidated net assets attributable to equity holders of See Corporation assuming completion of the very substantial acquisition having been taken place of approximately HK$76.80 million as set out in Appendix IV to the circular of See Corporation dated 31 December 2014. Given that this calculation is made by reference to (a) the latest financial information of See Corporation for the six months ended 31 December 2014; and (b) the published effect on consolidated net assets attributable to equity holders of See Corporation as set out in the circular of See Corporation dated 31 December 2014, we consider this calculation to be appropriate. Moreover, the consolidated net assets attributable to equity holders of See Corporation based on the above calculation would be approximately HK$551.25 million and was lower than the unaudited pro forma consolidated net assets attributable to equity holders of See Corporation of approximately HK$577.53 million as set out in Appendix IV to the circular of See Corporation dated 31 December 2014. Calculation of the historical P/B of See Corporation based on the consolidated net assets attributable to equity holders of See Corporation of approximately HK$551.25 million would result in a higher P/B ratio and a more rigorous comparison against the implied P/B of the Subscription. Nevertheless, it should be noted that the actual impact of the very substantial acquisition on the consolidated net assets attributable to equity holders of See Corporation should be calculated by reference to the financial position of the acquired asset at the time of completion and is subject to audit by auditors of See Corporation, and may, therefore, be materially different from the above figure.

5. The implied P/B of the Subscription is calculated based on (i) the Subscription Price of HK$0.20 per Ordinary Subscription Share; and (ii) the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share of approximately HK$0.1928, which is calculated by dividing the unaudited consolidated net assets attributable to the Shareholders as at 30 September 2014 of approximately HK$174.63 million by the number of issued Ordinary Shares as at 30 September 2014 of approximately 905.65 million.

As set out in the table above, the historical P/Bs of the Comparable Companies range from approximately 0.273 time to approximately 1.874 times, with a mean of approximately 0.975 time. The implied P/B of the Subscription as discussed above of approximately 1.037 times is within the range and above the mean of the historical P/Bs of the Comparable Companies. As set out in the table above, the historical P/B ratios of the Comparable Companies, other than See Corporation, were below 1. The share price of See Corporation closed at HK$0.38 per share on 22 October 2014 and the trading of shares of See Corporation was suspended starting from 23 October 2014, pending the release of an announcement in relation to a very substantial acquisition. See Corporation announced a very substantial acquisition of assets relating to post production services in Hong Kong, Shanghai and Beijing from Mr. Nicholas Tse as detailed in its announcement dated 30 October 2014. Trading in shares of See Corporation resumed on 31 October 2014 and the share price of See Corporation closed at HK$0.75 per share on 31 October 2014, representing an increase of approximately 97.4% from the closing price before suspension of trading. The aforesaid very substantial acquisition had been completed on 28 January 2015. The closing share price of See Corporation was HK$0.56 as at the Latest Practicable Date. The high historical P/B ratio of See Corporation may be due to this very substantial acquisition. As explained below, the high closing Ordinary Share prices on 20 November 2014, being the full trading day immediately prior to the Last Trading Day, and the Last Trading Day might be due to market speculations of certain corporate actions to be carried out by the Group such as the Subscription. Given that (a) both share prices of See Corporation and the Company may be influenced by certain events; (b) See Corporation meets our above criteria for selecting Comparable Companies; and (c) inclusion of See Corporation for comparison will increase the mean of the P/B ratio which results in a more rigorous comparison against the implied P/B of the Subscription, we have included See Corporation in our analysis.

As shown in the sub-section headed "Financial information and prospects of the Group" above of this letter, the Group recorded losses attributable to owners of the Company for three consecutive financial years in 2011, 2012 and 2013. The Group continued to record losses for the nine months ended 30 September 2014 with diminishing revenue of approximately HK$4.4 million for the period. As set out in the Company's 2014 third quarterly report, the Company would remain cautious of the Group's business outlook.

The unaudited consolidated net assets attributable to the Shareholders per Ordinary Share was approximately HK$0.1928 per Ordinary Share as at 30 September 2014. Based on (1) the closing price of HK$0.495 per Ordinary Share as quoted on the Stock Exchange on 20 November 2014, being the full trading day immediately prior to the Last Trading Day; and (2) the closing price (before suspension) of HK$0.700 per Ordinary Share as quoted on the Stock Exchange on 21 November 2014, being the Last Trading Day, the historical P/Bs of the Company are approximately 2.567 times and 3.631 times respectively. These historical P/Bs of the Company of approximately 2.567 times as of 20 November 2014 and 3.631 times as of the Last Trading Day are significantly higher than (1) the mean of the historical P/Bs of the Comparable Companies of approximately 0.975 time; and (2) those of the Comparable Companies ranging from approximately 0.273 time to approximately 1.874 times. Accordingly, the financial fundamental of the Group does not by itself, in our view, justify the high closing Ordinary Share prices on 20 November 2014 and the Last Trading Day. The high closing Ordinary Share prices on 20 November 2014 and the Last Trading Day might be due to market speculations of certain corporate actions to be carried out by the Group such as the Subscription.

Since the market price of Ordinary Share on 20 November 2014 and the Last Trading Day built in value in excess of the fundamental value of the Group, independent third party investors are unlikely to subscribe for new Ordinary Shares at this valuation. We are advised by the executive Directors that the Subscribers raise this matter during the negotiation process, and the parties to the Subscription Agreement place more weights on the net asset value per Ordinary Share in determining the Subscription Price. In view of the past unsatisfactory results and the cautious view expressed by the executive Directors regarding the Group's business outlook, we are of the view that placing more weights on the net asset value per Ordinary Share in determining the Subscription Price is appropriate.

Taking into account the above analysis and other analyses as set out in the sub-sections headed "Financial information and prospects of the Group", "Analysis of the historical price performance of the Ordinary Shares" and "Comparable issues" above of this letter, although (i) the Subscription Price is at all time below the closing prices of the Ordinary Shares during our review period from 1 January 2013 up to and including the Latest Practicable Date; (ii) the Subscription Price represents discounts to closing prices and average closing prices of the Ordinary Shares prior to the Announcement; and (iii) the discounts of the Subscription Price to the closing prices of the Ordinary Shares on the Last Trading Day, and the average closing price of the Ordinary Shares for each of the 5 trading days and 10 trading days immediately prior to and including the Last Trading Day are close to the high end of discount range of the Comparable Issues, based on

(1) the financial fundamental of the Group not by itself justifying the high closing Ordinary Share prices on 20 November 2014 and the Last Trading Day as explained above;

(2) the discounts of the Subscription Price to the closing price of the Ordinary Shares on the Last Trading Day and the average closing prices of the Ordinary Shares for each of the 5 trading days and 10 trading days immediately prior to and including the Last Trading Day being within the range of the Comparable Issues;

(3) the implied P/B of the Subscription of approximately 1.037 times being within the range and above the mean of the historical P/Bs of the Comparable Companies;

(4) the Subscription Price representing a slight premium over the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share as at 30 September 2014; and

(5) no dilution in the consolidated net assets attributable to the Shareholders per Ordinary Share upon the issue of the Ordinary Subscription Shares and the full conversion of the Preferred Shares based on the assumptions discussed in sub-section headed "Financial effects of the Subscription" below of this letter,

we consider that the Subscription Price is fair and reasonable.

8. Financial effects of the Subscription

As set out in the section headed "Use of proceeds" in the "Letter from the Board" contained in the Circular, the aggregate gross proceeds from the Subscription amounts to approximately HK$552 million and the aggregate net proceeds from the Subscription amounts to approximately HK$535 million. The aggregate net proceeds from the Subscription is planned to be applied as to (i) HK$16 million for investment in Korean media resources including scripts, film directors, artists and copyrights, and artist management and training; (ii) HK$323 million for organising exhibitions, performance shows and concerts; (iii) HK$152 million for the investment and production of television programmes and movies; and (iv) the remaining HK$44 million for the establishment of an online platform to provide media contents on the Internet. Further details and timing of use of proceeds are set out in the sections headed "Future intentions of Jiaxuan regarding the Group" and "Use of proceeds" in the "Letter from the Board" contained in the Circular. Upon Completion, gross proceeds of approximately HK$289.8 million, being the sum of approximately HK$276 million in respect of the issue of the Ordinary Subscription Shares and approximately HK$13.8 million in respect of payment of 5% of the Subscription Price of the Preferred Shares, shall be received by the Company. The executive Directors estimate the total expenses in connection with the Subscription to be approximately HK$17 million (552 – 535). Accordingly, the executive Directors expect that the cash position of the Group will be enhanced. As set out in the sub-section headed "Principal terms of the Subscription Agreement" above of this letter, payment of the remaining 95% of the Subscription Price of the Preferred Shares of approximately HK$262.2 million is subject to fulfillment of conditions by the Company in accordance with the Subscription Agreement and may or may not be made. In the event payment of the remaining Subscription Price of the Preferred Shares not to be made, the Company will review its development plans as envisaged under the planned use of proceeds and the Company may consider raising funds to implement the development plans or scale back the development plans as appropriate.

As set out in the Company's 2014 third quarterly report, the unaudited consolidated net assets attributable to the Shareholders was approximately HK$174.63 million as at 30 September 2014 (representing approximately HK$0.1928 per Ordinary Share, based on a total of approximately 905.65 million Ordinary Shares in issue as at 30 September 2014). Upon Completion, 1,379,804,865 new Ordinary Shares and 1,379,804,862 new Preferred Shares will be issued by the Company. As advised by the executive Directors, the full amount of the Ordinary Subscription Shares and the Preferred Shares will be recognised as equity under the captions of share capital and share premium upon Completion (i.e. upon their issuance). As set out in the sub-section headed "Principal terms of the Subscription Agreement" above of this letter, full amount of the consideration for the Ordinary Shares Subscription and 5% of the consideration for the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription (i.e. an aggregate of approximately HK$289.8 million) will be payable upon Completion. The remaining 95% of the consideration for the Tranche A Preferred Shares Subscription (i.e. approximately HK$131.1) and remaining 95% of the consideration for the Tranche B Preferred Shares Subscription (i.e. approximately HK$131.1 million) will be recognised as receivables of the Group upon Completion. Accordingly, the consolidated net assets attributable to the Shareholders is expected to be improved roughly by the same amount of the aggregate net proceeds from the Subscription of approximately HK$535 million.

The table below sets out, for illustration purpose, such effect on the consolidated net assets attributable to the Shareholders per Ordinary Share, assuming Completion and full conversion of the Preferred Shares had been taken place on 30 September 2014:

	HK$' million (approximate)
Unaudited consolidated net assets attributable to the Shareholders as at 30 September 2014	174.63
Add: Proceeds to be received and amount of receivables to be recorded by the Group upon Completion less the estimated expenses in connection with the Subscription set out above	534.92
Total	709.55

	Number of Ordinary Shares
Number of Ordinary Shares in issue as at 30 September 2014	905,649,726
Add: Number of new Ordinary Shares to be issued (including the Ordinary Subscription Shares and the Conversion Shares as a result of full conversion of the Preferred Shares)	2,759,609,727
Total	3,665,259,453
Unaudited consolidated net assets attributable to the Shareholders per Ordinary Share immediately after Completion and assuming full conversion of the Preferred Shares (approximately HK$709.55 million divided by 3,665,259,453 Ordinary Shares)	Approximately HK$0.1936 per Ordinary Share

As illustrated above, the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share of approximately HK$0.1936 immediately after Completion and full conversion of the Preferred Shares represents a slight increase of approximately 0.4% as compared to the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share of approximately HK$0.1928 as at 30 September 2014.

9. Whitewash Waiver – dilution effects on shareholding

The following table summarised the effect of the Subscription on the shareholding structure of the Company immediately after (i) completion of the Subscription but before the conversion of the Tranche A Preferred Shares and the Tranche B Preferred Shares (assuming there is no other change in the number of issued Ordinary Shares between the Latest Practicable Date and completion of the Subscription); (ii) completion of the Subscription and the conversion in full of the Tranche A Preferred Shares but before the conversion of the Tranche B Preferred Shares; and (iii) completion of the Subscription and conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement, and that there are no other Ordinary Shares are allotted and issued between the Latest Practicable Date and the date until all Tranche A Preferred Shares and Tranche B Preferred Shares have been fully converted). Further details on (a) the effect of the Subscription on the shareholding structure and

(b) the accompanying note to the shareholding table are set out in the section headed "Effect on shareholding structure" in the "Letter from the Board" contained in the Circular.

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Ordinary Subscription Shares and before the allotment and issue of any Conversion Shares		Immediately after completion of the Subscription and conversion in full of the Tranche A Preferred Shares		Immediately after completion of the Subscription and the conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares	
	Number of Ordinary Shares	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*
The Subscribers								
Jiaxuan	—	—	965,863,405	42.00	1,448,795,107	48.46	1,931,726,809	52.50
Vision Path	—	—	206,970,730	9.00	310,456,095	10.38	413,941,459	11.25
First Charm	—	—	151,778,535	6.60	227,667,803	7.62	303,557,070	8.25
REORIENT Global	—	—	55,192,195	2.40	82,788,292	2.77	110,384,389	3.00
Subtotal	—	—	1,379,804,865	60.00	2,069,707,297	69.23	2,759,609,727	75.00
Pubic Shareholders								
Existing public Shareholders	919,869,909	100.00	919,869,909	40.00	919,869,909	30.77	919.869,909	25.00
Subtotal	919,869,909	100.00	919,869,909	40.00	919,869,909	30.77	919,869,909	25.00
Total	919,869,909	100.00%	2,299,674,774	100.00%	2,989,577,206	100.00%	3,679,479,636	100.00%

As illustrated above, the shareholding of the existing public Shareholders would be reduced from 100.00% as at the Latest Practicable Date to (i) approximately 40.00% immediately after completion of the Subscription but before conversion of the Tranche A Preferred Shares and the Tranche B Preferred Shares; (ii) approximately 30.77% immediately after completion of the Subscription and the conversion in full of the Tranche A Preferred Shares but before the conversion of the Tranche B Preferred Shares; and (iii) 25.00% immediately after completion of the Subscription and conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares.

Although there will be dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription, having taken into account (i) the establishment of a strategic alliance with Jingwen (through Jiaxuan) as set out in the sub-section headed "Background to and reasons for the Subscription Agreement" above of this letter; (ii) that the Subscription Price is considered to be fair and reasonable as set out in this letter above; and (iii) the surge of the Ordinary Share closing price after publication of the Announcement which benefits all Shareholders, we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is acceptable.

10. Whitewash Waiver – Takeovers Code provisions

As illustrated in the table in the sub-section headed "Whitewash Waiver – dilution effects on shareholding" above of this letter, upon Completion, Jiaxuan (being one of the Subscribers) will be interested in 965,863,405 Ordinary Shares, representing approximately 42.0% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares. Upon full conversion of the Preferred Shares, Jiaxuan will in aggregate be interested in 1,931,726,809 Ordinary Shares representing approximately 52.5% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares. Vision Path, First Charm and REORIENT Global, who are also Subscribers, are considered as parties acting in concert with Jiaxuan. Upon Completion, the Subscribers and their respective concert parties will in aggregate be interested in 1,379,804,865 Ordinary Shares representing approximately 60.0% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares. Upon full conversion of the Preferred Shares, the Subscribers and their respective concert parties will in aggregate be interested in 2,759,609,727 Ordinary Shares representing 75.0% of the issued Ordinary Shares as at the Latest Practicable Date as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares.

Pursuant to Rule 26.1 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger an obligation to make a mandatory general offer by the Subscribers for all the issued Ordinary Shares and other securities of the Company other than those already owned (or agreed to be acquired) by the Subscribers and parties acting in concert with any of them, unless the Whitewash Waiver is obtained from the Executive. An application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares had been made by the Subscribers. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders on a vote by way of poll at the SGM.

Shareholders should note that the Subscription is subject to the fulfillment or waiver (as the case may be) of a number of conditions precedent as set out in the sub-section headed "Conditions of the Subscription" in the "Letter from the Board" contained in the Circular, including the granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the SGM for the Whitewash Waiver, which cannot be waived. As such, the Subscription may or may not proceed.

Shareholders should also note that if the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscribers and their respective concert parties in the Company will exceed 50% upon Completion. The Subscribers and their respective concert parties may further increase their shareholdings in the Company without triggering further obligations for a general offer under the Takeovers Code.

Having taken into consideration (i) the establishment of a strategic alliance with Jingwen (through Jiaxuan) as set out in the sub-section headed "Background to and reasons for the Subscription Agreement" above of this letter; (ii) the Subscription Price considered to be fair and reasonable as set out in the letter above; and (iii) the surge of the Ordinary Share closing price after publication of the Announcement which is beneficial to all Shareholders, we are of the view that (1) the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is acceptable; and (2) the Whitewash Waiver (the granting of which being one of the conditions of the Subscription) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

DISCUSSION

The Group is principally engaged in the provision of artist management services and film production and distribution. The Group recorded losses attributable to owners of the Company for three consecutive financial years in 2011, 2012 and 2013, and continued to record losses for the nine months ended 30 September 2014 with diminishing revenue of approximately HK$4.4 million for the period.

As set out in the Company's 2014 third quarterly report, the Group would remain cautious of the Group's business outlook and will continue to identify other appropriate investment opportunities to penetrate into other business sectors. The Subscription will enable the

Group, through Jiaxuan, to establish a strategic alliance with Jingwen and leverage on Jingwen's experience, expertise and business network in the PRC, in particular, those relating to the PRC entertainment industry. The introduction of Jiaxuan as a strategic partner will benefit the Group's long term development, in particular, the expansion and development of businesses in other sectors in the entertainment industry. Eternity has obtained a disposal mandate from its shareholders to dispose of its interests in the Company. We understand from the executive Directors that it is uncertain whether the strategic alliance with Eternity can be maintained. Accordingly, it is in the interests of the Company to establish a strategic alliance with Jiaxuan through the Subscription.

The aggregate net proceeds from the Subscription amounts to approximately HK$535 million and as set out in the "Letter from the Board" of contained in the Circular, it is envisaged that all of the net proceeds from the Subscription will be utilised to fund the Group's development plan in 2015 and 2016 which can strengthen the business of the Group. Further details are set out in the sections headed "Future intentions of Jiaxuan regarding the Group" and "Use of Proceeds" in the "Letter from the Board" contained in the Circular. As set out in the sub-section headed "Analysis of the historical price performance of the Ordinary Shares" above of this letter, the Ordinary Share closing price surged significantly after the publication of the Announcement, which might be related to market expectations of the benefits that will be brought to the Group as a result of the Subscription. Accordingly, the response of investors to the Subscription has been positive. There is no assurance that the closing price of the Ordinary Shares will remain at such a high level if the Subscription does not proceed or cannot be completed for any reason.

The Subscription Price is at all time below the closing prices of the Ordinary Shares during our review period from 1 January 2013 up to and including the Latest Practicable Date, and represents discounts to closing prices and average closing prices of the Ordinary Shares prior to the Announcement. The Subscription Price represents a discount of 84.0% to the closing price of the Ordinary Shares as at the Latest Practicable Date.

The discounts of the Subscription Price to the closing prices of the Ordinary Shares under various parameters as set out in the sub-section headed "Comparable issues" above of this letter are within the range of discounts and premium of the Comparable Issues, and close to the high end of discount range. The Subscription Price represents an implied P/B of the Subscription of approximately 1.037 times and a slight premium over the unaudited consolidated net assets attributable to the Shareholders of approximately HK$0.1928 per Ordinary Share as at 30 September 2014. Furthermore, the implied P/B of the Subscription of approximately 1.037 times is within the range and above the mean of the historical P/Bs of the Comparable Companies as discussed in the sub-section headed "Peer comparison" above of this letter.

Although (i) the Subscription Price is at all time below the closing prices of the Ordinary Shares during our review period from 1 January 2013 up to and including the Latest Practicable Date; (ii) the Subscription Price represents discounts to closing prices and average closing prices of the Ordinary Shares prior to the Announcement; and (iii) the discounts of the Subscription Price to the closing prices of the Ordinary Shares on the Last Trading Day, and the average closing prices of the Ordinary Shares for each of the 5 trading days and 10 trading days immediately prior to and including the Last Trading Day are close to the high end of discount range of the Comparable Issues, we are of the view that the Subscription and the grant of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and its Shareholders as a whole because of

(1) the benefits of the Subscription as discussed above;

(2) the Subscription Price being fair and reasonable by reference to (a) the financial fundamental of the Group not by itself justifying the closing Ordinary Share prices on 20 November 2014 and the Last Trading Day as explained in the sub-section headed "Peer comparison" above of this letter; (b) range of the discounts and premium of the Comparable Issues; (c) range and mean of the historical P/Bs of the Comparable Companies; (d) slight premium of the Subscription Price over the unaudited consolidated net assets attributable to the Shareholders per Ordinary Share as at 30 September 2014; and (e) nil dilution effect to the consolidated net assets attributable to the Shareholders per Ordinary Share upon the issue of the Ordinary Subscription Shares and the full conversion of the Preferred Shares based on the assumptions set out in the sub-section headed "Financial effects of the Subscription" above of this letter; and

(3) the surge of the Ordinary Share closing price after publication of the Announcement which benefits all Shareholders.

The dilution to existing public Shareholders, reducing their stake in the Company from 100.00% as at the Latest Practicable Date to (i) approximately 40.00% immediately after completion of the Subscription but before conversion of the Tranche A Preferred Shares and the Tranche B Preferred Shares; (ii) approximately 30.77% immediately after completion of the Subscription and the conversion in full of the Tranche A Preferred Shares but before the conversion of the Tranche B Preferred Shares; and (iii) 25.00% immediately after completion of the Subscription and conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares, is material. However, in view of (i) the potential benefits to the Group through the establishment of a strategic alliance with Jingwen (through Jiaxuan); (ii) the Subscription Price being considered to be fair and reasonable; and (iii) the surge of the Ordinary Share closing price after publication of the Announcement which benefits all Shareholders, we consider that the dilution is acceptable. The Subscribers have applied for the Whitewash Waiver, which is a condition of the Subscription being completed.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons which are summarised in the section headed "Discussion" above of this letter, we consider that (1) the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription (including the Specific Mandate) and the Whitewash Waiver.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Richard Leung
Director

Mr. Richard Leung is a licensed person and a responsible officer of Somerley Capital Limited registered with the SFC to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over ten years of experience in corporate finance industry.

1. FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Group for each of the three financial years ended 31 December 2011, 2012 and 2013 as extracted from the annual reports of the Company for the years ended 31 December 2012 and 2013, (ii) the unaudited financial results of the Group for the nine months ended 30 September 2013 and 2014 as extracted from the third quarterly report 2014 of the Group and (iii) the audited assets and liabilities of the Group as at 31 December 2011, 2012 and 2013 as extracted from the annual reports of the Company for the years ended 31 December 2012 and 2013.

(a) Consolidated statement of profit or loss

	For the year ended 31 December			For the nine months ended 30 September	
	2011	2012	2013	2013	2014
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	44,330	26,547	15,698	12,592	4,350
Loss before tax	(8,836)	(12,008)	(12,829)	(6,925)	(2,762)
Income tax expenses	—	—	—	—	—
Loss for the year from continuing operations	(8,836)	(12,008)	(12,829)	(6,925)	(2,762)
Loss for the year from discontinued operations	(11,415)	(3,092)	—	—	—
Loss for the year	(20,251)	(15,100)	(12,829)	(6,925)	(2,762)
Loss attributable to owners of the Company	(20,251)	(15,100)	(12,828)	(6,925)	(2,762)
Non-controlling interests	—	—	(1)	—	—
	(20,251)	(15,100)	(12,829)	(6,925)	(2,762)
Loss per share					
From continuing and discontinued operations					
Basic and diluted	HK4.00 cents	HK2.99 cents	HK2.54 cents	HK1.37 cents	HK0.4 cent
From continuing operations					
Basic and diluted	HK1.75 cents	HK2.38 cents	HK2.54 cents	HK1.37 cents	HK0.4 cent
From discontinued operation					
Basic and diluted	HK2.25 cents	HK0.61 cents	N/A	N/A	N/A
Dividend per share	—	—	—	—	—

(b) Consolidated statement of financial position

	As at 31 December		
	2011	**2012**	**2013**
	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	112,809	95,632	82,902
Total liabilities	14,953	12,876	8,700
Net assets	97,856	82,756	74,202
Equity attributable to owners of the Company	97,856	82,756	74,193
Non-controlling interests	—	—	9
	97,856	82,756	74,202

The financial statements of the Company for the year ended 31 December 2011 was audited by HLB Hodgson Impey Cheng and the financial statements for the year ended 31 December 2012 and 2013 were audited by HLB Hodgson Impey Cheng Limited. The auditors of the Company did not issue any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2011, 2012 and 2013.

The Group did not have any items which are exceptional because of size, nature or incidence nor did the Company declare any dividends for each of the three years ended 31 December 2011, 2012 and 2013 and for the nine months ended 30 September 2014.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2013

The following is the full text of the audited consolidated financial information of the Group for the year ended 31 December 2013 as extracted from the annual report of the Company for the year ended 31 December 2013. Capitalised terms used in this section 2 have the same meanings as defined in the related annual report of the Company.

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2013

	Notes	**2013** *HK$'000*	**2012** *HK$'000* (Restated)
Continuing operations			
Turnover	*6*	15,698	26,547
Cost of sales		(10,948)	(20,430)
Gross profit		4,750	6,117
Other revenue and other income	*8*	2,445	442
Administrative expenses		(19,139)	(17,864)
Finance costs	*9*	(563)	(686)
Share of losses of joint ventures		(322)	(17)
Loss before tax	*10*	(12,829)	(12,008)
Income tax expense	*11*	—	—
Loss for the year from continuing operations		(12,829)	(12,008)
Discontinued operation	*12*		
Loss for the year from discontinued operation		—	(3,092)
Loss for the year		(12,829)	(15,100)

	Notes	2013 HK$'000	2012 HK$'000 (Restated)
Loss for the year attributable to:			
Owners of the Company		(12,828)	(15,100)
Non-controlling interests		(1)	—
		(12,829)	(15,100)
Total comprehensive loss attributable to:			
Owners of the Company		(12,828)	(15,100)
Non-controlling interests		(1)	—
		(12,829)	(15,100)
Loss per share	*14*		
From continuing and discontinued operations			
Basic and diluted		HK(2.54) cents	HK(2.99) cents
From continuing operations			
Basic and diluted		HK(2.54) cents	HK(2.38) cents
From discontinued operation			
Basic and diluted		N/A	HK(0.61) cent

The accompanying notes from an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2013

	Notes	31 December 2013 HK$'000	31 December 2012 HK$'000 (Restated)	1 January 2012 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	17	1,721	2,244	364
Film rights	18	912	1,188	1,188
Goodwill	19	—	—	3,280
Interests in joint ventures	21	28,317	28,639	28,656
Total non-current assets		30,950	32,071	33,488
Current assets				
Trade receivables	22	50	53	1,300
Deposits, prepayments and other receivables	23	3,116	9,963	7,898
Amounts due from joint ventures	21	6	12	6
Cash and cash equivalents	24	48,780	53,533	70,111
Total current assets		51,952	63,561	79,315
LIABILITIES				
Current liabilities				
Trade payables	25	—	71	11
Accruals and other payables	26	5,292	2,820	3,734
Receipts in advance	27	3,408	4,348	6,251
Convertible loan notes	28	—	5,637	—
Total current liabilities		8,700	12,876	9,996

	Notes	31 December 2013 HK$'000	31 December 2012 HK$'000 (Restated)	1 January 2012 HK$'000 (Restated)
Net current assets		43,252	50,685	69,319
Total assets less current liabilities		74,202	82,756	102,807
Non-current liability				
Convertible loan notes		—	—	4,951
Total non-current liability		—	—	4,951
Net assets		74,202	82,756	97,856
EQUITY				
Share capital	*29*	5,056	5,056	5,056
Reserves		69,137	77,700	92,800
Equity attributable to owners of the Company		74,193	82,756	97,856
Non-controlling interests		9	—	—
Total equity		74,202	82,756	97,856

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

The accompanying notes from an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Share capital	Share premium	Contributed surplus	Convertible loan notes reserve	Retained profits/ (accumulated losses)	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	5,056	47,383	28,294	2,381	14,742	97,856	–	97,856
Net loss for the year	–	–	–	–	(15,100)	(15,100)	–	(15,100)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(15,100)	(15,100)	–	(15,100)
At 31 December 2012 and 1 January 2013	5,056	47,383	28,294	2,381	(358)	82,756	–	82,756
Net loss for the year	–	–	–	–	(12,828)	(12,828)	(1)	(12,829)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(12,828)	(12,828)	(1)	(12,829)
Non-controlling interests arising on issuing ordinary share of subsidiary	–	–	–	–	–	–	10	10
Transfer to accumulated losses upon extinguishment of old convertible loan notes	–	–	–	(2,381)	2,381	–	–	–
Recognition of the equity component of new convertible loan notes	–	–	–	4,265	–	4,265	–	4,265
At 31 December 2013	5,056	47,383	28,294	4,265	(10,805)	74,193	9	74,202

Consolidated statement of cash flows

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Operating activities			
Loss before tax from continuing operations		(12,829)	(12,008)
Loss before tax from discontinued operation		—	(3,092)
		(12,829)	(15,100)
Adjustments for:			
Bank interest income		(184)	(80)
Share of losses of joint ventures		322	17
Finance costs		563	686
Depreciation of property, plant and equipment		523	391
Impairment loss recognised in respect of film rights		276	—
Impairment loss recognised in respect of deposits to artist		2,554	—
Gain on extinguishment of convertible loan notes		(1,935)	—
Gain on disposal of property, plant and equipment		(70)	—
Loss on disposal of subsidiary		—	2,960

	Note	2013 *HK$'000*	2012 *HK$'000* (Restated)
Operating cash flow before movements in working capital		(10,780)	(11,126)
Decrease in trade receivables		3	979
Decrease/(increase) in deposits, prepayments and other receivables		4,303	(2,141)
Decrease/(Increase) in amounts due from joint ventures		6	(6)
(Decrease)/increase in trade payables		(71)	60
Increase/(decrease) in accruals and other payables		2,472	(127)
Decrease in receipts in advance		(940)	(1,900)
Cash used in operations		(5,007)	(14,261)
Bank interest received		184	80
Net cash used in operating activities		(4,823)	(14,181)
Investing activities			
Purchases of items of property, plant and equipment		—	(2,375)
Proceeds from disposal of property, plant and equipment		70	—
Net cash flow arising from disposal of subsidiary		—	(22)
Net cash generated from/(used in) investing activities		70	(2,397)
Net decrease in cash and cash equivalents		(4,753)	(16,578)
Cash and cash equivalents at the beginning of year		53,533	70,111
Cash and cash equivalents at the end of year	*24*	48,780	53,533

The accompanying notes from an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2013

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 Rooms 2506-09, 25/F., China Resources Building, No.26 Harbour Road, Wanchai, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and joint ventures are set out in notes 39 and 21 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2013. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised in 2011)	Employee Benefits
HKAS 27 (Revised in 2011)	Separate Financial Statements
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle Issued in June 2012
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — Transition Guidance
HKFRS 13	Fair Value Measurement
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

The principle effect of adopting these HKFRSs are as follows:

HKFRS 7 (Amendments) Disclosures — Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKFRS 7 for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

As the Group does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in these consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011), together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled. The application of this new standard has no financial impact on the Group.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, HK(SIC)-Int 13, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11. The directors concluded that the Group's investments in China Star Film Group Limited and its subsidiary ("China Star Film Group"), which were classified as joint ventures under HKAS 31 and were accounted for using the proportionate consolidation method, should be classified as joint ventures under HKFRS 11 and accounted for using the equity method.

The change in accounting of the Group's investments in China Star Film Group has been applied in accordance with the relevant transitional provisions set out in HKFRS 11. Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investments in China Star Film Group. The initial investment as at 1 January 2012 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the tables below for details). Also, the directors of the Company performed an impairment assessment on the initial investment at 1 January 2012 and concluded that no impairment loss is required.

Impact of the application of HKFRS 12

HKFRS 12 sets out the disclosure requirement for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27, HKAS 31 and HKAS 28. It also introduces a number of new disclosure requirements for these entities.

The HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. These amendments have no material impact on the Group.

HKFRS 13 Fair Value Measurement

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirement for use across HKFRSs. The Standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. The application of this new standard has no material financial impact on the Group.

HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1. The amendments introduce new terminology for the statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present statement of profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statement. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on consolidated profit or loss, other comprehensive income and total comprehensive income.

Changes in accounting policies and disclosures

The adoption of HKFRS 11 did not have any impact on the loss per share attributable to ordinary equity holders of the parent and other comprehensive income for the year ended 31 December 2012.

	For the year ended 31 December 2012 *HK$'000*
Decrease in administration expenses	(17)
Increase in share of losses of joint ventures	17
Net effect in loss for the year	—
Net effect in loss for the year attributable to owners of the Company	—

The effect of the change in accounting policies under HKFRS 11 described above on the financial position of the Group at the end of the immediately preceding financial year, i.e. 31 December 2012, is as follows:

	At 31 December 2012 as previously reported	HKFRS 11 adjustments	At 31 December 2012 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
Film rights and film in progress	1,601	(413)	1,188
Interests in joint ventures	—	28,639	28,639
Deposits, prepayments and other receivables	10,772	(809)	9,963
Amounts due from joint ventures	—	12	12
Cash and cash equivalents	80,968	(27,435)	53,533
Accruals and other payables	(2,826)	6	(2,820)
Total effects on net assets	—	—	—
Total effects on accumulated losses	—	—	—

The effects of the change in accounting policies under HKFRS 11 described above on the financial position of the Group at the beginning of the comparative period, i.e. 1 January 2012, is as follows:

	At 1 January 2012 as previously reported	HKFRS 11 adjustments	At 1 January 2012 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
Film rights and film in progress	1,601	(413)	1,188
Interests in joint ventures	—	28,656	28,656
Deposits, prepayments and other receivables	8,706	(808)	7,898
Amounts due from joint ventures	—	6	6
Cash and cash equivalents	97,558	(27,447)	70,111
Accruals and other payables	(3,740)	6	(3,734)
Total effects on net assets	—	—	—
Total effects on retained profits	—	—	—

The effects of the change in accounting policies described under HKFRS 11 above on the cash flows of the Group for the year ended 31 December 2012 is as follows:

	HKFRS 11 Adjustments *HK$'000*
Net cash inflow from operating activities	12
Net cash inflow	12

3. ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39[4]
HKFRS 10, HKFRS 12 and HKAS 27 (Revised in 2011)	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[3]
HK(IFRIC) — Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted

2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted

3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted

4 No mandatory effective date yet determined but is available for adoption

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirement of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specially, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investment and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entity may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 10, HKFRS 12, and HKAS 27 (Amendments) Investment Entities

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidated requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27. The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

HKAS 32 (Amendments) Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

HKAS 36 (Amendments) Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

HKAS 39 (Amendments) Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK(IFRIC) — Int 21 Levies

HK (IFRIC) — Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) — Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA. In addition, the consolidated financial statement 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.

Basis of preparation

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights related to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19 respectively;

- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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 statement of financial position.

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 is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is 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 first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on 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.

Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement with rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

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

Artist management service income is recognised when the services are provided.

Income from licensing of distribution rights over films is recognised when the Group's entitlement to such payments has been established when the notice of delivery is served to the customer.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation 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

The Group participates in contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the respective schemes.

Share-based payment transactions

Equity-settled share-based payment transactions

For grants of share options that are conditional upon specified vesting conditions, the fair value of services received is 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-based payments reserve).

At the end of the reporting period, 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 such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

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

When the share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share-based payments 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 profit or loss because of items of income or expense that are taxable or deductible in other years and 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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 associated with investments in subsidiaries and interests in jointly controlled entities, 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 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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (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.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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, which 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 statement of profit or loss 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 end of the reporting period.

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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination and are 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 reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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.

Film rights and films in progress

Film rights

Film rights are stated at cost less accumulated amortisation and impairment losses. Upon the release of the pre-recorded audio visual products and the materials, film rights are amortised at rates calculated to write off the costs in proportion to the expected revenue from exhibition and distribution of audio visual products. Such rates are on a systematic basis, with reference to the projected revenue and the underlying licence periods, and are subject to annual review by the management.

Films in progress

Films in progress are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of films. Provision is made for costs which are in excess of the expected future revenue generated by these films. Costs of films are transferred to film rights upon completion.

At the end of each reporting period, both internal and external market information are considered to assess whether there is any indication that film rights and films in progress are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated statement of profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of each 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 as no impairment loss have been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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. When 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 of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classifies as at financial assets at fair value through profit or loss (FVTPL).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits and other receivables, and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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 considered to be impaired when 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 all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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 (see the accounting policy below).

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

Financial liabilities and equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Convertible notes

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital and share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated loss/ profit. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Other financial liabilities

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

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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract are 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

The Group derecognises a financial asset only when the contractual rights to the cash flow from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sun of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amounts allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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 statement of cash flows, 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 overdraft which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Related parties

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

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent;

or

(b) An entity is related to the Group if any of the following condition applies:

(i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealing with the entity.

Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful life of the asset annually in order to determine the amount of depreciation expenses to be recorded during the year. The useful life is based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. During the year, the Group determined that the useful life of the property, plant and equipment should be remained constant to that of prior years. Depreciation expense is approximately HK$523,000 (2012: HK$391,000) for the year ended 31 December 2013.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments or services. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

Impairment of film rights

Impairment assessments on film rights are performed at the end of each reporting period with reference to both internal and external market information, for example, sales forecast based on expected popularity of the respective titles, the expected production, sales and distribution costs to be reviewed to conclude the sales, and the general economic condition of the relevant markets. At 31 December 2013, the carrying value of film rights amounted to HK$912,000 (2012: HK$1,188,000 (restated)). Changes in assumptions used in this assessment, including the forecasted revenue, may result in additional provision being made in the consolidated financial statements.

Impairment of goodwill

Determining whether goodwill and intangible assets are 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. The discount rate represents a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected, a material impairment loss may arise. Detail of the recoverable amount calculation is disclosed in note 19.

Joint arrangements

The Group hold 50% of the voting rights of its joint arrangement. The Group has joint control over this arrangement as under the contractual agreement, unanimous consent is required from all parties to the agreements for all relevant activities. The Group's joint arrangement is structured as a limited company and provides the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, this arrangement is classified as a joint venture.

6. TURNOVER

Turnover represents the net amount received and receivables from customers and services rendered.

	2013	**2012**
	HK$'000	*HK$'000*
Continuing operations		
Artist management	15,667	26,543
Film production and distribution	31	4
	15,698	26,547

7. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker to make strategic decisions.

The Group's continuing operations and reportable segments under HKFRS 8 are as follows:

(i)	Artist management	Service income from provision of artist management
(ii)	Film production and distribution	Investment in, production of, sale and distribution of films

An operating segment regarding infrared consultancy services was discontinued in the prior year. The segment information reported below does not include any amounts for this discontinued operation.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Artist management		Film production and distribution		Consolidated	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	HK'000	*HK$'000*	*HK'000*	*HK$'000*	*HK'000*	*HK$'000*
				(Restated)		(Restated)
Segment revenue						
Revenue to external customers	15,667	26,543	31	4	15,698	26,547
Segment results						
Segment loss	(1,551)	(3,953)	(294)	(5)	(1,845)	(3,958)
Unallocated other revenue and other income					2,257	129
Unallocated expenses					(12,356)	(7,476)
Loss from operating activities					(11,944)	(11,305)
Share of losses of joint ventures					(322)	(17)
Finance costs					(563)	(686)
Loss before tax					(12,829)	(12,008)
Income tax expense					—	—
Loss for the year					(12,829)	(12,008)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

Segment results represents the loss suffered by each of segment without allocation of central administration costs including directors' emoluments, share of losses of joint ventures, other revenue and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

	Artist management		Film production and distribution		Consolidated	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)		(Restated)
Segment assets	48,618	54,129	2,402	2,707	51,020	56,836
Unallocated assets					31,882	38,796
Total assets					82,902	95,632
Segment liabilities	3,833	5,379	—	—	3,833	5,379
Unallocated liabilities					4,867	7,497
Total liabilities					8,700	12,876

For the purpose of monitoring segment performance and allocating resources between segments:

All assets are allocated to reportable segment other than interests in joint ventures, unallocated head office and corporate assets as these assets are managed on a group basis. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

All liabilities are allocated to reportable segments other than convertible loan notes, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

(c) Other segment information

	Artist management		Film production and distribution		Unallocated		Consolidated	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Continuing operations								
Depreciation of property, plant and equipment	5	6	—	—	518	385	523	391
Addition to non-current assets *(Note)*	—	3	—	—	—	2,372	—	2,375
Impairment loss recognised in respect of film rights	—	—	276	—	—	—	276	—
Impairment loss recognised in respect of deposits to artists	2,554	—	—	—	—	—	2,554	—
Gain on disposal of property, plant and equipment	70	—	—	—	—	—	70	—

Note: Non-current assets excluded those relating to discontinued operation, interests in joint ventures and financial instruments

(d) Geographical information

In determining the Group's geographical information, revenue information is based on the location of the customers, and asset information is based on the location of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Continuing operations				
The People's Republic of China (the "PRC")	9,646	21,618	—	—
Hong Kong	5,652	4,741	2,633	3,432
Others	400	188	—	—
	15,698	26,547	2,633	3,432

* Non-current assets excluded those relating to discontinued operation, interests in joint ventures and financial instruments.

(e) Information about major customers

During the year ended 31 December 2013, included in revenue arising from artist management of approximately HK$15,667,000 (2012: HK$26,543,000) are revenue of approximately HK$3,362,000 and HK$1,866,000 (2012: nil) which arose from two largest customers of the Group respectively, contributed 10% or more of the Group's revenue for 2013 (2012: no external customers contributed to 10% or more of the Group's revenue under artist management segment).

8. OTHER REVENUE AND OTHER INCOME

	2013	**2012**
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	184	80
Consultancy fee income	252	240
Gain on disposal of property, plant and equipment	70	—
Gain on extinguishment of convertible loan notes	1,935	—
Sundry income	4	122
	2,445	442

9. FINANCE COSTS

	2013	**2012**
	HK$'000	*HK$'000*
Continuing operations		
Effective interest expenses on convertible loan notes	563	686

10. LOSS BEFORE TAX

Loss for the year from continuing operations has been arrived at after charging:

	2013	**2012**
	HK$'000	*HK$'000*
Continuing operations		
Auditors' remuneration	570	750
Consultancy fee	—	300
Depreciation of property, plant and equipment	523	391
Impairment loss recognised in respect of		
— film rights	276	—
— deposits to artists	2,554	—
Minimum lease payments under operating leases on land and buildings	4,549	3,443
Staff costs (excluding directors' remuneration)		
Salaries and allowances	7,247	6,384
Pension scheme contributions	166	114

11. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statement as the Group and the Company have no assessable profit derived from Hong Kong for the year.

At 31 December 2013, the Group had estimated unused tax losses of approximately HK$100,314,000 (2012: approximately HK$89,223,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The income tax expense for the year can be reconciled to the loss as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	**2012**
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Loss before tax from continuing operations	(12,829)	(12,008)
Notional tax on loss before tax calculated at the tax rates applicable to jurisdictions concerned	(2,116)	(1,981)
Tax effect of share of losses of joint ventures	53	3
Tax effect of expenses not deductible for tax purpose	1,975	3,099
Tax effect of income not taxable for tax purpose	(1,742)	(3,633)
Tax effect of tax losses not recognised	1,830	2,512
Income tax expense for the year	—	—

12. DISCONTINUED OPERATION

On 29 June 2012, the Group disposed of its wholly owned subsidiary of Infrared Engineering and Consultants Limited ("Infrared"). Upon completion of the disposal, Infrared ceased to be subsidiary of the Company and the business of infrared consultancy services operation which is solely carried out by the Infrared, became a discontinued operation of the Group.

Loss for the year from discontinued operation

	2012
	HK$'000
Other revenue and other income	120
Administrative expenses	(252)
Finance costs	—
Loss before tax	(132)
Income tax expense	—
Loss for the year	(132)
Loss on disposal of Infrared	(2,960)
	(3,092)

Loss for the year from discontinued operation included the following:

Depreciation of property, plant and equipment	33
Minimum lease payments under operating leases on land and buildings	144
Loss on disposal of Infrared	2,960

Cash flows from discontinued operation

	2012
	HK$'000
Net cash outflows from operating activities	(46)
Net cash outflows	(46)

13. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the year ended 31 December 2013 (2012: nil).

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company and the weighted average number of ordinary shares.

From continuing and discontinued operations

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$12,828,000 (2012: HK$15,100,000) and the weighted average of 505,650,000 ordinary shares (2012: 505,650,000 shares) is issued during the year.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an anti-dilutive effect on loss per share for both years.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	2013	**2012**
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company	(12,828)	(15,100)
Less: Loss for the year from the discontinued operation	—	(3,092)
Loss for the year from continuing operations	(12,828)	(12,008)

From discontinued operation

For the year ended 31 December 2012, basic and diluted loss per share for the discontinued operation was HK$0.61 cents per share, based on the loss from the discontinued operation is approximately HK$3,092,000, and the denominators are the same as those detailed above for both basic and diluted loss per share. There is no discontinued operation during the year ended 31 December 2013.

15. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

The emoluments of each director on a named basis for the years ended 31 December 2013 and 2012 are set out below:

	Fees	Salaries and allowances	Retirement benefit scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2013:					
Executive directors					
Mr. Cheng Yang	120	—	—	—	120
Mr. Leung Wai Man *(Note 1)*	120	—	—	—	120
Ms. Jiang Di *(Note 2)*	120	840	3	—	963
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Mr. Fung Wai Ching *(Note 3)*	120	—	—	—	120
Total	720	840	3	—	1,563
For the year ended 31 December 2012:					
Executive directors					
Mr. Ng Kwai Kai, Kenneth *(Note 4)*	21	—	—	—	21
Mr. Leung So Po, Kelvin *(Note 4)*	21	—	—	—	21
Mr. Cheng Yang	120	—	—	—	120
Mr. Kwok Wai Kin, Kenneth *(Note 5)*	21	300	—	—	321
Mr. Leung Wai Man *(Note 1)*	72	—	—	—	72
Mr. Kan Yisong *(Note 6)*	27	—	—	—	27
Ms. Hui Ching *(Note 6)*	27	200	—	—	227
Ms. Jiang Di *(Note 2)*	99	681	10	—	790
Non-executive director					
Mr. Fan Tung Donald *(Note 7)*	21	—	—	—	21
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Mr. Chio Chong Meng *(Note 8)*	48	—	—	—	48
Mr. Fung Wai Ching *(Note 3)*	72	—	—	—	72
Total	789	1,181	10	—	1,980

Notes:

1. Mr. Leung Wai Man was appointed as executive director on 25 May 2012.

2. Ms. Jiang Di was appointed as executive director on 5 March 2012.

3. Mr. Fung Wai Ching was appointed as non-executive director on 25 May 2012.

4. Mr. Ng Kwai Kai, Kenneth and Mr. Leung So Po, Kelvin were resigned as executive director on 5 March 2012.

5. Mr. Kwok Wai Kin, Kenneth was resigned as executive director on 5 March 2012.

6. Mr. Kan Yisong and Ms. Hui Ching were appointed as executive director on 5 March 2012 and resigned on 25 May 2012.

7. Mr. Fan Tung, Donald was resigned as non-executive director on 5 March 2012.

8. Mr. Chio Chong Meng was resigned as non-executive director on 25 May 2012.

Mr. Cheng Yang is also the chief executive officer of the Company and his emoluments disclosed above include those for service rendered by him as the chief executive officer.

During the years ended 31 December 2013 and 2012, no director or chief executive officer waived or agreed to waive any emoluments.

During the years ended 31 December 2013 and 2012, no emoluments paid during the financial year or receivable by directors as an inducement to join or upon joining the listed issuer, and no compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

16. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2012: two) is director whose emolument is disclosed in note 15. The aggregate of the emoluments in respect of the other four (2012: three) individual are as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Salaries and allowances	3,738	2,191
Pension scheme contributions	61	33
	3,799	2,224

The emoluments of the four (2012: three) individuals with the highest emoluments are within the following bands:

	2013	2012
Nil to HK$1,000,000	3	2
HK$1,000,001 – HK$1,500,000	1	1

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 a defined contribution retirement plan administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contribution to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to 1 June 2012). Contribution to the plan vest immediately.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
The Group				
Cost:				
At 1 January 2012	53	475	458	986
Additions	2,372	3	—	2,375
Derecognised on disposal of subsidiary *(note 32)*	(53)	(221)	(43)	(317)
At 31 December 2012 and 1 January 2013	2,372	257	415	3,044
Disposal	—	—	(415)	(415)
At 31 December 2013	2,372	257	—	2,629
Accumulated depreciation and impairment:				
At 1 January 2012	21	164	437	622
Charged for the year	321	63	7	391
Derecognised on disposal of subsidiary *(note 32)*	(26)	(158)	(29)	(213)
At 31 December 2012 and 1 January 2013	316	69	415	800
Charged for the year	474	49	—	523
Disposal	—	—	(415)	(415)
At 31 December 2013	790	118	—	908
Carrying amount:				
At 31 December 2013	1,582	139	—	1,721
At 31 December 2012	2,056	188	—	2,244

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Total *HK$'000*
The Company			
Cost:			
At 1 January 2012	—	217	217
Additions	2,372	—	2,372
At 31 December 2012, 1 January 2013 and 31 December 2013	2,372	217	2,589
Accumulated depreciation and impairment:			
At 1 January 2012	—	11	11
Charged for the year	316	36	352
At 31 December 2012 and 1 January 2013	316	47	363
Charged for the year	474	44	518
At 31 December 2013	790	91	881
Carrying amount:			
At 31 December 2013	1,582	126	1,708
At 31 December 2012	2,056	170	2,226

18. FILM RIGHTS

	HK$'000
Cost:	
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013 (restated)	7,958
Accumulated impairment:	
At 1 January 2012, 31 December 2012 and 1 January 2013 (restated)	6,770
Impairment loss recognised during the year	276
At 31 December 2013	7,046
Carrying amount:	
At 31 December 2013	**912**
At 31 December 2012 (restated)	1,188

Film rights represent self-produced films.

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability of film rights and the corresponding recoverable amounts. At 31 December 2013 and 2012, the directors of the Company assessed the recoverable amount of the film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent qualified professional valuer, and determined impairment loss within the business segment "film production and distribution" due to prevailing marketability circumstances. The recoverable amount of the film rights is determined based on the present value of expected future revenue arising from the distribution and sub-licencing of film rights and their residual values, the cash flow are discounted using a discount rate of 14.72% (2012: 14.97%). The discount rates used are pre-tax and reflect specific risk relating to the segment.

During the year ended 31 December 2013, there is an impairment loss of HK$276,000 recognised in respect of film rights (2012: nil).

The impairment loss recognised during the year ended 31 December 2013 solely related to the Group's film production and distribution activities based in Hong Kong. As the cash generating unit has been reduced to its recoverable amount of approximately HK$912,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

19. GOODWILL

The amount of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position, arising from the acquisition of a subsidiary are as follows:

	HK$'000
Cost:	
At 1 January 2012	18,044
Derecognised on disposal of a subsidiary *(note 32)*	(18,044)
At 31 December 2012, 1 January 2013 and 31 December 2013	—
Accumulated impairment:	
At 1 January 2012	14,764
Derecognised on disposal of a subsidiary *(note 32)*	(14,764)
At 31 December 2012, 1 January 2013 and 31 December 2013	—
Carrying amount:	
At 31 December 2013	—
At 31 December 2012	—

The directors of the Company re-assessed the recoverable amount of goodwill allocated to infrared consultancy services business with reference to the valuation performed by Assets Appraisal Limited, an independent firm of professional valuer. The recoverable amount of the goodwill allocated to infrared consultancy services 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. At 1 January 2012, a discount rate of 17.76% per annum was applied in the discounted cash flow method when assessing the recoverability of the cash generating unit.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flow beyond that five-year period have been extrapolated using zero growth rate which is the projected long term average growth rate for the infrared consultancy service market.

Due to the uncertain business environment in the PRC market, an impairment loss in respect of the goodwill was recognised in prior year as a result of the scale-down of the business operation in the PRC market.

During the year ended 31 December 2012, the goodwill was derecognised on disposal of subsidiary as detail in note 32.

20. INTERESTS IN SUBSIDIARIES

The Company

	2013	**2012**
	HK$'000	*HK$'000*
Unlisted shares at cost	10	10
Amounts due from subsidiaries	109,597	111,614
	109,607	111,624
Impairment loss	(42,203)	—
	67,404	111,624

Details of the Company's subsidiaries at 31 December 2013 are set out in note 39 to the consolidated financial statements.

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the carrying amounts of the amounts due from subsidiaries approximately to their fair values.

21. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	2013	2012
	HK$'000	*HK$'000*
		(Restated)
Cost of investments in joint ventures		
— Unlisted	30,000	30,000
Share of post-acquisition losses and other comprehensive loss	(1,683)	(1,361)
Interests in joint ventures	28,317	28,639
Amounts due from joint ventures	6	12
	28,323	28,651

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name of entities	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activities
China Star Film Group Limited	Incorporated	British Virgin Islands	British Virgin Islands	Ordinary	50%	50%	Film production and distribution

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below respects amounts shown in the joint ventures' financial statement prepared in accordance with HKFRSs.

China Star Film Group Limited ("China Star Film Group")

The joint ventures are accounted for using the equity method in these consolidated financial statements.

	2013	2012
	HK$'000	*HK$'000*
Current assets	56,671	57,302
Current liabilities	36	24
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	55,064	54,868

	2013	2012
	HK$'000	*HK$'000*
Revenue	—	—
Loss for the year	644	34
Total comprehensive loss for the year	644	34
Dividend received from China Star Film Group	—	—
The above loss for the year include the following:		
Interest income	205	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in China Star Film Group recognised in the consolidated financial statements:

	2013	2012
	HK$'000	*HK$'000*
Net assets of China Star Film Group	56,635	57,278
Proportion of the Group's ownership interest in China Star Film Group	50%	50%
Carrying amount of the Group's interest in China Star Film Group	28,317	28,639
The Group's share of losses from continuing operations	322	17
The Group's share of total comprehensive loss	322	17

Unrecognised share of losses of joint ventures

	2013	2012
The unrecognised share of losses of joint ventures for the year	—	—
Cumulative share of losses of joint ventures	1,683	1,361

22. TRADE RECEIVABLES

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	2013	2012
	HK$'000	*HK$'000*
0 — 90 days	50	53
Impairment loss recognised	—	—
	50	53

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 credit terms of trade receivables are generally on 10 to 180 days for both years.

At 31 December 2012, included in the trade receivables balances are debtors with an aggregate carrying amount of HK$33,000 which are past due at the end of the reporting period 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. The aged analysis of trade receivables which are past due but not impaired was as follow:

	2013	2012
	HK$'000	*HK$'000*
0 — 30 days	—	33

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	2013	2012
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Deposits, net of impairment	3,005	9,900	1,134	1,134
Prepayments	69	31	—	—
Other receivables	42	32	6	6
	3,116	9,963	1,140	1,140

At 31 December 2013, deposits amounted to approximately HK$1,871,000 (2012: approximately HK$8,740,000 (restated)) represented the deposit paid for artists management and film production.

The directors of the Company consider that carrying amounts of deposits for artist management and film production and other receivables approximate to their fair values.

Movements in impairment loss in respect of deposit to artist are as follows:

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	5,440	5,440	—	—
Impairment loss recognised in respect of deposits to artists	2,554	—	—	—
At 31 December	7,994	5,440	—	—

Included in the above impairment loss recognised in respect of deposits is provision for individually impaired receivables of HK$2,554,000 with a gross carrying amount approximately HK$7,994,000 (2012: HK$5,440,000). The impaired deposits are individually determined to be impaired after considering overdue ageing analysis and other qualitative factors.

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Cash and bank balances:				
US Dollars	2	2	—	—
Hong Kong Dollars	48,778	53,531	688	5,880
	48,780	53,533	688	5,880

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

25. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period is as follow:

	2013	**2012**
	HK$'000	*HK$'000*
0 — 90 days	—	71

26. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Accruals	5,220	1,913	4,796	1,002
Other payables	72	907	—	859
	5,292	2,820	4,796	1,861

27. RECEIPTS IN ADVANCE

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Trade deposits received	3,408	4,348

28. CONVERTIBLE LOAN NOTES

On 25 September 2008, the Company issued convertible loan note with a principal amount of HK$35,000,000 to Goldig Investment Group Limited with a term of three years and zero coupon rate (the "Old Convertible Note"). The Old Convertible Notes are 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 Old Convertible Note is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK$28,000,000 of the Old Convertible Notes.

Pursuant to the Company's circular dated 12 August 2009, the Company and the bondholders of the Old Convertible Notes entered into the deed of amendments to modify the terms and conditions of the remaining of HK$7,000,000 of the Old Convertible Notes. 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 Old Convertible Notes into new conversion shares at HK$0.239.

The conversion price was adjusted to HK$0.999 per share and HK$0.884 per share upon the completion of first and second tranche placing on 25 January 2010 and 5 February 2010 respectively.

The conversion price was adjusted to HK$0.50 per share upon the distribution of special dividend on 24 May 2010.

On 23 December 2010, an amount of HK$800,000 of Old Convertible Notes was converted into ordinary shares of the Company.

The conversion price was adjusted to HK$0.487 per share on 30 December 2010 upon placement of news shares.

Upon the acceptance of the cash offers on 2 March 2012, Old Convertible Notes with principle amount of HK$6,200,000 was transferred to New Asia Media Development Limited, a major shareholder of the Company, and the terms of Old Convertible Notes remain unchanged.

On 10 September 2013, the Group announced to have entered into the deed of amendment with the holder of Old Convertible Notes whereby the parties agreed to extend the maturity date of the outstanding Old Convertible Notes from 24 September 2013 to 24 September 2015. The extension became effective upon the approval by the shareholders of the Company at a special general meeting held on 23 October 2013. The maturity date of the Old Convertible Notes has therefore been extended to 24 September 2015 ("CN Amendment"), and the mandatory conversion of any outstanding amount of the Old Convertible Notes into new conversion shares at HK$0.487.

Upon the CN Amendment, the Company extinguished the original liability component and transfer the equity component to accumulated losses. The revised terms hereinafter referred to as "New Convertible Notes", were measured at fair value, which was carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected with the Group.

The New Convertible Notes contain equity component, which contains (a) the Company's option to exchange the obligation to pay the outstanding debt for a fixed number of shares of the Company any time before maturity; and (b) the bondholder's option to convert the instruments into ordinary share of the Company any time before the maturity. The fair value of the equity component was determined based on the stock price of the shares multiplied by the number of shares to be delivered. On 24 September 2013, the difference of approximately HK$1,935,000 between the fair value of the New Convertible Note and the liability of Old Convertible Notes is recognised in statement of profit or loss for the year ended 31 December 2013.

	Liability Component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Old Convertible Notes			
At 1 January 2012	4,951	2,381	7,332
Effective interest expenses	686	—	686
At 31 December 2012 and 1 January 2013	5,637	2,381	8,018
Effective interest expenses	563	—	563
Extinguishment of liability/equity component of Old Convertible Notes	(6,200)	(2,381)	(8,581)
At 31 December 2013	—	—	—
New Convertible Notes			
Recognition of equity component of the New Convertible Notes	—	4,265	4,265
At 31 December 2013	—	4,265	4,265

29. SHARE CAPITAL

	2013	**2012**
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each	30,000	30,000
Issued and fully paid:		
505,649,726 ordinary shares of HK$0.01 each	5,056	5,056

30. 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.

No grantee was entitled to any payment under the award during the year ended 31 December 2013 (2012: nil).

31. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 32 to the consolidated financial statements.

The Company

	Share premium	Contributed surplus	Convertible loan notes reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note i)	*(Note ii)*		
At 1 January 2012	47,383	28,294	2,381	43,047	121,105
Net loss for the year	—	—	—	(12,789)	(12,789)
Total comprehensive loss for the year	—	—	—	(12,789)	(12,789)
At 31 December 2012 and 1 January 2013	47,383	28,294	2,381	30,258	108,316
Net loss for the year	—	—	—	(51,493)	(51,493)
Total comprehensive loss for the year	—	—	—	(51,493)	(51,493)
Transfer to accumulated losses upon extinguishment of Old Convertible Notes	—	—	(2,381)	2,381	—
Recognition of equity component of New Convertible Notes	—	—	4,265	—	4,265
At 31 December 2013	**47,383**	**28,294**	**4,265**	**(18,854)**	**61,088**

Notes:

(i) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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.

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

32. DISPOSAL OF A SUBSIDIARY

On 29 June 2012, the Group disposed Infrared, a wholly owned subsidiary of the Company, at a consideration of HK$1. A loss on disposal of approximately HK$2,960,000 arose from this disposal was recognised in the consolidated statement of profit or loss. Summary of the effect of the disposal of the subsidiary is as follows:

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	104
Trade receivables	267
Deposits, prepayments and other receivables	76
Cash and bank balances	22
Accruals and other payables	(789)
Net liabilities of Infrared	(320)

Loss on disposal of a subsidiary:

	HK$'000
Consideration	—
Net liabilities disposed of	(320)
Goodwill	3,280
Loss on disposal of Infrared	2,960

The loss on disposal is included in the loss for the year from discontinued operation in the consolidated statement of profit or loss (note 12).

	HK$'000
Net cash outflow in respect of the disposal of subsidiary	
Cash consideration	—
Cash and cash equivalents disposed of	(22)
	(22)

33. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following material transactions with related parties during the year:

(a) Related entities

	Notes	**2013** *HK$'000*	**2012** *HK$'000*
Sundry income received from related company	*(i)*	—	120
Rental expenses paid to related subsidiary	*(ii)*	4,488	3,443
Interest expenses of convertible loan notes payable to related company	*(iii)*	563	686

Notes:

(i) Sundry income charged to related company in which is family member of director of Company's subsidiary have beneficial interest respectively.

(ii) Rental expenses paid to the related company, in which is subsidiary of an entity and the Group is an associate of that entity. The transaction is a continuing connected transaction as defined under Chapter 20 of the GEM Listing Rules, details of which please refer to the announcement dated 30 April 2012.

(iii) Interest expense of convertible loan notes charged by the related company, in which is subsidiary of an entity and the Group is an associate of that entity.

(b) Compensation of key management personnel

	2013 *HK$'000*	**2012** *HK$'000*
Salaries and allowances	5,078	4,459
Pension scheme contributions	63	41
	5,141	4,500

34. COMMITMENT

Operating lease commitment

The Group as lessee

The Group leases office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from 1 to 2 years (2012: 1 to 2 years).

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases falling due is as follows:

	2013	2012
	HK$'000	*HK$'000*
Within one year	**1,137**	4,562
In the second to fifth years, inclusive	**43**	1,187
	1,180	5,749

35. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the end of reporting period (2012: nil).

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	51,883	63,530	69,222	118,634
Financial liabilities				
Financial liabilities at amortised cost	5,292	8,528	4,796	7,498

Financial risk management objective and policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Group treasury under policies approved by the board of directors. Group treasury identifies and evaluate financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Foreign currency risk

The Group's functional and reporting currency is in HKD.

The major operating companies of the Group have certain transactions in RMB and the artist management services provided by these companies to these customers in the PRC represent a significant portion of their turnover. The operating currency of these PRC customers is mainly RMB. RMB is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are mainly denominated in HKD. It is assumed that the pegged rate between HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

The following table details the Group's exposure at the date of reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Liabilities		**Assets**	
	At 31 December			
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	2,572	3,407	—	26

Sensitivity analysis

The following table details the group entities' sensitivity to a 5% increase and decrease in functional currency of the relevant group entities against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the report date for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss or an increase in profit where functional currency of the relevant group entities weaken 5% against the relevant foreign currency. For a 5% strengthen of functional currency of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the loss or profit, and the balance below would be negative.

	Loss before tax for the year	
	2013	**2012**
	HK$'000	*HK$'000*
RMB	(129)	(242)

A negative number below indicates a increase in loss where functional currencies of the relevant group entities weaken 5% against the relevant foreign currency.

The Group currently does not enter into any derivative contract to minimise the foreign currency risk exposure.

Interest rate risk

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

At the end of the reporting period, the Group has no significant expense to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.

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 overdraft, bank borrowings, finance leases, other interest-bearing loans, and convertible loan notes.

	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*
The Group							
31 December 2013							
Non-derivative financial liabilities							
Accruals and other payables	**—**	**5,292**	**—**	**—**	**—**	**5,292**	**5,292**
31 December 2012							
Non-derivative financial liabilities							
Trade payables	—	71	—	—	—	71	71
Accruals and other payables	—	2,820	—	—	—	2,820	2,820
Convertible loan notes	13.86	6,200	—	—	—	6,200	5,637
		9,091	—	—	—	9,091	8,528

	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*
The Company							
31 December 2013							
Non-derivative financial liabilities							
Accruals and other payables	**—**	**4,796**	**—**	**—**	**—**	**4,796**	**4,796**
31 December 2012							
Non-derivative financial liabilities							
Accruals and other payables	—	1,861	—	—	—	1,861	1,861
Convertible loan notes	13.86	6,200	—	—	—	6,200	5,637
		8,061	—	—	—	8,061	7,498

Credit risk

At 31 December 2012 and 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to trade or other receivables and the credit risk on liquid funds is limited because the counterparties are banks with high ratings assigned by international credit-rating agencies. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the consolidated financial statements.

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 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 consolidated financial statements approximate to their respective fair values:

	2013		**2012**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Convertible loan notes	—	—	5,637	5,716

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.

As at 31 December 2013 and 2012, the Group's financial instruments presented on the statement of financial position are not measured at fair value. There were no transfers between Level 1 and Level 2 in both years.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statement approximate to their fair value.

37. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For the purpose, adjusted net debt is defined as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the year ended 2013, the Group's strategy, which was unchanged from 2012, was to maintain the adjusted net debt-to-capital ratio at the lower end of the range 20% to 25%. The Group is not subject to any externally imposed requirements.

The gearing ratio at the end of the reporting period was as follows:

	The Group		**The Company**	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000*
Debt *(note (i))*	—	5,637	—	5,637
Cash and cash equivalents	(48,780)	(53,533)	(688)	(5,880)
Net debt	(48,780)	(47,825)	(688)	(243)
Total equity	74,202	82,756	66,144	113,372

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000*
Gearing ratio	**NA**	NA	**NA**	NA

Notes:

(i) Debt comprises convertible loan notes as detailed in note 28 to consolidated financial statement.

(ii) Equity includes all capital and reserves attributable to owners of the Company.

38. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2013 and up to the date of this report.

39. 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/ operation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activity
Creative Formula Limited	Hong Kong	Ordinary HK$10,000,000	—	100%	Film production
China Star Management Limited	Hong Kong	Ordinary HK$290,000	—	100%	Artists management
Anglo Market International Limited	BVI	Ordinary US$1	—	100%	Artists management
China Golf Limited*	Hong Kong	Ordinary HK$20,500	—	51%	Dormant

* Individually immaterial subsidiary with non-controlling interest

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

3. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2014, being the most recent practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of the Circular, the Group had no outstanding borrowings.

On 31 December 2014, the Group had no material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 December 2014 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. MATERIAL CHANGE

Save for the following events, the Directors confirm that, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

(i) The entering into of the Subscription Agreement pursuant to which subject to the terms and conditions therein, the Company will receive the gross proceeds of the Subscription and the Company's cash and bank balances will be increased by the amount of the net proceeds of the Subscription (as further set out in the section headed "Use of proceeds" in the letter from the Board in this circular) and the incoming of Jiaxuan as the new controlling shareholder following Completion and its intention to develop new businesses as detailed in the paragraph headed "Future intentions of Jiaxuan regarding the Group" in the letter from the Board;

(ii) As stated in the Company's third quarterly report 2014, due to tough business competition, the Group's revenue for the nine months ended 30 September 2014 decreased to approximately HK$4.35 million from approximately HK$12.6 million for the corresponding period in 2013, and as a result, the Group's gross profit decreased to approximately HK$1.2 million for the nine months ended 30 September 2014 from approximately HK$3.6 million for the corresponding period in 2013. As set out in the third quarterly report 2014, due to a decrease in operating lease expense and salaries and allowances, the

Group's administrative expense decreased to approximately HK$9.1 million for the nine months ended 30 September 2014 from HK$12.3 million for the corresponding period in 2013, and based on the management accounts of the Company, the Group's administrative expenses amounted to approximately HK$11.7 million for the year ended 31 December 2014, as compared to approximately HK$19.1 million for the year ended 31 December 2013. As stated in the third quarterly report 2014, the Company recorded a gain of approximately HK$5.3 million on disposal of subsidiaries for the nine months ended 30 September 2014. Please refer to (v) and (vi) below for more details on the disposals. As set out in the third quarterly report 2014, the Group's loss reduced to approximately HK$2.8 million for the nine months ended 30 September 2014 from approximately HK$6.9 million for the corresponding period in 2013 and such decrease in the Group's loss was attributable to the aforesaid gain on disposals;

(iii) On 3 April 2014, the Company entered into a conditional placing agreement with Kingston Securities Limited ("Kingston") in relation to the placing of up to 100,000,000 new Ordinary Shares, at a placing price of HK$0.23 per new Ordinary Share (the "First Placing"). Upon completion of the First Placing on 15 April 2014, the Group's cash and bank balances were increased by approximately HK$22.1 million arising from the amount of the net proceeds of the First Placing;

(iv) On 24 April 2014, the Company entered into a conditional placing agreement with Kingston in relation to the placing of up to 300,000,000 new Ordinary Shares, at a placing price of HK$0.28 per new Ordinary Share (the "Second Placing"). Upon completion of the Second Placing on 17 June 2014, the Group's cash and bank balances were increased by approximately HK$81.0 million arising from the net proceeds of the Second Placing;

(v) On 14 April 2014, the Group entered into a sale and purchase agreement with China Star Entertainment Holding Limited (an indirect wholly-owned subsidiary of China Star Entertainment Limited, a company whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 326)) (the "Vendor") pursuant to which the Group acquired (the "Acquisition") the entire issued share capital of and shareholders' loan to China Star Movie Limited (the "Target") for a total consideration of HK$4,340,000. On 7 October 2014, the Group disposed (the "Disposal") of the entire issued share capital of and assigned the shareholders' loan to the Target back to the Vendor for a total consideration of HK$8,673,258;

(vi) During the six months period ended 30 June 2014, the Group disposed of the entire issued share capital of nine subsidiaries which had an aggregate deficit of net assets of approximately HK$5.3 million as at 30 June 2014 to an independent third party at a cash consideration of HK$24.40 and the Group recorded a gain on disposal of approximately HK$5.3 million;

(vii) In July 2014, China Star Film Group Limited, which is held as to 50% by the Company, proposed a capital reduction of its issued shares and a distribution to its shareholders of the credit arising from the capital reduction. Upon completion of the capital reduction and distribution in 31 July 2014, the amount of the Company's investment in jointly controlled entities was reduced to approximately HK$4,000 from approximately HK$28.3 million as at 31 December 2013 and the Company's cash and bank balances were increased by HK$27.7 million;

(viii) In October 2014, the Group acquired listed securities on the Stock Exchange at a total consideration of approximately HK$14.8 million. As a result of an increase in the market price of the listed securities, the fair value of such listed securities as at 31 December 2014 increased to approximately HK$17.1 million thereby resulting in the Group recording a gain on change in fair value of investments of approximately HK$2.3 million for the year ended 31 December 2014.

1. RESPONSIBILITY STATEMENT

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

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscribers) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the respective directors of the Subscribers) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of Jiaxuan jointly and severally accept full responsibility for the accuracy of the information relating to Jiaxuan contained in this circular and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the directors of Jiaxuan have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The sole director of Vision Path accepts full responsibility for the accuracy of the information relating to Vision Path contained in this circular and confirms, having made all reasonable inquiries, that to the best of her knowledge, opinions expressed by the sole director of Vision Path have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The sole director of First Charm accepts full responsibility for the accuracy of the information relating to First Charm contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed by the sole director of First Charm have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The directors of REORIENT Global jointly and severally accept full responsibility for the accuracy of the information relating to REORIENT Global contained in this circular and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the directors of REORIENT Global have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The closing prices of the Ordinary Shares quoted on GEM (i) at the end of each of the calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	**Closing price per Ordinary Share** *HK$*
30 June 2014	0.355
31 July 2014	0.360
29 August 2014	0.345
30 September 2014	0.405
31 October 2014	0.430
21 November 2014 (being the last trading day of the Ordinary Shares in November 2014 before suspension)	0.700
31 December 2014	0.970
30 January 2015	1.080
16 February 2015 (being the Latest Practicable Date)	1.250

The lowest and highest closing market prices of the Shares recorded on GEM during the Relevant Period were HK$0.305 on 17 and 18 September 2014 and HK$1.41 on 14 January 2015, respectively.

3. SHARE CAPITAL, OPTIONS, WARRANTS AND CONVERTIBLE SECURITIES

(a) Share capital

Set out below were the authorised and issued share capital of the Company as at the Latest Practicable Date:

Authorised:

3,000,000,000	Ordinary Shares	HK$30,000,000

Issued and fully paid or credited as fully paid:

919,869,909	Ordinary Shares	HK$9,198,699.09

All the issued Ordinary Shares rank pari passu with each other in all respects including the rights in respect of capital, dividend and voting.

Since 31 December 2014 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Ordinary Shares had been issued by the Company.

(b) Options, warrants and convertible securities

As at the Latest Practicable Date, the Company had no outstanding options, warrants or conversion rights affecting the Ordinary Shares.

4. DISCLOSURE OF INTERESTS

Interests of Directors and chief executives

As at the Latest Practicable Date, none of the Directors or chief executive of the Company or their associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interest and short positions which were taken or deemed to have been taken under such provisions of the SFO; (ii) recorded in the register to be kept under Section 352 of the SFO; (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company; or (iv) disclosed in this circular pursuant to the requirements of the Takeovers Code.

5. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) no Ordinary Shares or Preferred Shares acquired by the Subscribers in pursuance of the Subscription or Conversion Shares to be allotted and issued to the Subscribers upon conversion of any of the Preferred Shares will be transferred, charged or pledged to any other persons;

(b) no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscribers or parties acting in concert with any of them; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/ or the Whitewash Waiver;

(c) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver;

(d) there was no agreement or arrangement between any Directors and any other persons which is conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver;

(e) there was no material contract entered into by any of the Subscribers in which any Director had a material personal interest;

(f) the directors of the Subscribers were not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(g) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Subscription and/or the Whitewash Waiver;

(h) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by any of the Company and the Directors;

(i) the Company did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers and had no dealings in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers during the Relevant Period;

(j) none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers during the Relevant Period;

(k) none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(l) none of the Directors had dealt in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(m) save for the Subscription, none of the subsidiaries of the Company and none of the pension funds of the Company or its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(n) save for the Subscription Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and

(o) no fund which was managed on a discretionary basis by any fund manager connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

(a) which (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the Announcement;

(b) which were continuous contracts with a notice period of 12 months or more; or

(c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

7. MATERIAL LITIGATION

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

Pending litigation

On 30 May 2011, China Star Management Limited, an indirect wholly-owned subsidiary of the Company, issued a writ of summons to claim against Tang's Workshop Limited ("Tang's Workshop") for the sum of HK$127,500, being the fees charged for the services rendered and material supplied to Tang's Workshop. As at the Latest Practicable Date, the litigation had yet to be settled.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the following material contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group, had been entered into by the Company or any of its subsidiaries:

(a) the Subscription Agreement;

(b) the sale and purchase agreement dated 7 October 2014 entered into between China Star Entertainment Holding Limited (an indirect wholly-owned subsidiary of China Star Entertainment Limited, a company whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 326)) ("China Star Entertainment") and Dance Star Group Limited (a wholly-owned subsidiary of the Company) ("Dance Star") in relation to the disposal by Dance Star of the entire issued share capital of China Star Movie Limited ("China Star Movie") and the assignment of the shareholder's loan owed by China Star Movie to Dance Star, to China Star Entertainment at a total consideration of HK$8,673,258;

(c) the conditional placing agreement dated 24 April 2014 entered into between the Company and Kingston Securities Limited ("Kingston") in relation to the placing, on a best effort basis, of up to an aggregate of 300,000,000 new Ordinary Shares, at a placing price of HK$0.28 per new Ordinary Share;

(d) the sale and purchase agreement dated 14 April 2014 entered into between Dance Star and China Star Entertainment in relation to the acquisition by Dance Star of the entire issued share capital of China Star Movie and the assignment of the shareholder's loan owed by China Star Movie to China Star Entertainment, to Dance Star at a total consideration of HK$4,340,000;

(e) the conditional placing agreement dated 3 April 2014 entered into between the Company and Kingston in relation to the placing, on a best effort basis, of up to an aggregate of 100,000,000 new Ordinary Shares, at a placing price of HK$0.23 per new Ordinary Share; and

(f) the second deed of amendments dated 10 September 2013 entered into between the Company and New Asia Media Development Limited (a wholly-owned subsidiary of Culture Landmark Investment Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 674), the then substantial/controlling shareholder of the Company) in relation to the amendment of the terms of the HK$350,000,000 face value convertible bonds issued by the Company pursuant to a subscription agreement dated 9 July 2008 (the "Convertible Bonds") which involves the extension of the maturity date of the Convertible Bonds from 24 September 2013 to 24 September 2015. Such Convertible Bonds have been fully converted into Shares.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Unit 3407, 34/F., Shun Tak Centre West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of SGM. Copy of the following documents will also be available for inspection on the website of the SFC at http://www.sfc.hk and the website of the Company at http://www.chinastarcmg.com.hk from the date of this circular up to and including the date of the SGM.

(a) the memorandum of association of the Company and the Bye-laws;

(b) the memorandum and articles of association of each of the Subscribers;

(c) the annual reports of the Company for the each of two financial years ended 31 December 2012 and 2013;

(d) the letter from the Board, the text of which is set out on pages 7 to 33 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on pages 34 to 35 of this circular;

(f) the written consent from RFML that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name in the form and context in which it appears;

(g) the letter from the Independent Financial Adviser, the text of which is set out on pages 36 to 80 of this circular;

(h) the written consent from the Independent Financial Adviser that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear; and

(i) the material contracts as referred to in the section headed "Material contracts" in this appendix.

10. MISCELLANEOUS

(a) The address of Jiaxuan is Coastal Building, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.

(b) The address of Vision Path is P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(c) The address of First Charm is P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(d) The address of REORIENT Global and RFML is Suites 1102-03, 11/F Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(e) The address of Somerley Capital Limited is 20/F China Building, 29 Queen's Road Central, Hong Kong.

(f) The directors of Jiaxuan are Mr. Xu Zhongmin, Mr. Zhou Yafei and Mr. Zou Xiao Chun. Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited (a company wholly owned by Mr. Wong Kwong Yu) and as to 45% by Great Majestic Global Holdings Limited (a company wholly owned by Ms. Ma Qing).

(g) The sole director and ultimate sole shareholder of Vision Path is Ms. Yu Nan.

(h) The sole director and ultimate sole shareholder of First Charm is Mr. Ko Chun Shun, Johnson.

(i) The directors of REORIENT Global are Mr. Cecil Te-hwai Ho and Mr. Bryan C. Zolad. REORIENT Global is a wholly-owned subsidiary REORIENT Group Limited, a company listed on the Main Board of the Stock Exchange. The directors of REORIENT Group Limited are Mr. Ko Chun Shun, Johnson, Mr. Brett McGonegal, Mr. Chen Shengjie, Ms. Ko Wing Yan, Samantha and Mr. Tsoi Tong Hoo, Tony (each of whom are executive directors), Mr. Dorian M. Barak (who is a non-executive director), and Mr. Liu Zhengui, Mr. Chu Chung Yue, Howard and Dr. Wong Yau Kar, David, BBS, JP (all of whom are independent non-executive directors). Mr. Ko Chun Shun, Johnson is also the ultimate controlling shareholder of REORIENT Group Limited.

(j) The English text of this circular shall prevail over the Chinese text in case of consistency.

(a) The following new definitions be inserted in the existing Bye-laws in their appropriate alphabetical order:

"Ordinary Shares"	the ordinary shares of HK$0.01 each in the capital of the Company;
"Preferred Shares"	the limited voting convertible preferred shares of HK$0.01 each in the capital of the Company;
"Shares" or "shares"	shares in the capital of the Company (being the Ordinary Shares and the Preferred Shares or either one of them as the context may require);

(b) The following bye-law be inserted immediately after Bye-law 9 as Bye-law 9A:

9A.(1) Definitions

For the purpose of this Bye-law 9A, the following terms shall have the following meanings:

"Business Day"	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business.
"Companies Act"	the Companies Act 1981 (as consolidated and revised) of Bermuda;
"Completion"	completion of the issue and subscription of the Subscription Shares in accordance with Clause 6 of the Subscription Agreement;
"Conversion"	means together, the Tranche A Conversion and the Tranche B Conversion;
"Conversion Event"	the conversion of Preferred Shares by a Preferred Shareholder pursuant to Bye-law 9A.(6.1) (*Conversion)*;

"Conversion Notice"	the notice of conversion (in such form as may be required by the Company from time to time);
"Conversion Period"	the period commencing from the Issue Date and ending on the second anniversary of the Issue Date;
"Conversion Price"	HK$0.2, as adjusted in accordance with Bye-law 9A.(7) (*Conversion adjustments)*;
"Conversion Rate"	the rate for conversion of the Preferred Shares into Ordinary Shares as determined in accordance with Bye-law 9A.(6.3) (*Conversion)*;
"Conversion Right"	the right of Preferred Shareholders to convert their Preferred Shares into Ordinary Shares;
"GEM"	the Growth Enterprise Market of the Hong Kong Stock Exchange;
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Issue Date"	the date of Completion, being the date of allotment and issue of the Tranche A Preferred Shares and the Tranche B Preferred Shares;
"Ordinary Subscription Shares"	an aggregate of 1,379,804,865 new Ordinary Shares to be issued by the Company and subscribed by the relevant Subscriber(s) at Completion;
"Parties"	the named parties to the Subscription Agreement and "**Party**" means any one of them;

"Preferred Shareholder"	a person registered from time to time in the register of members of the Company as a holder of any Preferred Share(s);
"SFC"	the Securities and Futures Commission of Hong Kong;
"Subscribers"	collectively, Jiaxuan Group Company Limited, Vision Path Limited, First Charm Investments Limited and Reorient Global Limited, and "Subscriber" means any one of them;
"Subscription"	the subscription of the Subscription Shares by the Subscribers under the Subscription Agreement;
"Subscription Agreement"	the agreement for the subscription of shares in the Company dated 24 November 2014 (as supplemented by a supplemental agreement dated 16 February 2015) made between the Company as issuer and Jiaxuan Group Company Limited, Vision Path Limited, First Charm Investments Limited and Reorient Global Limited as subscribers;
"Subscription Price"	HK$0.2 per Preferred Share (being the subscription price of the Tranche A Preferred Share per share and the subscription price of the Tranche B Preferred Share per share);
"Subscription Shares"	Collectively, the Ordinary Subscription Shares, the Tranche A Preferred Shares and Tranche B Preferred Shares;
"trading day"	any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities and on which the Ordinary Shares can be traded on GEM;
"Takeovers Code"	the Code on Takeovers and Mergers administered by the SFC;

"Tranche A Conversion"	completion of the conversion of the Tranche A Preferred Shares in accordance with the Terms of the Preferred Shares;
"Tranche A Preferred Shares"	such number of new Preferred Shares as set out in Part 2 of Schedule 3 of the Subscription Agreement to be issued by the Company and subscribed for by the Subscribers at Completion;
"Tranche B Conversion"	completion of the conversion of the Tranche B Preferred Shares in accordance with the Terms of the Preferred Shares; and
"Tranche B Preferred Shares"	such number of new Preferred Shares as set out in Part 3 of Schedule 3 of the Subscription Agreement to be issued by the Company and subscribed for by the Subscribers at Completion.

All the Preferred Shares shall have all the rights and restrictions set out in this Bye-law 9A and shall rank pari passu with one another.

9A.(2) Dividend

None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.

9A.(3) Return of Capital

The Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

9A.(4) Transferability

Any Preferred Share, subject to it having been fully paid up, shall be freely transferable. For the avoidance of doubt, no partly paid Preferred Shares can be transferred.

9A.(5) <u>Voting</u>

The holder(s) of the Preferred Shares shall not be entitled to attend or vote at any general meeting of the Company by reason only of his/her/its being the holder(s) of the Preferred Shares, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares shall be counted on as converted basis.

9A.(6) <u>Conversion</u>

9A.(6.1) Subject to Bye-law 9A.(6.8) and (i) subject further to payment in full of the Subscription Price of the Tranche A Preferred Shares, the Tranche A Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving the Conversion Notice to the Company on any Business Day within the Conversion Period, or (ii) subject further to payment in full of the Subscription Price of the Tranche B Preferred Shares, the Tranche B Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving the Conversion Notice to the Company on any Business Day within the Conversion Period, in each case without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with this Bye-law.

9A.(6.2) The number of Ordinary Shares to which a holder of Preferred Shares shall be entitled upon conversion following a Conversion Event shall be the number obtained by multiplying the Conversion Rate then in effect by the number of Preferred Shares being converted.

9A.(6.3) The Conversion Rate of each Preferred Share shall be determined by dividing the Subscription Price by the Conversion Price in effect at the time of conversion, provided that the Conversion Price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible. The Conversion Price shall be subject to adjustment in accordance with Bye-law 9A.(7) *(Conversion adjustments)*.

9A.(6.4) Upon delivery of the Conversion Notice and certificate(s) evidencing the Preferred Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than 10 Business Days after the date of receipt of the Conversion Notice and such certificate(s):

(a) issue and deliver to such holder (a) certificate(s) for the number of Ordinary Shares into which the Preferred Shares are converted in the name as shown on the certificate(s) evidencing the Preferred Shares so surrendered to the Company; or

(b) cause to be credited into the relevant Preferred Shareholder's brokers' account such number of Ordinary Shares into which the Preferred Shares are converted,

9A.(6.5) No fraction of an Ordinary Share shall be issued upon conversion of the Preferred Shares. Fractional entitlement shall be ignored by the holder of the Preferred Shares and any sum paid in respect of such subscription shall be retained by the Company for its own benefit.

9A.(6.6) The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorized share capital to be issued in satisfaction of the conversion rights of Preferred Shares pursuant to Bye-law 9A.(6.1).

9A.(6.7) Upon the issue of the Ordinary Shares into which the Preferred Shares are converted, the Company shall enter such member of the Company in its register of members in respect of the relevant number of Ordinary Shares arising from such conversion, and the Preferred Shares which have been converted into Ordinary Shares shall be treated as cancelled.

9A.(6.8) Notwithstanding any provisions in this Bye-law 9A, Conversion shall be subject to the following requirements:

(a) The Company's obligation to effect conversion of fully paid Preferred Shares into Ordinary Shares in respect of which Conversion Notice has been served ("***Outstanding Preferred Shares***"), shall be subject to the Company's compliance with Rule 11.23(7) of the GEM Listing Rules.

(b) The Company undertakes with the Preferred Shareholders that in the event that the Company is unable to effect conversion of any Outstanding Preferred Shares for the reason of compliance with Rule 11.23(7) of the GEM Listing Rules, it shall, once headroom for conversion of such Outstanding Preferred Shares is available, effect conversion of such Outstanding Preferred Shares into Ordinary Shares to the maximum extent possible.

(c) In the event the Outstanding Preferred Shares are held by more than one Preferred Shareholders and the headroom for conversion by the Company under Bye-law 9A.(6.8)(b) (*Conversion*) is insufficient to enable all of such Outstanding Preferred Shares be converted in one batch, the Outstanding Preferred Shares held by the relevant Preferred Shareholders shall be converted by the Company on a pro-rata basis.

(d) Conversion of the Preferred Shares shall be effected in such manner as the Directors shall subject to the bye-laws of the Company and to any other applicable law and regulations, from time to time determine, including, without limitation, by way of redemption or repurchase or by way of re-designation of Preferred Shares into Ordinary Shares without further approval of the shareholders of the Company.

9A.(7) Conversion adjustments

9A.(7.1) The Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-laws 9A.(7.1)(a) to (g) inclusive *(Conversion adjustments)*, it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

(a) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(b) if and whenever the Company shall:

(i) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

(ii) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-law 9A.(7.2) *(Conversion adjustments)*) (for which purpose the "market value" of an Ordinary Share shall mean the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet for one Ordinary Share for 5 trading days ending an the last trading day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue;

(c) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Hong Kong Stock Exchange in respect of one Ordinary Share on the trading day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the independent financial adviser appointed by the Company, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(i) if, in the opinion of the relevant independent financial adviser appointed by the Company, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(ii) this Bye-law 9A.(7.1)(c) (*Conversion adjustments)* shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(d) If and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Ordinary Shares or other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(i) the total amount (if any) payable to the rights, options or warrants being offered or granted; and

(ii) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

(e) (i) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares of other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

where:

J = the number of Ordinary Shares in issue immediately before the date of the issue of such securities;

K = the number of Ordinary Shares which the total Effective Consideration receivable for such securities would purchase at such market price; and

L = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

(ii) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned Bye-law 9A.(7.1)(e)(i) (*Conversion adjustments)* are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than 90% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Ordinary Shares in issue immediately before the date of such modification;

N = the number of Ordinary Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such market prices; and

O = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(iii) For the purposes of this Bye-law 9A.(7.1)(e) (*Conversion adjustments)*:

(aa) the "total Effective Consideration" receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and (bb) the “total Effective Consideration per new Ordinary Share” initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(f) If and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall he adjusted by multiplying the Conversion Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Ordinary Shares in issue immediately before the date of such announcement;

Q = the number of Ordinary Shares which the aggregate amount payable for such issue would purchase at such market price; and

R = the number of Ordinary Shares allotted pursuant to such issue.

Such adjustment shall become effective on the date of the issue.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

9A.(7.2) For the purposes of Bye-law 9A.(7.1) (*Conversion adjustments)*:

“**announcement**” shall mean the publication of an announcement on the website of the Stock Exchange, “**date of announcement**” shall mean the date of the announcement and “**announce**” shall be construed accordingly;

"**capital distribution**" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(a) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31 December 2013 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

(b) to the extent that (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the independent financial adviser appointed by the Company appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

"**issue**" shall include allot;

"**market price**" means the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet for one Ordinary Share for the 5 trading days ending on the last trading day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any day during the said 5 trading days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

(1) if the Ordinary Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

(2) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share; and PROVIDED FURTHER THAT if the Ordinary Shares on each of the said five trading days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued or purchased do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

"**Shares**" includes, for the purposes of Ordinary Shares comprised in any issue, distribution, offer or grant pursuant to Bye-laws 9A.(7.1)(b), (c), (d), (e) and (f) (*Conversion adjustments)* above, any such shares of the Company as, when fully paid, shall be Ordinary Shares; and

"**rights**" includes rights in whatsoever form issued.

9A.(7.3) if the Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Preferred Shareholders whose Preferred Shares are converted into Ordinary Shares pursuant hereto or such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Preferred Shareholders' entitlement were arrived at on the basis of unadjusted Conversion Price, the Company shall pay to such Preferred Shareholders an amount that is equivalent to the nominal value of such number of Ordinary Shares which would have been required to be issued on conversion of such Preferred Shares if the relevant adjustment had been given effect to as at the date of conversion (the "**Additional Shares**") and apply such amount to pay up in full at par the Additional Shares which shall be allotted and issued to such Preferred Shareholders or such other persons as they may direct.

9A.(7.4) The provisions of Bye-law 9A.(7.1) *(Conversion adjustments)* shall not apply to:

(a) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the date of issue of the Preferred Shares;

(b) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the eligible participants pursuant to share option scheme adopted by the Company in compliance with Chapter 23 of the GEM Listing Rules; and

(c) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

9A.(7.5) Notwithstanding the provisions of Bye-law 9A.(7.1) (*Conversion adjustments)*, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint the an independent financial adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the independent financial adviser appointed by the Company shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the independent financial adviser appointed by the Company to be in its opinion appropriate.

9A.(7.6) Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Conversion Price.

9A.(7.7) No adjustment shall be made to the Conversion Price in any case in which the Conversion Price so reduced in accordance with the foregoing provisions would be less than its nominal value.

9A.(7.8) Whenever the Conversion Price is adjusted, the Company shall give notice to the Preferred Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).

9A.(8) Redemption

Other than the circumstances as set out in the Subscription Agreement the Preferred Shares shall be non-redeemable.

9A.(9) Listing

The Preferred Shares shall not be listed on any stock exchange.

China Star Cultural Media Group Limited
中國星文化產業集團有限公司*

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

(Stock Code: 8172)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Cultural Media Group Limited (the "Company") to be held at United Conference Centre, Room 1, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 16 March 2015 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions of the Company.

ORDINARY RESOLUTIONS

1. "**THAT**, the authorised share capital of the Company be and is hereby increased from HK$30,000,000 divided into 3,000,000,000 ordinary shares of HK$0.01 each ("Ordinary Shares") to HK$100,000,000 divided into 8,000,000,000 Ordinary Shares and 2,000,000,000 preferred shares of HK$0.01 each ("Preferred Shares") by the creation of an additional 5,000,000,000 Ordinary Shares and the creation of 2,000,000,000 Preferred Shares with the rights, privileges and restrictions set out in the Subscription Agreement (as defined in ordinary resolution no. 2 below) and in the amendments to the bye-laws of the Company to be adopted by the Company as referred to in Appendix III of the circular of the Company dated 18 February 2015 (the "Circular"), all of the existing shares of the Company in issue shall be designated as Ordinary Shares and that the directors of the Company be and are hereby authorised to do all other acts, matters and things and execute all documents as they consider necessary, desirable or appropriate for the implementation of and giving effect to the transactions contemplated under this resolution."

* *for identification purpose only*

2. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 3,

(a) the subscription agreement dated 24 November 2014 (as amended by the supplemental agreement dated 16 February 2015) (the "Subscription Agreement") entered into between (i) the Company, and (ii) Jiaxuan Group Company Limited（稼軒集團有限公司）, Vision Path Limited, First Charm Investments Limited and REORIENT Global Limited (collectively, the "Subscribers") in relation to the subscription of 1,379,804,865 new Ordinary Shares (the "Ordinary Subscription Shares") and 1,379,804,862 new Preferred Shares (the "Preferred Subscription Shares") (collectively, the "Subscription Shares") at an issue price of HK$0.20 per Subscription Share (a copy of the Subscription Agreement is tabled at the meeting and marked "A" by the chairman of the meeting for identification purpose) and the transactions, contemplated thereunder be and are hereby confirmed, approved and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of, and permission to deal in the Ordinary Subscription Shares and the new ordinary shares of the Company to be issued upon conversion of the Preferred Subscription Shares (the "Conversion Shares") pursuant to the terms of the Preferred Subscription Shares set out in the Subscription Agreement, the specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Subscription Shares and the Conversion Shares be and is hereby approved;

(c) any director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the transactions contemplated by the Subscription Agreement, the allotment and issue of the Subscription Shares and the Conversion Shares, and subject to approval from the Independent Shareholders (as defined in the Circular) in accordance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for any material variation of the terms of the Subscription Agreement, to approve or agree to any amendment, variation or modification of the terms and conditions of the Subscription Agreement on such terms and conditions as any director(s) of the Company may think fit."

3. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the waiver granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to note 1 on dispensations for Rule 26 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission in Hong Kong waiving any obligation of the Subscribers to make a mandatory general offer to acquire all the issued ordinary shares of the Company and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with any of them, as a result of the allotment and issue of the Subscription Shares and the Conversion Shares to the Subscribers be and is hereby approved."

4. "**THAT**, subject to completion of the Subscription (as defined in the Circular), the appointment of Ms. Wu Li as an executive director of the Company be and is hereby approved."

5. "**THAT**, subject to completion of the Subscription (as defined in the Circular), the appointment of Mr. Zou Xiao Chun as a non-executive director of the Company be and is hereby approved."

6. "**THAT**, subject to completion of the Subscription (as defined in the Circular), the appointment of Mr. Ng Wai Hung as an independent non-executive director of the Company be and is hereby approved."

7. "**THAT**, subject to completion of the Subscription (as defined in the Circular), the appointment of Mr. Lam Cheung Shing Richard as an independent non-executive director of the Company be and is hereby approved."

8. "**THAT** the directors of the Company be authorised to appoint additional directors of the Company up to a maximum number of 20."

SPECIAL RESOLUTION

9. "**THAT**, subject to and conditional on the passing of ordinary resolution no. 1, the proposed amendments to the bye-laws of the Company as set out in Appendix III to the Circular be and are hereby approved by the Company, such amendments to take effect from the date of this resolution."

By order of the Board
China Star Cultural Media Group Limited
Leung Wai Man
Executive Director

Hong Kong, 18 February 2015

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

Head Office and Principal Place of Business of Hong Kong:
Unit 3407, 34/F.,
Shun Tak Centre West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.

3. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. In order to be valid, a form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.