THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF CSL AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

Grand Cathay Securities (Hong Kong) Limited

A letter from the board of directors of China Star Entertainment Limited is set out on pages 4 to 10 of this circular, and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 20 of this circular.

A notice convening the special general meeting of China Star Entertainment Limited to be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Friday, 11 July 2008 at 4:00 p.m. is set out on pages 124 to 125 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

24 June 2008

CONTENTS

Page

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

"Announcement"	the announcement dated 15 May 2008 issued by the Company in relation to the S&P Agreement;
"Board"	the board of Directors;
"Brilliant Arts"	Brilliant Arts Multi-Media Holding Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on GEM;
"Business Day"	a day (other than a Saturday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business;
"China Star BVI"	China Star Entertainment (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company;
"Company"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange;
"Completion"	completion of the S&P Agreement, being the date on or before 31 October 2008 or such other date as may be agreed in writing between the parties;
"Convertible Bond"	the outstanding convertible bond issued by Brilliant Arts on 14 June 2007 with a principal face value of HK$1,000,000 created pursuant to an instrument of deed poll dated 25 May 2007;
"CSL"	Classical Statue Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company;
"Directors"	directors of the Company;
"Disposal"	the disposal by China Star BVI of the Sale Share to Glenstone pursuant to the S&P Agreement;
"Dorest"	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung;

"GEM"	the Growth Enterprise Market of the Stock Exchange;
"Group"	the Company and its subsidiaries;
"Glenstone"	Glenstone Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is a substantial Shareholder and beneficially owned as to 60% by Ms. Chen though Porterstone and as to 40% by Mr. Heung;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Grand Cathay" or "Independent Financial Adviser"	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation registered under the SFO to carry on types 1, 6 and 9 regulated activities as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal;
"Independent Board Committee"	the independent board committee comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, all of whom are independent non-executive Directors, to advise Independent Shareholders in relation to the terms of the S&P Agreement;
"Independent Shareholder(s)"	Shareholder(s) other than Mr. Heung, Ms. Chen and the parties involved in the Disposal and their respective associates;
"Latest Practicable Date"	19 June 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Mr. Heung"	Mr. Heung Wah Keung, an executive Director and a substantial Shareholder;
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive Director and a substantial Shareholder;
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen, is deemed to be interested in the Shares held by Porterstone;
"Remaining Group"	the Group after the Completion;

"Riche"	Riche Multi-Media Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange;
"Riche Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of Riche;
"Sale Share"	1 ordinary share, being the entire issued share capital of CSL;
"S&P Agreement"	the conditional sale and purchase agreement dated 13 May 2008 (after trading hours) entered into between China Star BVI and Glenstone relating to the Disposal;
"SFC"	the Securities and Future Commission of Hong Kong;
"SGM"	a special general meeting of the Company to be convened and held at 4:00 p.m. on Friday, 11 July 2008 at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong to consider and, if thought fit, to approve, among other things, the S&P Agreement and the transaction contemplated thereunder;
"Share(s)"	ordinary share(s) of HK$0.05 each in issued share capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong; and
"%"	per cent.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

Executive Directors:
Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*
Ms. Li Yuk Sheung

Independent Non-executive Directors:
Mr. Hung Cho Sing
Mr. Ho Wai Chi, Paul
Mr. Leung Hok Man

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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

24 June 2008

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

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF CSL AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 13 May 2008 (after trading hours), China Star BVI, a direct wholly-owned subsidiary of the Company, entered into the S&P Agreement with Glenstone, pursuant to which China Star BVI has conditionally agreed to dispose and Glenstone has conditionally agreed to acquire the Sale Share for a total consideration of HK$330,567,000.

The Disposal under the S&P Agreement constitutes a very substantial disposal on the part of the Company under the Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As Glenstone is a substantial Shareholder and is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung who are both the executive Directors and substantial Shareholders, they are connected persons of the Company under Rule 14A.11 of the Listing Rules. As a result, the entering into the S&P Agreement constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules and is subject to the approval of the Independent Shareholders at a general meeting of the Company. Accordingly, Glenstone, Ms. Chen and Mr. Heung and their respective associates who have material interest in the Disposal shall abstain from voting in respect of the Disposal in accordance with the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the S&P Agreement. Grand Cathay has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the S&P Agreement.

The purpose of this circular is to provide Independent Shareholders (i) further information on the Disposal; (ii) the advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in relation to the S&P Agreement; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the S&P Agreement; (iv) the financial information of the Group; and (v) a notice of SGM at which resolution will be proposed to consider and if thought fit, approve the S&P Agreement and the transaction contemplated thereunder.

THE S&P AGREEMENT

Date

13 May 2008 (after trading hours)

Parties

China Star BVI, as vendor
Glenstone, as purchaser

Glenstone is an investment holding company and is a substantial Shareholder and is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung who are both the executive Directors and substantial Shareholders. Mr. Heung and Ms. Chen are also the executive directors of Riche as at the Latest Practicable Date.

Assets to be disposed

The Sale Share, being the entire issued share capital of CSL

Consideration

The consideration for the Sale Share is HK$330,567,000, which shall be paid to China Star BVI by Glenstone in cash on Completion.

The consideration was determined after arm's length negotiations and with reference to the net asset values of Riche and Brilliant Arts held by CSL and the fair market value of the Convertible Bond as at 31 December 2007. As at the Latest Practicable Date, CSL held (i) 58,360,612 Riche Shares; (ii) 109,090,908 ordinary shares of HK$0.10 each in Brilliant Arts; and (iii) the Convertible Bond. According to the trading prices as quoted from the website of the Stock Exchange, the closing price of the shares of Riche and Brilliant Arts on the date of the S&P Agreement were HK$1.17 per share and HK$0.095 per share respectively.

Conditions Precedent:

Completion of the S&P Agreement is conditional upon the following conditions being fulfilled and remaining fulfilled or waived by Glenstone as at Completion:

(i) the shares of Riche and Brilliant Arts remaining listed and traded on the Stock Exchange at all times from the date of the S&P Agreement to the date of Completion, save for any temporary suspension not exceeding ten consecutive trading days, or such longer period as Glenstone may accept in writing, and no indication being received on or before the date of Completion from the SFC and/or the Stock Exchange to the effect that the listing of the shares of Riche and Brilliant Arts on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached in the S&P Agreement) as a result of the Disposal or in connection with the terms of the S&P Agreement save for such temporary suspension that may be ordered or imposed by any competent authority or such ground or reason due to any action or omission by Glenstone;

(ii) all consents of the Independent Shareholders, the Stock Exchange and the SFC and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, British Virgin Islands or elsewhere which are required or appropriate for the entering into and the implementation of the S&P Agreement having been given or made; all waiting periods required under the laws of Hong Kong, British Virgin Islands or any other relevant jurisdictions having expired or terminated; and all applicable statutory or other legal obligations having been complied with;

(iii) the warranties given by China Star BVI and Glenstone as set out in the S&P Agreement remaining true and accurate in all material respects;

(iv) the Stock Exchange not having notified Glenstone that Riche or Brilliant Arts shall be treated as a new applicant for listing or that listing of the Riche's or Brilliant Arts' securities on the Stock Exchange shall or may be cancelled at, or as a result of, completion or execution of the S&P Agreement; and

(v) no indication from the SFC that Glenstone will be required to make a general offer in respect of all the issued shares of Riche or Brilliant Arts as a result of the Disposal.

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled or waived.

The parties shall use all reasonable endeavours to procure satisfaction of the above conditions by no later than 5:00 p.m. on the Business Day before the Completion. China Star BVI shall, and shall procure CSL to, provide all such information and documents and execute all such applications, documents and other things as may be requested by the Stock Exchange, the SFC or any other regulatory authority to ensure satisfaction of the appropriate conditions.

Glenstone may in its absolute discretion at any time waive in writing any of the above conditions (or any part thereof) other than those clauses set out in the S&P Agreement, and such waiver may be made subject to such terms and conditions as are determined by Glenstone and agreed by China Star BVI.

In the event that not all the above conditions have been fulfilled or waived by Glenstone by no later than 5:00 p.m. on the Business Day before the Completion (or by such later date(s) as the parties may agree in writing), the S&P Agreement shall lapse and be of no further effect and no party to the S&P Agreement shall have any claim against or liability or obligation (save as the antecedent breaches pursuant to the S&P Agreement) to the other parties.

Information on CSL

CSL is an investment holding company whose major assets are:

(i) the 58,360,612 Riche Shares, representing approximately 29.90% of the existing issued share capital of Riche;

(ii) 109,090,908 ordinary shares of HK$0.10 each in Brilliant Arts, representing approximately 8.68% of the existing issued share capital of Brilliant Arts; and

(iii) the Convertible Bond.

According to the unaudited financial results of CSL as shown in Appendix I to this circular, prepared in accordance with Hong Kong Financial Reporting Standards, for the two financial years ended 31 December 2007 and 2006 showed that the profit for the year were approximately HK$23,383,000 and approximately HK$33,481,000 respectively. As at 31 December 2007, the unaudited net liabilities of CSL amounted to approximately HK$16,337,000.

Please refer to Appendix I to this circular for further details of the financial information on CSL.

REASONS FOR THE DISPOSAL

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

Riche had been the distribution arm of the Group's films in the PRC. However, Riche's strategic function has diminished in recent years as the Group has recently reduced the number of films produced due to the downturn in the Hong Kong film industry. Currently, the Group distributes its films directly to the local PRC distributors. As such, Riche is merely an investment for long-term capital growth in the books of the Group and does not provide any synergy to the Group's core businesses. The Group invested in Brilliant Arts for the purpose of capital gain in the value of the shares of Brilliant Arts. Given Brilliant Arts' shares have under-performed, the investment in Brilliant Arts did not provide an adequate return to the Group. The Directors (excluding Mr. Heung and Ms. Chen) believe that the Disposal provides the Group with an opportunity to restructure its investment portfolio and realise its investments in Riche and Brilliant Arts for immediate cash inflow for financing its business operations, future possible diversified investments and general working capital of the Group. However, as at the Latest Practicable Date, the allocation of the proceeds has not yet been determined.

Mr. Heung and Ms. Chen have no other interest in Riche and Brilliant Arts other than the interest held through the Company. Completion will not result in a change of control in each of Riche and Brilliant Arts.

SHAREHOLDING STRUCTURE OF RICHE

	As at the Latest Practicable Date		**Upon Completion**	
	No. of Riche Shares	*%*	*No. of Riche Shares*	*%*
CSL *(Note)*	58,360,612	29.90	58,360,612	29.90
Public shareholders	136,826,385	70.10	136,826,385	70.10
Total	195,186,997	100.00	195,186,997	100.00

Note: Prior to the Completion, CSL is a company wholly-owned by the Company, which in turn holds 58,360,612 Riche Shares and 109,090,908 shares of Brilliant Arts and the Convertible Bond. Upon Completion, CSL will be wholly owned by Glenstone.

FINANCIAL EFFECTS OF THE DISPOSAL

Following the Completion, the Group will receive the consideration of HK$330,567,000. The cost of the Disposal including the carrying values of Riche, Brilliant Arts and the Convertible Bond as at 31 December 2007 (the date of the latest published audited financial statements of the Company) amounted to approximately HK$375,148,000, approximately HK$39,900,000 and approximately HK$889,000 respectively. Assuming the Disposal had been completed on 31 December 2007, the Group would estimate to recognise a loss on disposal of approximately HK$78,670,000. Shareholders are reminded that the above figures may different from the actual results to be recorded by the Group upon Completion.

According to the Company's accounting policies, Riche and Brilliant Arts are treated as associated companies of the Company as at 31 December 2007. The Group's interests in Riche and Brilliant Arts are accounted for in the consolidated balance sheet by reference to the Group's share of net assets under equity method of accounting less impairment losses, if any. The results of Riche and Brilliant Arts are equity accounted for in the Company's consolidated income statement as at 31 December 2007. Subsequent to 31 December 2007, the Group's interest in Brilliant Arts was diluted from 25.74% to 8.68% following the issue of new shares of Brilliant Arts upon issue of consideration shares, placing of shares, conversion of convertible notes and exercise of share options. Brilliant Arts was then ceased to be an associated company of the Company and became an available-for-sale financial asset of the Group. Subsequent to the Disposal, Riche will cease to be an associated company of the Company and the Group will have no interest in Riche and Brilliant Arts.

LISTING RULES IMPLICATIONS

The Disposal under the S&P Agreement constitutes a very substantial disposal on the part of the Company under the Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As Glenstone is a substantial Shareholder and is beneficially owned as to 60% by Ms. Chen and 40% by Mr. Heung, who are both the executive Directors and substantial Shareholders, they are connected persons of the Company under Rule 14A.11 of the Listing Rules. As a result, the entering into the S&P Agreement constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules and is subject to the approval of the Independent Shareholders at a general meeting of the Company. Accordingly, Glenstone, Ms. Chen and Mr. Heung and their respective associates who have material interest in the Disposal shall abstain from voting in respect of the Disposal in accordance with the Listing Rules.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 70 of the Bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the Meeting; or

(ii) by at least three members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

SGM

A notice convening the SGM to be held on Friday, 11 July 2008 at 4:00 p.m. at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong is set out on pages 124 and 125 of this circular for the purpose of considering and, if thought fit, passing, with or without amendments, the resolution in respect of the S&P Agreement. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (excluding Mr. Heung and Ms. Chen) consider that the Disposal is in the interests of the Company and its Shareholders as a whole and that the terms of the S&P Agreement are fair and reasonable and on normal commercial terms. Accordingly, the Board (excluding Mr. Heung and Ms. Chen) recommends that all Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve the S&P Agreement.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular, the letter from Independent Financial Adviser set out on pages 12 to 20 of this circular and the additional information set out in the appendices to this circular.

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

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

24 June 2008

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF CSL AND NOTICE OF SPECIAL GENERAL MEETING

We refer to the circular dated 24 June 2008 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used therein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise you in connection with the S&P Agreement, details of which are set out in the letter from the Board in the Circular. Grand Cathay has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 12 to 20 of the Circular.

Having considered the terms of the S&P Agreement, the interest of the Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the S&P Agreement is fair and reasonable so far as the Independent Shareholders are concerned and the terms of the S&P Agreement are on normal commercial terms and the Disposal is in the interest of the Company and the Independent Shareholders as a whole given that it is not in the ordinary course of the Company's business. Accordingly, we recommend that the Independent Shareholders should vote in favour of the relevant resolution to be proposed at the SGM to approve the S&P Agreement.

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

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Grand Cathay, the Independent Financial Adviser, dated 24 June 2008 prepared for incorporation in this circular.

大華證券(香港)

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

24 June 2008

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

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF CSL

INTRODUCTION

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, particulars of which are set out in the letter from the Board (the "Letter from the Board") in the Company's circular dated 24 June 2008 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 13 May 2008, China Star BVI, a direct wholly-owned subsidiary of the Company, entered into the S&P Agreement with Glenstone, pursuant to which China Star BVI has conditionally agreed to dispose and Glenstone has conditionally agreed to acquire the Sale Share for a total consideration of HK$330,567,000.

The Sale Share represents the entire issued share capital of CSL whose major assets are (i) the 58,360,612 Riche Shares, representing approximately 29.9% of the existing issued share capital of Riche; (ii) 109,090,908 ordinary shares of HK$0.10 each in Brilliant Arts, representing approximately 8.68% of the existing issued share capital of Brilliant Arts; and (iii) the Convertible Bond.

The Disposal under the S&P Agreement constitutes a very substantial disposal on the part of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As Glenstone is a substantial Shareholder and is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung who are both the executive Directors and substantial Shareholders, they are connected persons of the Company under Rule 14A.11 of the Listing Rules. As a result, the entering into the S&P Agreement constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM. Accordingly, Glenstone, Ms. Chen and Mr. Heung and their respective associates who have material interest in the Disposal shall abstain from voting in respect of the Disposal in accordance with the Listing Rules.

The Independent Board Committee, comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man, all being independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the S&P Agreement. We, Grand Cathay, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

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

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the management of the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion and we have relied on such information and opinions. We consider that we have performed all reasonable steps as required under the Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group or Riche or Brilliant Arts nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal.

PRINCIPAL FACTORS CONSIDERED

In assessing the Disposal and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background and reasons for the Disposal

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

In 2007, the Group has only released 2 new films in the market in response to the weak market condition of the Hong Kong entertainment industry in these years, especially for the Chinese language films. According to data from Hong Kong Film Archive, the number of Hong Kong-made movie published decreased from 122 in 2001 to 59 in 2006 and the box office also decreased from approximately HK$1,040 million to approximately HK$946 million in the corresponding period. The Directors consider that such significant decrease in film production is mainly due to the rampant piracy and weak market demand for Hong Kong-made movie in the PRC. As set out in the section headed "Financial Information on the Group" in Appendix I to the Circular, we note that the revenue generated from the distribution of films decreased from approximately HK$92.2 million in 2005 to approximately HK$64.3 million in 2007, representing a decrease of approximately 30.3% during the period. In view of the softness of the Hong Kong film market and its intensive capital investment nature, the Company has adopted a cautious approach in investing the production of films in recent years.

In order to strengthen the Group's core business as a leading entertainment enterprise in the region and to provide a stable and reliable source of income to the Company, the Company has acquired the entire equity interest in Best Mind International Inc. ("Best Mind") from Lucky State Group Limited, a company wholly owned by Mr. Ng Cheuk Fai ("Mr. Ng"), an independent third party. Such acquisition was completed on 18 March 2008. Best Mind has a profit agreement with Ocho Sociedade Unipessoal Limitada, which is a company engaged in gaming promotion business in Macau. Mr. Ng had provided profit guarantee to Best Mind that its profit will not be less than HK$384 million for the period from 17 August 2007 to 16 August 2009. Details of the above acquisition was set out in the Company's announcements dated 30 August 2007 and 10 October 2007 and the Company's circulars dated 6 December 2007 and 7 December 2007.

As set out in the Letter from the Board, Riche had been the distribution arm of the Group's films in the PRC. However, Riche's strategic function has diminished in recent years as the Group has recently reduced the number of films produced due to the downturn in the Hong Kong film industry. Currently, the Group distributes its films directly to the local PRC distributors. As such, Riche is merely an investment for long-term capital growth in the books of the Group. On 4 March 2008, Riche announced the acquisition of a company which provides management services to the concierge departments of gaming promoters. According to the Riche's announcement on 4 March

2008, such management services do not include any solicitation of VIP customers for the gaming promoters. As such, the Directors consider that the provision of management services to the concierge departments by Riche does not provide any synergy to the Group's core businesses.

The Group invested in Brilliant Arts for the purpose of capital gain in the value of the shares of Brilliant Arts. Given Brilliant Arts' shares have under-performed, the investment in Brilliant Arts did not provide an adequate return to the Group.

The Directors (excluding Mr. Heung and Ms. Chen) believe that the Disposal provides the Group with an opportunity to restructure its investment portfolio and realise its investments in Riche and Brilliant Arts for immediate cash inflow for financing its business operations, future possible diversified investments and general working capital of the Group. As at the Latest Practicable Date, the allocation of the proceeds has not yet been determined.

Given (i) the unsatisfactory performance of the Group's film distribution business in recent years; (ii) the diminishing function of Riche on the Group's film distribution business; (iii) the disappointing share price performance of Brilliant Arts; and (iv) the encouraging future prospects of the Group's investment in the operation of new gaming promotion business, we consider that the Disposal provides an opportunity for the Group to realize its investments in Riche and Brilliant Arts so that the Company can deploy the Group's resources in a more profitable way. Therefore, we are of the view that the Disposal is in the interest of the Company and its Shareholders as a whole.

2. Financial results of Riche and Brilliant Arts

According to the Company's accounting policies, Riche and Brilliant Arts are treated as associated companies of the Company as at 31 December 2007. The Group's interests in Riche and Brilliant Arts are accounted for in the consolidated balance sheet by reference to the Group's share of net assets under equity method of accounting less impairment losses, if any. The results of Riche and Brilliant Arts are equity accounted for in the Company's consolidated income statement as at 31 December 2007. Subsequent to 31 December 2007, the Group's interest in Brilliant Arts was diluted from 25.74% to 8.68% following the issue of new shares of Brilliant Arts upon issue of consideration shares, placing of shares, conversion of convertible notes and exercise of share options. Brilliant Arts was then ceased to be an associated company of the Company and became an available for sale financial asset of the Group. Subsequent to the Disposal, Riche will cease to be an associated company of the Company and the Group will have no interest in Riche and Brilliant Arts.

Riche

As at 31 December 2007, the Group had approximately 29.90% equity interest in Riche. Riche and its subsidiaries (the "Riche Group") is principally engaged in film distribution, sub-licensing of film rights, investments in securities and property investment. As at 31 December 2007, Riche Group had net assets of approximately HK$1,046 million.

According to the 2007 annual report of Riche Group, Riche Group recorded a turnover of approximately HK$38.7 million for the year ended 31 December 2007, a 122% increase from HK$17.5 million for the previous year. Of the total turnover amount, approximately HK$35.8 million or 92% was generated from sales of financial assets and approximately HK$2.9 million or 8% was generated from property investment. The profit for the year ended 31 December 2007 was approximately HK$25.7 million, whereas Riche Group recorded a loss of approximately HK$21.3 million for the year ended 31 December 2006. The turnaround was attributable to the recognition of a gain of approximately HK$107.0 million arising from the secured bank loan interest waived by China Merchants Bank and the increase in fair value of Riche Group's investment properties of approximately HK$43.9 million, which were partially offset by the impairment loss recognized in respect of goodwill of approximately HK$37.8 million, the provision for deferred taxation of HK$13.2 million arising from revaluation of investment properties and the increases in administrative expenses and financial costs.

Accordingly, the Group had shared a net profit of approximately HK$14.5 million from Riche Group for the year ended 31 December 2007. The Group had recorded an aggregate result of profit of approximately HK$4.9 million from Riche Group after taking into account the loss on deemed disposal of interest in associates of HK$49.7 million and discount on acquisition of interest in associates of HK$40.1 million.

We consider the improvement in profitability of Riche Group in 2007 was mainly due to the one-off waiver of a significant bank loan interest by China Merchants Bank which was non-recurring nature. On this basis, we do not consider the financial performance of Riche Group had been improved in 2007. Apart from that, we note that Riche Group did not generate any film distribution income in 2007 which shows the distribution function of Riche Group on the Group has in fact diminished.

Brilliant Arts

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

We have reviewed that the annual report for the year ended 31 March 2007 ("Brilliant Arts 2007 Annual Report") and the third quarter report for the nine-month ended 31 December 2007 of Brilliant Arts ("Brilliant Arts Third Quarter Report"). According to Brilliant Arts 2007 Annual Report, Brilliant Group recorded a turnover for the year ended 31 March 2007 of approximately HK$62.3 million (2006: HK$17.3 million), representing an increase of approximately 261% when compared to that of previous financial year. The growth was attributable to the increased revenue from provision of film production services from approximately HK$7.9 million for the year ended 31 March 2006 to approximately HK$22 million for the corresponding period of 2007 coupled with the boosted revenue from film distribution from approximately HK$9.3 million to approximately HK$40.3 million. Revenue from film distribution segment has overtaken that from provision of film production services and accounted for approximately 65% of the overall turnover for the year ended 31 March 2007.

Gross profit also soared from approximately HK$3.8 million for the year ended 31 March 2006 to approximately HK$13.3 million for the corresponding period of 2007 with the gross profit ratio remained similar for 2007 of 21% (2006: 22%).

Despite of the encouraging growth in turnover and soaring gross profit, Brilliant Arts Group, however, recorded a net loss of approximately HK$16.2 million (2006: HK$18.2 million) representing a minor improvement from that of the financial year of 2006. The continued loss recorded was attributable to the sustained high level of overhead of Brilliant Arts Group.

According to the Brilliant Arts Third Quarter Report, Brilliant Arts Group recorded a turnover of approximately HK$10.3 million for the nine months ended 31 December 2007, (2006: HK$49.7 million) and a profit attributable to the equity holders of Brilliant Arts of approximately HK$16.0 million (2006: a loss attributable to the equity holders of Brilliant Arts of approximately HK$7.3 million). The improved results was mainly contributed by the disposal of two wholly-owned subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited. Such disposal was resulted in a gain of approximately HK$28.3 million.

Based on the above, we note that the operating results of Brilliant Arts Group were unsatisfactory in the recent years and the investment in Brilliant Arts may not deliver a rewarding return to the Group in near future.

Share of results of associates

For the year ended 31 December 2007, the share of results of associates to the Group's results was approximately HK$56.6 million, which mainly comprises of profit attributable to the Group of HK$16.5 million, of which HK$14.5 million from Riche Group, HK$6.4 million from Brilliant Art Group and loss of HK$4.4 million from other; and discount on acquisition of HK$40.1 million from Riche.

3. Basis of Consideration and payment terms

Pursuant to the S&P Agreement, the consideration for the Sale Share is HK$330,567,000, which shall be paid to China Star BVI by Glenstone in cash on Completion. The Sale Share represents the entire issued share capital of CSL whose major assets are (i) the 58,360,612 Riche Shares, representing approximately 29.9% of the existing issued share capital of Riche; (ii) 109,090,908 ordinary shares of HK$0.10 each in Brilliant Arts, representing approximately 8.68% of the existing issued share capital of Brilliant Arts; and (iii) the Convertible Bond.

We consider the cash payment on Completion for the consideration is a normal commercial payment term so far as the Independent Shareholders are concerned.

According to the management of the Company, the consideration was determined after arm's length negotiations and with reference to the net asset values of Riche and Brilliant Arts held by CSL and fair market value of the Convertible Bond as at 31 December 2007.

The management of the Company has provided us with the following schedule which shows the carrying value of (i) the 58,360,612 Riche Shares; (ii) 109,090,908 ordinary shares of HK$0.10 each in Brilliant Arts; and (iii) the Convertible Bond, on the book of the Company as at 31 December 2007.

	Riche	**Brilliant Arts**	**The Convertible Bond**	**Total**
No. of shares held by CSL	58,360,612	109,090,908		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets value recorded on the book of the Company as at 31 December 2007	312,778	16,900	889	330,567
The relevant goodwill recorded on the book of the Company as at 31 December 2007	27,294	18,176	0	45,470
The carrying value recorded on the book of the Company as at 31 December 2007	340,072	35,076	889	376,037
Consideration of the S&P Agreement	312,778	16,900	889	330,567
Consideration per share	5.359	0.155	Not applicable	

As indicated in the above table, we note that the consideration for each Riche Share and each share of Brilliant Arts were HK$5.359 and HK$0.155, respectively. We have reviewed the closing price of Riche Share and share of Brilliant Arts as quoted on the Stock Exchange from 1 January 2008 to 13 May 2008, being that date of the S&P Agreement, and note that the consideration paid for each Riche Share and each share of Brilliant Arts were at all time higher than the closing prices of shares of these two companies during the period under review. On this basis, we consider the adoption of net assets value as a reference in determining the consideration is justifiable and accordingly, we are of the view that the consideration is fair and reasonable so far as the Independent Shareholders are concerned.

4. Financial effects of the Disposal on the Group

Working capital

As set out in the 2007 annual report of the Company ("Annual Report"), the cash and bank balance of the Group was approximately HK$22.7 million.

According to the section headed "Unaudited Pro Forma Financial Information of the Remaining Group" as stated in appendix III to this circular (the "Pro Forma Financial Information"), the cash and bank balances of the Remaining Group will increase by approximately HK$328.6 million to approximately HK$351.3 million immediately after the completion of the Disposal.

Gearing ratio

According to the Annual Report, the gearing ratio (Total liabilities/Total assets) of the Group as at 31 December 2007 was approximately 49.1%. According to the Pro Forma Financial Information, the gearing ratio of the Remaining Group would slightly increase to approximately 51.0% upon the completion of the Disposal.

Net asset value

According to the Annual Report, the net asset value as at 31 December 2007 was approximately HK$1,175.5 million. Based on the Pro Forma Financial Information, the net asset value of the Remaining Group would decrease to approximately HK$1,088.1 million, upon the completion of the Disposal, representing a decrease of approximately 7.4%.

As set out in the Pro Forma Financial Information, the estimated loss of approximately HK$78.7 million resulted from the Disposal is calculated based on the cash proceeds from the Disposal of approximately HK$330.6 million less (i) the net liabilities of CSL of approximately HK$16.3 million as at 31 December 2007; (ii) the release of exchange reserves amounted to approximately HK$8.7million as at 31 December 2007; (iii) waiver of the amount due from CSL to the Remaining Group of approximately HK$432.3

million as at 31 December 2007; and (iv) estimated transaction costs directly attributable to the Disposal of approximately HK$2.0 million, assuming the Disposal took place on 31 December 2007.

Shareholders are reminded that the amount of loss on disposal may different from the actual results to be recorded by the Group upon Completion.

Overall

Although the Disposal may have a negative impact on the net assets value on the Group based on the Pro Forma Financial Information, we consider that the Disposal is beneficial to the Company and its Shareholders as whole since it provides the Group with an opportunity to restructure its investment portfolio and realise its investments in Riche and Brilliant Arts in a reasonable amount of consideration.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the S&P Agreement are on the normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Disposal and the transaction contemplated thereunder at the SGM.

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

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

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

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

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

24 June 2008

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of China Star Entertainment Limited (the "Company") and its subsidiaries (collectively hereinafter referred to as the "Group") set out below, for inclusion in the circular of the Company dated 24 June 2008 (the "Circular") in connection with the proposed disposal of the entire issued share capital of Classical Statue Limited ("CSL"), an indirect wholly-owned subsidiary of the Company. The Financial Information comprises the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2005, 2006 and 2007 and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in Bermuda on 10 August 1992 as a limited company and is engaged in investment holdings.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited consolidated financial statements of the Group for each of the years ended 31 December 2005, 2006 and 2007, on the basis set out in Note 3 below. The Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries and associates as set out on pages 93 to 95 below. All these companies have adopted 31 December as their financial year end date.

We have acted as auditors of the Company and have audited the consolidated financial statements of the Group for each of the years ended 31 December 2005, 2006 and 2007.

Directors' responsibility for the financial information

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

Reporting Accountants' responsibility

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

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

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

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005, 2006 and 2007 and of the results and cash flows of the Group for the years then ended.

A. FINANCIAL INFORMATION

Consolidated Income Statement

	Notes	2005 HK$'000	2006 HK$'000	2007 HK$'000
		Year Ended 31 December		
Continuing operations				
Turnover	7	92,234	152,777	64,305
Cost of sales		(60,825)	(103,365)	(44,843)
Gross profit		31,409	49,412	19,462
Other revenue	8	8,204	9,068	9,076
Other income	9	5,919	3,682	3,807
Administrative expenses		(37,012)	(38,309)	(39,343)
Marketing and distribution expenses		(22,353)	(9,777)	(5,791)
Share-based payment expenses		(24,057)	(11,340)	(17,660)
Net realised and unrealised gain/(loss) on financial assets classified as held-for-trading		(4,017)	(16,256)	22,866
Impairment of trade receivables		(1,101)	–	–
Impairment loss recognised in respect of film rights	27	–	–	(16,850)
Impairment loss recognised in respect of goodwill	21	–	–	(30,141)
Increase in fair value of investment properties	19	3,540	2,880	10,220
Loss from operations		(39,468)	(10,640)	(44,354)
Finance costs	11	(1,929)	(2,212)	(2,159)
Share of results of associates		(10,013)	(9,796)	56,648
(Loss)/gain on deemed disposal of interest in associates		45,021	62,582	(49,744)
Gain on disposal of an associate		–	21,400	–
Impairment loss recognised in respect of investment in associates	24	(4,500)	(32,565)	–
Changes in fair value in respect of conversion options embedded in convertible notes receivable from an associate		–	–	(50)
Impairment loss reversed/(recognised) in respect of convertible notes receivables		(10,000)	10,000	–
(Loss)/profit before taxation		(20,889)	38,769	(39,659)
Taxation	12	(124)	(1,918)	(1,593)
(Loss)/profit for the year from continuing operations		(21,013)	36,851	(41,252)
Discontinued operations				
Loss for the year from discontinued operations	13	–	–	(62,555)
(Loss)/profit for the year	10	(21,013)	36,851	(103,807)

		Year Ended 31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Attributable to:				
Equity holders of the Company		(20,961)	36,880	(92,547)
Minority interests		(52)	(29)	(11,260)
		(21,013)	36,851	(103,807)
(Loss)/earning per share for (loss)/profit attributable to the equity holders of the Company				
From continuing and discontinued operations				
– Basic (HK$)	14	(0.04)	0.06	(0.07)
– Diluted (HK$)	14	(0.04)	0.06	(0.07)
From continuing operations				
– Basic (HK$)	14	(0.04)	0.06	(0.02)
– Diluted (HK$)	14	(0.04)	0.06	(0.02)

Consolidated Balance Sheet

		At 31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	17	19,147	9,630	7,138
Interests in leasehold land	18	13,684	5,807	5,642
Investment properties	19	42,190	40,880	51,100
Goodwill	21	59,203	59,203	29,062
Interests in associates	24	166,473	198,113	375,148
Available-for-sale financial assets	22	–	42,700	39,900
Convertible notes receivable from an associate	23	–	–	667
Conversion options embedded in convertible notes receivable from an associate	23	–	–	222
		300,697	356,333	508,879
Current assets				
Loan receivable	43	25,000	–	–
Inventories	25	362	364	301
Convertible notes receivables	26	42,000	52,000	–
Film rights	27	135,998	97,427	50,797
Films in progress	28	47,461	29,469	24,948
Trade receivables	29	14,597	8,016	51,666
Deposits, prepayments and other receivables	30	80,547	45,161	36,790
Deposits for investments	31	–	40,000	400,000
Held-for-trading investments	32	23,345	64,560	16,600
Amounts due from associates	33	41,760	5,905	7,359
Prepaid tax		129	455	456
Cash and cash equivalents	34	31,500	89,347	22,735
		442,699	432,704	611,652
Assets classified as held for sale	35	–	–	1,187,072
		442,699	432,704	1,798,724
Total assets		743,396	789,037	2,307,603
Capital and reserves				
Share capital	36	26,027	35,232	140,305
Reserves		571,529	659,595	1,033,828
Equity attributable to equity holders of the Company		597,556	694,827	1,174,133
Minority interests		1,432	1,382	1,328
Total equity		598,988	696,209	1,175,461

		At 31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank borrowings – due after one year	38	13,193	10,948	8,523
Unsecured convertible notes	39	19,434	–	–
Deferred tax liabilities	40	–	1,888	3,466
		32,627	12,836	11,989
Current liabilities				
Trade payables	41	18,892	18,310	17,621
Deposits received, accruals and other payables	42	80,692	39,561	66,018
Bank borrowings – due within one year	38	12,197	2,254	2,418
Unsecured convertible notes	39	–	19,867	–
		111,781	79,992	86,057
Liabilities associated with assets classified as held for sale	35	–	–	1,034,096
		111,781	79,992	1,120,153
Total liabilities		144,408	92,828	1,132,142
Total equity and liabilities		743,396	789,037	2,307,603
Net current assets		330,918	352,712	678,571
Total assets less current liabilities		631,615	709,045	1,187,450

Balance Sheet

		At 31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Interests in subsidiaries	20	480,058	488,744	597,703
Current assets				
Deposits, prepayments and other receivables	30	20,290	1,437	1,808
Deposits for investments	31	–	40,000	400,000
Amounts due from subsidiaries	20	145,900	137,957	241,317
Amounts due from associates	33	34,832	602	700
Cash and cash equivalents	34	22,063	87,837	21,054
		223,085	267,833	664,879
Total assets		703,143	756,577	1,262,582
Capital and reserves				
Share capital	36	26,027	35,232	140,305
Reserves	37	550,331	609,683	1,035,535
Total equity attributable to equity holders of the Company		576,358	644,915	1,175,840
Non-current liabilities				
Unsecured convertible notes	39	19,434	–	–
Amounts due to subsidiaries	20	94,422	76,875	67,942
		113,856	76,875	67,942
Current liabilities				
Deposits received, accruals and other payables	42	11,105	12,813	14,998
Unsecured convertible notes	39	–	19,867	–
Amounts due to subsidiaries	20	1,824	2,107	3,802
		12,929	34,787	18,800
Total liabilities		126,785	111,662	86,742
Total equity and liabilities		703,143	756,577	1,262,582
Net current assets		210,156	233,046	646,079
Total assets less current liabilities		690,214	721,790	1,243,782

Consolidated Statement of Changes in Equity

The Group	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Exchange reserve HK$'000	Special reserve HK$'000	Share-based payment reserve HK$'000 (note b)	Convertible notes reserve HK$'000 (note c)	Financial assets revaluation reserve HK$'000	Capital reduction reserve HK$'000 (note d)	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
At 1 January 2005	18,270	778,975	186,624	680	–	7,841	566	–	316,008	479	(796,804)	512,639	1,464	514,103
Exchange alignment	–	–	–	(292)	–	–	–	–	–	–	–	(292)	20	(272)
Transferred to interests in associates	–	–	–	–	–	–	–	–	–	(479)	–	(479)	–	(479)
Net income/(expense) directly recognised in equity	–	–	–	(292)	–	–	–	–	–	(479)	–	(771)	20	(751)
Net loss for the year	–	–	–	–	–	–	–	–	–	–	(20,961)	(20,961)	(52)	(21,013)
Total recognised income and expense for the year	–	–	–	(292)	–	–	–	–	–	(479)	(20,961)	(21,732)	(32)	(21,764)
Placement of shares	6,868	67,891	–	–	–	–	–	–	–	–	–	74,759	–	74,759
Share issuing expenses	–	(1,759)	–	–	–	–	–	–	–	–	–	(1,759)	–	(1,759)
Share-based payment expenses	–	–	–	–	–	24,057	–	–	–	–	–	24,057	–	24,057
Exercise of share options	889	8,703	–	–	–	–	–	–	–	–	–	9,592	–	9,592
At 31 December 2005 and 1 January 2006	26,027	853,810	186,624	388	–	31,898	566	–	316,008	–	(817,765)	597,556	1,432	598,988
Exchange alignment	–	–	–	856	–	–	–	–	–	–	–	856	(21)	835
Share of reserves of associates	–	–	–	2,479	(6,867)	–	–	–	–	–	–	(4,388)	–	(4,388)
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	(9,800)	–	–	–	(9,800)	–	(9,800)
Net income/(expense) directly recognised in equity	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	–	(13,332)	(21)	(13,353)
Net profit for the year	–	–	–	–	–	–	–	–	–	–	36,880	36,880	(29)	36,851
Total recognised income and expense for the year	–	–	–	3,335	(6,867)	–	–	(9,800)	–	–	36,880	23,548	(50)	23,498
Placement of shares	9,205	54,350	–	–	–	–	–	–	–	–	–	63,555	–	63,555
Share issuing expenses	–	(1,172)	–	–	–	–	–	–	–	–	–	(1,172)	–	(1,172)
Share-based payment expenses	–	–	–	–	–	11,340	–	–	–	–	–	11,340	–	11,340
At 31 December 2006 and 1 January 2007	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	–	(780,885)	694,827	1,382	696,209

The Group	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Exchange reserve HK$'000	Special reserve HK$'000	Share-based payment reserve HK$'000 (note b)	Convertible notes reserve HK$'000 (note c)	Financial assets revaluation reserve HK$'000	Capital reduction reserve HK$'000 (note d)	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Exchange alignment	–	–	–	571	–	–	–	–	–	–	–	571	(4)	567
Share of reserves of associates	–	–	–	6,246	–	7,695	1,247	–	–	–	–	15,188	–	15,188
Disposal of interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	320,471	320,471
Fair value adjustment on available-for-sale financial assets	–	–	–	–	–	–	–	(2,800)	–	–	–	(2,800)	–	(2,800)
Net income/(expense) directly recognised in equity	–	–	–	6,817	–	7,695	1,247	(2,800)	–	–	–	12,959	320,467	333,426
Transfer to liabilities associated with assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–	(309,261)	(309,261)
Net loss for the year	–	–	–	–	–	–	–	–	–	–	(92,547)	(92,547)	(11,260)	(103,807)
Total recognised income and expense for the year	–	–	–	6,817	–	7,695	1,247	(2,800)	–	–	(92,547)	(79,588)	(54)	(79,642)
Placement of shares	32,335	167,953	–	–	–	–	–	–	–	–	–	200,288	–	200,288
Issue of ordinary shares upon exercise of share options	3,914	30,761	–	–	–	(13,301)	–	–	–	–	–	21,374	–	21,374
Share issuing expenses	–	(10,226)	–	–	–	–	–	–	–	–	–	(10,226)	–	(10,226)
Redemption of convertible bonds	–	–	–	–	–	–	(566)	–	–	–	566	–	–	–
Issue of convertible bonds	–	–	–	–	–	–	54,307	–	–	–	–	54,307	–	54,307
Conversion of convertible bonds	26,636	134,409	–	–	–	–	(54,307)	–	–	–	–	106,738	–	106,738
Issue of ordinary shares from rights issue	42,188	126,565	–	–	–	–	–	–	–	–	–	168,753	–	168,753
Share-based payment expenses	–	–	–	–	–	17,660	–	–	–	–	–	17,660	–	17,660
At 31 December 2007	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	(12,600)	316,008	–	(872,866)	1,174,133	1,328	1,175,461

Notes:

(a) The contributed surplus of the Group represents the amount transferred from the capital account due to the capital reduction effective on 10 September 2002.

(b) Share-based payment reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

(c) Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

(d) The capital reduction reserve of the Group represents the amount arising in relation to the reduction of the nominal value of 332,640,000 issued shares of the Company from HK$1.00 each to HK$0.05 each in 1998. Pursuant to a resolution passed by the directors, pursuant to Bye-law 129 of the Company's Bye-laws, the capital reduction reserve shall be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied.

Consolidated Cash Flow Statement

		Year Ended 31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities				
(Loss)/profit before taxation		(20,889)	38,769	(101,856)
Adjustments for:				
Interest expenses		1,929	2,212	12,827
Interest income		(3,053)	(3,603)	(3,897)
Dividend income		–	(290)	(79)
Impairment loss on trade receivables		1,101	–	–
Reversal of impairment loss on trade receivables		(3,811)	(5)	–
Reversal of impairment loss on other receivables		–	(763)	–
Impairment loss in respect of film rights		–	–	16,850
Impairment loss in respect of goodwill		–	–	30,141
Depreciation and amortisation of property, plant and equipment		9,810	6,580	23,866
Impairment loss recognised in respect of investments in associates		4,500	32,565	–
Increase in fair value of investment properties		(3,540)	(2,880)	(10,220)
Gain on disposal of property, plant and equipment		–	(973)	(107)
Gain on disposal of investment properties		–	(1,810)	–
Loss on disposal of interest in a subsidiary	45	–	–	45,471
Discount on acquisition of a subsidiary	44	–	–	(15,498)
Gain on disposal of an associate		–	(21,400)	–
Loss/(gain) on deemed disposal of interests in associates		(45,021)	(62,582)	49,744
Net realised and unrealised (gain)/loss on financial assets classified as held-for-trading		4,017	16,256	(22,866)
Impairment loss (reversed)/recognised in respect of convertible notes receivables		10,000	(10,000)	–
Gain on conversion of convertible bonds		–	–	(2,315)
Change in fair value in respect of conversion options		–	–	50
Share of results of associates		10,013	9,796	(56,648)
Share-based payment expenses		24,057	11,340	17,660
Utilisation of prepayment for advertising services		5,345	–	–
Recognition of unrealised gain eliminated on consolidation in prior year on sales to associates		(624)	–	–
Waive of other payables		(1,194)	–	–

		Year Ended 31 December		
		2005	2006	2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital		(7,360)	13,212	(16,877)
Decrease/(increase) in inventories		629	(2)	885
Decrease in film rights		17,880	38,571	29,780
(Increase)/decrease in films in progress		(15,853)	17,992	4,521
(Increase)/decrease in trade receivables		(3,730)	6,586	(39,130)
(Increase)/decrease in deposits, prepayments and other receivables		(36,689)	36,149	(3,977)
Increase in deposit for investment		–	(40,000)	(400,000)
Decrease/(increase) in amounts due from associates		1,152	2,055	(1,454)
(Decrease)/increase in trade payables		(6,395)	(582)	569
Change in amount due to a minority shareholder		–	–	502
(Decrease)/increase in deposits received, accruals and other payables		7,836	(41,131)	18,647
Cash (used in)/generated from operations		(42,530)	32,850	(406,534)
Tax refund/(paid)		174	(356)	235
Net cash (used in)/generated from operating activities		(42,356)	32,494	(406,299)
Investing activities				
Interest received		3,053	3,603	3,773
Dividend income		–	290	79
Acquisition of interests in associates		(60,506)	(19,407)	(130,813)
Acquisition of a subsidiary (net cash and cash equivalents)	44	–	–	(668,929)
Loan (advance to)/ repaid from an associate		(33,800)	33,800	–
Loan to a minority shareholder		–	–	(196,000)
Proceeds from disposal of financial assets at fair value through profit or loss		23,416	34,727	94,858
Proceeds from disposal of property, plant and equipment		–	15,188	20
Proceeds from disposal of investment properties		–	6,000	–
Proceeds from disposal of an associate		–	25,000	–
Proceeds from disposal of interest in a subsidiary	45	–	–	315,000
Repayment of loan from an investee company		–	25,000	–
Subscription of convertible notes (including expenses)		–	–	(22,630)
Purchases of available-for-sale financial assets		–	(52,500)	–
Purchases of financial assets at fair value through profit or loss		(16,962)	(92,198)	(24,032)
Purchases of property, plant and equipment		(10,573)	(3,401)	(5,899)
Repayment of convertible notes receivables		33,800	–	52,000
Refund of deposit for investment		12,000	–	–

	Notes	Year Ended 31 December 2005 HK$'000	2006 HK$'000	2007 HK$'000
Net cash used in investing activities		(49,572)	(23,898)	(582,573)
Financing activities				
Interest paid		(1,929)	(1,779)	(11,724)
Proceeds from issue of shares		84,351	63,555	390,415
Proceeds from issue of convertible bonds		–	–	160,075
Redemption of convertible notes		–	–	(20,000)
Repayment of bank loans		(10,810)	(12,188)	(2,261)
New bank loan acquired		–	–	450,000
Share issuing expenses		(1,759)	(1,172)	(10,226)
Net cash generated from financing activities		69,853	48,416	956,279
Net (decrease)/increase in cash and cash equivalents		(22,075)	57,012	(32,593)
Cash and cash equivalents at the beginning of the year		54,108	31,500	89,347
Effect of foreign exchange rate changes		(533)	835	567
Cash and cash equivalent at the end of the year				
Cash and cash equivalents	34	31,500	89,347	57,321

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and head office and principal place of business of the Company are Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The Financial Information are presented in Hong Kong dollars, which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activities of the Group are film production, distribution of film and television drama series, provision of post-production services and property and hotel investment.

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

During the Relevant Periods, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently applied all these new HKFRSs over the Relevant Periods.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statement [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [3]
HK(IFRIC) – Int 12	Service Concession Arrangements [4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

[1] *Effective for annual periods beginning on or after 1 January 2009*
[2] *Effective for annual periods beginning on or after 1 July 2009*
[3] *Effective for annual periods beginning on or after 1 March 2007*
[4] *Effective for annual periods beginning on or after 1 January 2008*
[5] *Effective for annual periods beginning on or after 1 July 2008*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of preparation

The Financial Information has been prepared under the historical cost convention except for certain investment properties and financial assets which are carried at fair values.

(b) Basis of consolidation

The consolidated financial information incorporate the financial information of the Company and its subsidiaries made up to 31 December each year.

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

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

(c) Business combinations

The acquisition of business is accounted for using the purchase method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

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

(d) Investment in associates

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

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate is included in the cost of the investment of the relevant associate.

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

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

(f) Revenue recognition

Distribution fee income is recognised when the master materials have been delivered.

Sales of film rights are recognised when the master films are delivered and the film title has passed perpetually.

Sales of video products are recognised when goods are delivered and titles have passed.

Service income, management fee income and production fee income are recognised when the services are rendered.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised on a straight-line basis over the relevant lease term.

Hotel operation income is recognised when services are provided.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress), using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	4.5% – 5%
Leasehold improvements	20% – 33%
Furniture and fixtures	10% – 20%
Machinery and equipment	18% – 25%
Motor vehicles	15% – 20%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(h) Interests in leasehold land

Interests in leasehold land represents prepaid lease payment for leasehold land. Interests in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of interests in leasehold land are amortized on a straight-line basis over the shorter of the relevant interests in leasehold land or the operation period of the relevant company.

(i) Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdraw from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

(j) Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

(k) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

(n) Film rights

Film rights represent films and television drama series produced by the Group or acquired by the Group and are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. The amortisation of film rights will not exceed twenty years. In the case where there is any impairment in value, the unamortized balance is written down to its estimated recoverable amount.

(o) Films in progress

Films in progress represents films and televisions drama series under production and is stated at cost incurred to date, less any identified impairment loss. Cost is transferred to film rights upon completion.

(p) Financial Instruments

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

i. Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of shortterm profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are not those financial assets acquired principally for the purpose of selling in the short term but designated by management as such at inception. A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significant reduce a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(2) Loans and receivables

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

(3) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available for sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available for sale equity investments will not reverse in subsequent periods. For available for sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

ii. *Financial liabilities and equity instruments*

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

(i) it has been incurred principally for the purpose of repurchasing in the near future; or

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

(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at air value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one of more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities including creditors and accruals, securities trading and margin payable, deposits and receipts in advance, bank and other borrowings and amounts due to associates are subsequently measured at amortized cost, using the effective interest rate method.

Convertible loan notes

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

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

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to convertible loan notes – equity reserve.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as financial assets at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting derivatives are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

iii. *Derecognition*

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

(q) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(r) Provision

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

(s) Foreign currencies

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

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

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

(t) Operating leases

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

(u) Employee benefits

i. Bonuses

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

ii. Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme'') under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

iii. Share-based payment expenses

The fair value of the employee services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share-based payment reserve).

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share based payment reserve will be transferred to retained profits.

(v) Related party transactions

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

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

ii. the party is an associate;

iii. the party is a jointly-controlled entity;

iv. the party is a member of the key management personnel of the Group or its parent;

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

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

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

(w) Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 3(e) and 3(n). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) *Trade receivables*

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivable balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(c) *Useful lives of property, plant and equipment*

In accordance with HKAS 16 Property, Plant and Equipment, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) *Investment properties*

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

(e) *Impairment of films in progress*

The management of the Group reviews an aging analysis at each balance sheet date, and identifies the slow-moving films in progress that is no longer suitable for use in production. The management estimates the net realisable value for such films in progress based primarily on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at each balance sheet date and makes allowance for any films in progress that productions no longer proceed.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include equity investments, borrowings, trade receivables, trade payables, cash and cash equivalents. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

i. *Foreign exchange risk*

The Group operates mainly in both the People's Republic of China ("the PRC") and Hong Kong and majority of transactions are dominated in United States dollars, Hong Kong dollars ("HK$") and Renminbi ("RMB"). Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars are pegged to the United States dollars and the foreign exchange exposure between them are considered limited. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

ii. Price risk

The Group's equity investments classified as available-for-sale investments and financial assets at fair value through profit or loss which are measured at fair value at each balance sheet date and expose the Group to equity price risk. The Group's equity price risk is mainly concentrated on equity securities operating in provision for cold storage and related logistic services, manufacturing industry and public transportation business in PRC, which are quoted in the Stock Exchange. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. In addition, the Group will monitor the price risk and will consider hedging the risk exposure should the need rise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 5% higher/lower, the Group's:

- profit before taxation for the year ended 31 December 2005, 2006 and 2007 would increase/decrease by HK$nil, HK$2,135,000 and HK$1,995,000 respectively. This is mainly due to the changes in fair value of available-for-sale investments; and

- securities investment reserve for the year ended 31 December 2005, 2006 and 2007 would increase/decrease by HK$1,167,000, HK$3,038,000 and HK$830,000 respectively as a result of the changes in fair value of financial assets at fair value through profit or loss.

The Group's sensitivity to equity prices has increased during the current year mainly due to the increase in equity investments by value.

iii. Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its time deposits, borrowings. Bank borrowings at variable rates expose the Group to fair value interest rate risk (see note 38 for details of these borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2005, 2006 and 2007, a reasonably possible change of 50 basis-points interest rates on borrowings would have no material impact on the Group's results for the year and equity as at the year end.

Credit risk

As at the balance sheet dates, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Liquidity risk

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

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

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

	At 31 December 2005					
	Less than 1 month	**Between 1 to 3 months**	**Between 3 months and 1 year**	**Between 1 to 5 years**	**More than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	469	946	10,782	–	–	12,197
– Non-current	–	–	–	10,005	3,188	13,193
Trade payables	2,680	2,204	3,123	10,885	–	18,892
Deposits received, accruals and other payables	2,885	3,493	74,314	–	–	80,692
Unsecured convertible notes – Non-current	–	–	–	19,434	–	19,434
Total	6,034	6,643	88,219	40,324	3,188	144,408

	At 31 December 2006					
	Less than 1 month	**Between 1 to 3 months**	**Between 3 months and 1 year**	**Between 1 to 5 years**	**More than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	182	372	1,700	–	–	2,254
– Non-current	–	–	–	10,346	602	10,948
Trade payables	1,523	2,762	14,025	–	–	18,310
Deposits received, accruals and other payables	3,277	626	35,658	–	–	39,561
Unsecured convertible notes – Current	–	–	19,867	–	–	19,867
Total	4,982	3,760	71,250	10,346	602	90,940

	At 31 December 2007					
	Less than 1 month	**Between 1 to 3 months**	**Between 3 months and 1 year**	**Between 1 to 5 years**	**More than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings						
– Current	197	398	1,823	–	–	2,418
– Non-current	–	–	–	8,209	314	8,523
Trade payables	2,980	1,179	13,462	–	–	17,621
Deposits received, accruals and other payables	6,593	5,858	53,567	–	–	66,018
Total	9,770	7,435	68,852	8,209	314	94,580

Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transaction as input. For an option based derivative, the fair value is estimated using option pricing model.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair value.

	2005		**2006**		**2007**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets						
Convertible notes receivables from an associate	–	–	–	–	667	691
Convertible notes receivables	42,000	42,000	52,000	52,000	–	–
Financial liabilities						
Convertible notes	–	–	19,867	19,867	–	–

Capital management

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

The capital structure of the Group consists of debts which include bank borrowings and convertible notes, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained profits.

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

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Total debt (i)	44,824	33,069	10,941
Less: cash and cash equivalents	(31,500)	(89,347)	(57,321)
Net cash and cash equivalents	13,324	(56,278)	(46,380)
Equity (ii)	597,556	694,827	1,174,133
Net debt to equity ratio	2.2%	–	–
Total debt to equity ratio	7.5%	4.8%	0.9%

Note:

(i) Debt comprises current and non-current borrowings and unsecured convertible notes as detailed in notes 38 and 39 respectively.

(ii) Equity includes all capital and reserves of the Group.

6. SEGMENT INFORMATION

The directors of the Company report the geographical segments as the Group's primary segment information. The Group's customers are located in four principal geographical areas – Hong Kong and Macau, the People's Republic of China (excluding Hong Kong, Macau and Taiwan) (the "PRC"), America and Europe, and South-East Asia.

Geographical segments

The following table provides an analysis of the Group's sales by location of markets:

Income statement for the year ended 31 December 2005:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	PRC	America and Europe	South-East Asia	Other	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	49,805	10,217	8,046	22,589	1,577	92,234	–	92,234
Cost of sales	(33,925)	(6,915)	(4,878)	(14,320)	(787)	(60,825)	–	(60,825)
Marketing and distribution expenses	(10,505)	(9,666)	(529)	(1,552)	(101)	(22,353)	–	(22,353)
Segment results	5,375	(6,364)	2,639	6,717	689	9,056	–	9,056
Impairment loss recognised in respect of convertible notes receivables	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Increase in fair value of investment properties	3,540	–	–	–	–	3,540	–	3,540
Net realised and unrealised loss on financial assets classified as held-for-trading	(4,017)	–	–	–	–	(4,017)	–	(4,017)
Share of results of associates						(10,013)	–	(10,013)
Gain on deemed disposal of interests in associates						45,021	–	45,021
Impairment loss recognised in respect of investments in associates						(4,500)	–	(4,500)
Unallocated corporate income						14,123	–	14,123
Unallocated corporate expenses						(64,099)	–	(64,099)
Loss before taxation						(20,889)	–	(20,889)
Taxation						(124)	–	(124)
Loss for the year						(21,013)	–	(21,013)

Income statement for the year ended 31 December 2006:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	PRC	America and Europe	South-East Asia	Other	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	129,936	8,783	1,093	11,532	1,433	152,777	–	152,777
Cost of sales	(91,023)	(3,984)	(697)	(6,921)	(740)	(103,365)	–	(103,365)
Marketing and distribution expenses	(9,018)	(396)	(52)	(191)	(120)	(9,777)	–	(9,777)
Segment results	29,895	4,403	344	4,420	573	39,635	–	39,635
Impairment loss reversed in respect of convertible notes receivables	10,000	–	–	–	–	10,000	–	10,000
Increase in fair value of investment properties	2,880	–	–	–	–	2,880	–	2,880
Net realised and unrealised loss on financial assets classified as held-for-trading	(16,256)	–	–	–	–	(16,256)	–	(16,256)
Share of results of associates						(9,796)	–	(9,796)
Gain on deemed disposal of interests in associates						62,582	–	62,582
Gain on disposal of an associate						21,400	–	21,400
Impairment loss recognised in respect of investments in associates						(32,565)	–	(32,565)
Unallocated corporate income						12,750	–	12,750
Unallocated corporate expenses						(51,861)	–	(51,861)
Profit before taxation						38,769	–	38,769
Taxation						(1,918)	–	(1,918)
Profit for the year						36,851	–	36,851

Income statement for the year ended 31 December 2007:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau	PRC	America and Europe	South-East Asia	Other	Total	Hong Kong and Macau	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	62,366	–	–	1,892	47	64,305	14,046	78,351
Cost of sales	(42,731)	–	–	(1,996)	(116)	(44,843)	(4,572)	(49,415)
Marketing and distribution expenses	(5,606)	(96)	(15)	(74)	–	(5,791)	–	(5,791)
Segment results	14,029	(96)	(15)	(178)	(69)	13,671	9,474	23,145
Increase in fair value of investment properties	10,220	–	–	–	–	10,220	–	10,220
Net realised and unrealised gains on financial assets classified as held-for-trading	22,866	–	–	–	–	22,866	–	22,866
Share of results of associates						56,648	–	56,648
Discount on acquisition of subsidiaries						–	15,498	15,498
Loss on deemed deposal of interests in associates						(49,744)	–	(49,744)
Loss on disposal of interests in subsidiaries						–	(45,471)	(45,471)
Impairment loss recognised in respect of film rights						(16,850)	–	(16,850)
Impairment loss recognised in respect of goodwill						(30,141)	–	(30,141)
Changes in fair value in respect of conversion options embedded in convertible notes receivables from an associate						(50)	–	(50)
Unallocated corporate income						12,883	5,078	17,961
Unallocated corporate expenses						(59,162)	(46,776)	(105,938)
Loss before taxation						(39,659)	(62,197)	(101,856)
Taxation						(1,593)	(358)	(1,951)
Loss for the year						(41,252)	(62,555)	(103,807)

No analysis of the carrying amount of segment assets, additions of property, plant and equipment and the depreciation and segment liabilities analysed by the geographical area are disclosed as more than 90% of the group assets are located in Hong Kong and Macau.

Business segments

The principal products and services of each of these divisions are as follows:

Film distribution	–	Production and distribution of motion pictures and television drama series
Hotel services	–	Provision of hotel services in Macau

During the Relevant Periods, the board of directors announced a plan to dispose the hotel services business.

Segment information about these businesses are presented as below.

Income statement for the year ended 31 December 2005:

	Continuing operations			Discontinued operations	
	Film distribution *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*	**Hotel services** *HK$'000*	**Consolidated** *HK$'000*
Turnover					
External sales	86,631	5,603	92,234	–	92,234
Inter-segment sales	–	–	–	–	–
Total	86,631	5,603	92,234	–	92,234
Segment results	5,868	3,188	9,056	–	9,056
Unallocated corporate income			48,561	–	48,561
Unallocated corporate expenses			(68,493)	–	(68,493)
Share of results of associates			(10,013)	–	(10,013)
Loss before taxation			(20,889)	–	(20,889)
Taxation			(124)	–	(124)
Loss for the year			(21,013)	–	(21,013)

Balance sheet as at 31 December 2005:

	Continuing operations			Discontinued operations	
	Film distribution *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*	**Hotel services** *HK$'000*	**Consolidated** *HK$'000*
ASSETS					
Segment assets	569,284	7,639	576,923	–	576,923
Interest in associates			166,473	–	166,473
Consolidated total assets			743,396	–	743,396
LIABILITIES					
Segment liabilities/Consolidated total liabilities	126,300	18,108	144,408	–	144,408

Other information for the year ended 31 December 2005:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	(9,491)	–	(9,491)	–	(9,491)
Amortisation of interests in leasehold land	(319)	–	(319)	–	(319)
Impairment loss recognised in respect of goodwill	(4,500)	–	(4,500)	–	(4,500)

Income statement for the year ended 31 December 2006:

	Continuing operations			Discontinued operations	
	Film distribution	Others	Total	Hotel services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	145,881	6,896	152,777	–	152,777
Inter-segment sales	–	–	–	–	–
Total	145,881	6,896	152,777	–	152,777
Segment results	34,119	5,516	39,635	–	39,635
Unallocated corporate income			109,612	–	109,612
Unallocated corporate expenses			(100,682)	–	(100,682)
Share of results of associates			(9,796)	–	(9,796)
Profit before taxation			38,769	–	38,769
Taxation			(1,918)	–	(1,918)
Profit for the year			36,851	–	36,851

Balance sheet as at 31 December 2006:

	Continuing operations			Discontinued operations	
	Film distribution *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*	**Hotel services** *HK$'000*	**Consolidated** *HK$'000*
ASSETS					
Segment assets	586,491	4,433	590,924	–	590,924
Interests in associates			198,113	–	198,113
Consolidated total assets			789,037	–	789,037
LIABILITIES					
Segment liabilities/Consolidated total liabilities	75,598	17,230	92,828	–	92,828

Other information for the year ended 31 December 2006:

	Continuing operations			Discontinued operations	
	Film distribution *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*	**Hotel services** *HK$'000*	**Consolidated** *HK$'000*
Depreciation of property, plant and equipment	(6,294)	–	(6,294)	–	(6,294)
Amortisation of interests in leasehold land	(286)	–	(286)	–	(286)

Income statement for the year ended 31 December 2007:

	Continuing operations			Discontinued operations	
	Film distribution *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*	**Hotel services** *HK$'000*	**Consolidated** *HK$'000*
Turnover					
External sales	58,970	5,335	64,305	14,046	78,351
Inter-segment sales	–	–	–	–	–
Total	58,970	5,335	64,305	14,046	78,351
Segment results	8,336	5,335	13,671	9,474	23,145
Unallocated corporate income			45,969	20,576	66,545
Unallocated corporate expenses			(155,947)	(92,247)	(248,194)
Share of results of associates			56,648	–	56,648
Loss before taxation			(39,659)	(62,197)	(101,856)
Taxation			(1,593)	(358)	(1,951)
Loss for the year			(41,252)	(62,555)	(103,807)

Balance sheet as at 31 December 2007:

	Continuing operations			Discontinued operations	
	Film distribution HK$'000	Others HK$'000	Total HK$'000	Hotel services HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	742,326	3,057	745,383	1,187,072	1,932,455
Interests in associates			375,148	–	375,148
Consolidated total assets			1,120,531	1,187,072	2,307,603
LIABILITIES					
Segment liabilities/Consolidated total liabilities	81,977	16,069	98,046	1,034,096	1,132,142

Other information for the year ended 31 December 2007:

	Continuing operations			Discontinued operations	
	Film distribution HK$'000	Others HK$'000	Total HK$'000	Hotel services HK$'000	Consolidated HK$'000
Depreciation of property, plant and equipment	(2,891)	–	(2,891)	(5,551)	(8,442)
Amortisation of interests in leasehold land	(165)	–	(165)	(15,259)	(15,424)
Impairment loss recognised in respect of film right	(16,850)	–	(16,850)	–	(16,850)
Impairment loss recognised in respect of goodwill	(30,141)	–	(30,141)	–	(30,141)

7. TURNOVER

	Continuing operations			Discontinued operations			Consolidated		
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000
Distribution fee income	85,970	52,833	10,285	–	–	–	85,970	52,833	10,285
Sales of film rights	–	92,976	48,672	–	–	–	–	92,976	48,672
Sales of video products	661	72	13	–	–	–	661	72	13
Service income	240	1,790	300	–	–	–	240	1,790	300
Production fee income	5,363	5,106	5,035	–	–	–	5,363	5,106	5,035
Hotel operation income	–	–	–	–	–	14,046	–	–	14,046
	92,234	152,777	64,305	–	–	14,046	92,234	152,777	78,351

8. OTHER REVENUE

	Continuing operations			Discontinued operations			Consolidated		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank interest income	1,792	2,763	3,587	–	–	–	1,792	2,763	3,587
Loan receivable interest income	741	218	–	–	–	–	741	218	–
Convertible notes receivables income	520	520	228	–	–	–	520	520	228
Rental income	291	315	240	–	–	–	291	315	240
Management fee income from associates	4,860	4,860	4,860	–	–	–	4,860	4,860	4,860
Other interest income	–	102	82	–	–	–	–	102	82
Dividend income	–	290	79	–	–	–	–	290	79
	8,204	9,068	9,076	–	–	–	8,204	9,068	9,076

9. OTHER INCOME

	Continuing operations			Discontinued operations			Consolidated		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reversal of impairment loss on trade receivables	–	5	–	–	–	–	–	5	–
Reversal of impairment loss on other receivables	3,811	763	–	–	–	–	3,811	763	–
Gain on redemption of convertible bonds	–	–	2,315	–	–	–	–	–	2,315
Gain on disposal of property, plant and equipment	–	973	20	–	–	87	–	973	107
Gain on disposal of investment properties	–	1,810	–	–	–	–	–	1,810	–
Exchange gain	820	–	–	–	–	–	820	–	–
Waiver of loan	1,194	–	–	–	–	–	1,194	–	–
Others	94	131	1,472	–	–	4,991	94	131	6,463
	5,919	3,682	3,807	–	–	5,078	5,919	3,682	8,885

10. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	Continuing operations			Discontinued operations			Consolidated		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of film rights (including in cost of sales)	57,646	100,850	43,747	–	–	–	57,646	100,850	43,747
Auditors' remuneration	838	606	605	–	–	28	838	606	633
Cost of inventories (including in cost of sales)	664	33	6	–	–	–	664	33	6
Depreciation of property, plant and equipments	9,491	6,294	2,891	–	–	5,551	9,491	6,294	8,442
Amortisation of interests in leasehold land	319	286	165	–	–	15,259	319	286	15,424
Net foreign exchange losses	–	1,095	1,109	–	–	–	–	1,095	1,109
Operating lease rental in respect of rented premises	2,174	2,286	1,431	–	–	2,213	2,174	2,286	3,644
Employee benefit expenses	39,740	26,285	33,381	–	–	3,604	39,740	26,285	36,985

11. FINANCE COSTS

	Continuing operations			Discontinued operations			Consolidated		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Imputed interest on convertible notes wholly repayable within five years	800	1,233	1,501	–	–	–	800	1,233	1,501
Interest on bank borrowings wholly repayable within five years	524	873	560	–	–	10,668	524	873	11,228
Interest on bank borrowings not wholly repayable within five years	605	106	91	–	–	–	605	106	91
Interest on other loan wholly repayable within five years	–	–	7	–	–	–	–	–	7
	1,929	2,212	2,159	–	–	10,668	1,929	2,212	12,827

12. TAXATION

	Continuing operations			Discontinued operations			Consolidated		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The taxation charge is as follow:									
Current tax:									
Taxation in other jurisdictions:									
Provision for the year	124	30	15	–	–	–	124	30	15
Under provision in prior years	–	–	–	–	–	358	–	–	358
	124	30	15	–	–	358	124	30	373
Deferred tax:									
Current year	–	504	1,578	–	–	–	–	504	1,578
Under provision in prior years	–	1,384	–	–	–	–	–	1,384	–
	–	1,888	1,578	–	–	–	–	1,888	1,578
	124	1,918	1,593	–	–	358	124	1,918	1,951

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

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

The taxation for the year can be reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

	2005		**2006**		**2007**	
	HK\$'000	%	*HK\$'000*	%	*HK\$'000*	%
(Loss)/profit before taxation						
Continuing operations	(20,889)		38,769		(39,659)	
Discontinued operations	–		–		(62,197)	
	(20,889)		38,769		(101,856)	
Taxation at domestic income tax rate of 17.5%	(3,656)	(17.5)	6,785	17.5	(17,825)	(17.5)
Tax effect of share of result of associates	1,752	8.4	1,714	4.4	(2,896)	(2.8)
Tax effect of expenses not deductible for tax purpose	1,649	7.9	3,179	8.2	28,914	28.3
Tax effect of income not taxation for tax purpose	(705)	(3.4)	(3,506)	(9.0)	(9,772)	(9.6)
Tax effect of estimated tax losses not recognised	1,508	7.2	206	0.5	15,145	14.9
Tax effect of utilisation of estimated tax losses previously not recognised	(424)	(2.0)	(6,460)	(16.7)	(17,254)	(16.9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	–	–	–	5,639	5.5
Tax charge for the year	124	0.6	1,918	4.9	1,951	1.9

13. DISCONTINUED OPERATIONS

On 1 August 2007, the Company entered into an agreement with Riche Multi-Media Holdings Limited ("Riche") and Legend Rich Limited, a wholly owned subsidiary of Riche, whereby the Company has agreed to sell and/or procure the sale of 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a sale loan owned by Exceptional Gain to the Company amounted to approximately HK$409,222,000 as at the date of the agreement for an aggregate consideration of HK$447,000,000 (the "Proposed Disposal"). Exceptional Gain is the investment holding company which holds 50% interest in Kingsway Hotel Limited ("KHL"), a subsidiary of the Group which operates the hotel operation. The directors of the Company believed that the value of KHL will be better realised and reflected in Riche and will enable Riche to build up its own branding in hotel and hospitality industry and a chain of hotels in the Greater China region. It, in turn, will have a positive impact on the Group's return on investment in Riche. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24 October 2007 and is expected to complete in May 2008. Accordingly, all the results, assets and liabilities of the group headed by Exceptional Gain (i.e. the hotel services operation) are classified as discontinued operations.

The combined results of the discontinued operations included in the consolidated income statement are set out as follows:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Loss for the year from discontinued operations			
Turnover	–	–	14,046
Cost of sales	–	–	(4,572)
Gross profit	–	–	9,474
Other income	–	–	5,078
Administrative expenses	–	–	(36,108)
Loss from operations	–	–	(21,556)
Finance costs	–	–	(10,668)
Discount on acquisition of subsidiaries	–	–	15,498
Loss on disposal of subsidiaries	–	–	(45,471)
Loss before taxation	–	–	(62,197)
Taxation	–	–	(358)
Loss for the year from discontinued operations	–	–	(62,555)

The cash flows of the discontinued operations included in the consolidated cash flow statement are set out as follow:

Cash flows from discontinued operations

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Net cash used in operating activities	–	–	(219,414)
Net cash used in investing activities	–	–	(196,000)
Net cash generated from financing activities	–	–	450,000
Net cash inflows	–	–	34,586

The assets and liabilities attributable to the hotel business have been classified and accounted for at 31 December 2007 as a disposal group held for sale and are presented separately in the balance sheet (see note 35).

14. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

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

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	(20,961)	36,880	(92,547)
Number of shares			
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	481,870,987	606,671,079	1,391,593,273
Effect of dilutive potential ordinary shares: Share options	–	12,203,820	–
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	481,870,987	618,874,899	1,391,593,273

The weighted average number of ordinary shares for the years ended 31 December 2005, 2006 and 2007 for the purpose of basis and diluted (loss)/earnings per share has been adjusted and restated respectively resulting from the rights issue of 843,769,024 rights shares issued at a price of HK$0.20 each during the year ended 31 December 2007.

From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to equity holders of the Company is based on the following data:

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	(20,961)	36,880	(92,547)
Less: Loss for the year from discontinued operations	–	–	62,555
(Loss)/earnings for the purpose of basic and diluted (loss)/earning per share from continuing operations	(20,961)	36,880	(29,992)

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

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK$nil, HK$nil, HK$0.04 per share for the year of 2005, 2006 and 2007 respectively, based on the loss for each of the years from the discontinued operations of HK$nil, HK$nil, HK$62,555,000 and the denominators detailed above for both basic and diluted (loss)/earnings per share.

The computation of the relevant diluted loss per share for the year ended 31 December 2005 and 2007 did not assume exercise of the Company's outstanding share options existed during the year since their conversion would result in a decrease in loss per share and thus anti-dilutive.

The computation of the relevant diluted earnings per share for the year ended 31 December 2006 did not assume exercise of certain outstanding share options and the conversion of convertible notes existed during the year since their conversion would result in an increase in earnings per share and thus anti-dilutive.

15. EMPLOYEE BENEFIT EXPENSES

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Directors' remuneration	4,464	4,536	5,414
Directors' fee	360	360	360
Salaries and bonuses	10,360	9,585	9,530
Share-based payment expenses	24,057	11,340	17,660
Mandatory provident find	428	389	372
Staff welfare expenses	71	75	45
	39,740	26,285	33,381

(a) Directors' emoluments

The Company's board of directors is currently composed of three independent non-executive directors and three executive directors.

The aggregate amount of emoluments payable to the directors of the Company during the years ended 31 December 2005, 2006 and 2007 was HK$4,860,000, HK$4,932,000 and HK$5,810,000 respectively. The remuneration of every director for the years ended 31 December 2005, 2006 and 2007 is as below:–

Name of director	Fee			Salaries and bonuses			Mandatory provident fund			Share-based payment			Total		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	–	–	–	2,160	2,040	2,500	12	12	12	–	–	–	2,172	2,052	2,512
Ms. Chen Ming Yin, Tiffany	–	–	–	1,800	1,950	2,280	12	12	12	–	–	–	1,812	1,962	2,292
Ms. Li Yuk Sheung	–	–	–	504	546	634	12	12	12	–	–	–	516	558	646
Mr. Hung Cho Sing	120	120	120	–	–	–	–	–	–	–	–	–	120	120	120
Mr. Ho Wai Chi, Paul	120	120	120	–	–	–	–	–	–	–	–	–	120	120	120
Mr. Fung Ho Sum (resigned on 1 March 2007)	120	120	20	–	–	–	–	–	–	–	–	–	120	120	20
Mr. Leung Hok Man (appointed on 1 Match 2007)	–	–	100	–	–	–	–	–	–	–	–	–	–	–	100
	360	360	360	4,464	4,536	5,414	36	36	36	–	–	–	4,860	4,932	5,810

The emoluments of the directors of the Company fell within the following bands:

	Number of directors		
	2005	2006	2007
Nil to HK$1,000,000	4	4	5
HK$1,500,001 to HK$2,000,000	1	1	–
HK$2,000,001 to HK$2,500,000	1	1	1
HK$2,500,001 to HK$3,000,000	–	–	1
	6	6	7

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2005, 2006 and 2007 include two directors of the Company whose emoluments are reflected in note (a) above and amounted to HK$3,984,000, HK$4,014,000 and HK$4,804,000 respectively. The emoluments payable to the remaining three individuals for the years ended 31 December 2005, 2006 and 2007 were as follow:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other allowances	1,668	988	1,328
Retirement benefits scheme contributions	36	32	24
Share-based payment expenses	4,115	3,755	5,349
	5,819	4,775	6,701

The aggregated emoluments of each of these remaining three highest paid individuals fell within the following bands:

		Number of individuals	
	2005	**2006**	**2007**
HK$1,000,001 to HK$1,500,000	–	1	–
HK$1,500,001 to HK$2,000,000	2	2	–
HK$2,000,001 to HK$2,500,000	1	–	3
	3	3	3

16. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong and terminated the defined contribution pension scheme ("Old Scheme") on 1 December 2000. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' monthly relevant income but limited to the mandatory cap of HK$20,000. The contributions are charged to the income statements as incurred. In respect of those employees who leave the Group prior to completion of qualifying service period, the relevant portion of the employer's voluntary contributions forfeited (represents the assets transferred from the Old Scheme) will be reverted to the Group. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund.

(b) Employees of subsidiaries in the PRC are members of the Central Pension Scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is the required contribution under the Central Pension Scheme.

During the years ended 31 December 2005, 2006, 2007, the retirement benefits schemes contributions net of forfeited contributions of approximately HK$19,000, HK$22,000 and HK$5,000 amounted to approximately HK$428,000, HK$389,000 and HK$372,000 respectively.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2005	10,450	5,508	15,111	43,681	2,864	77,614
Additions	4,412	–	230	728	236	5,606
Disposals of subsidiaries	–	–	–	–	–	–
Disposals	–	–	–	(861)	(625)	(1,486)
At 31 December 2005 and 1 January 2006	14,862	5,508	15,341	43,548	2,475	81,734
Additions	–	1,246	246	114	1,795	3,401
Disposals	(7,546)	(5,508)	(4,882)	(6,271)	(428)	(24,635)
At 31 December 2006 and 1 January 2007	7,316	1,246	10,705	37,391	3,842	60,500
Additions	–	5	34	230	130	399
Disposals	–	–	(3)	(20)	(498)	(521)
At 31 December 2007	7,316	1,251	10,736	37,601	3,474	60,378
Accumulated depreciation						
At 1 January 2005	3,778	4,974	10,732	33,160	1,823	54,467
Charge for the year	576	200	2,159	6,166	390	9,491
Elimination upon disposal of subsidiaries	–	–	–	–	–	–
Elimination upon disposals	–	–	–	(751)	(620)	(1,371)
At 31 December 2005 and 1 January 2006	4,354	5,174	12,891	38,575	1,593	62,587
Charge for the year	520	310	1,474	3,329	661	6,294
Eliminated on disposals	(1,404)	(5,358)	(4,759)	(6,262)	(228)	(18,011)
At 31 December 2006 and 1 January 2007	3,470	126	9,606	35,642	2,026	50,870
Charge for the year	365	474	721	754	577	2,891
Eliminated on disposals	–	–	(3)	(20)	(498)	(521)
At 31 December 2007	3,835	600	10,324	36,376	2,105	53,240
Net book value						
At 31 December 2007	3,481	651	412	1,225	1,369	7,138
At 31 December 2006	3,846	1,120	1,099	1,749	1,816	9,630
At 31 December 2005	10,508	334	2,450	4,973	882	19,147

At 31 December 2005, 2006 and 2007, the Group's buildings with carrying value of HK$2,329,000, nil and nil respectively were pledged to secure banking facilities granted to the Group.

18. INTERESTS IN LEASEHOLD LAND

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January	10,450	15,417	7,294
Additions/(Disposals)	4,967	(8,123)	–
At 31 December	15,417	7,294	7,294
Accumulated amortisation			
At 1 January	1,414	1,733	1,487
Charge for the year	319	286	165
Eliminated on disposals	–	(532)	–
At 31 December	1,733	1,487	1,652
Net book value			
At 31 December	13,684	5,807	5,642

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

		At 31 December	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Land in Hong Kong, held on:			
Long-term leases	3,295	2,800	–
Medium-term leases	10,389	3,007	5,642
	13,684	5,807	5,642

At 31 December 2005, 2006 and 2007, the Group's interests in leasehold land with carrying value of HK$2,671,000, nil and nil respectively were pledged to secure banking facilities granted to the Group.

19. INVESTMENT PROPERTIES

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	38,650	42,190	40,880
Disposals	–	(4,190)	–
Revaluation surplus	3,540	2,880	10,220
At 31 December	42,190	40,880	51,100

Investment properties were valued at their open market values at 31 December 2005, 2006 and 2007 by Grant Sherman Appraisal Limited, independent qualified professional valuers not connected with the Group who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation report on the investment properties is signed by a director of Grant Sherman, who is a member of the Hong Kong Institute of Surveyors. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on the market value basis.

All investment properties included building cost held under finance leases with the carrying amount of approximately HK$42,190,000, HK$40,880,000, and HK$51,100,000 as at 31 December 2005, 2006 and 2007 respectively have been pledged to secure banking facilities granted to the Group. The minimum lease payments have been paid in full at the inception of the lease.

The Group's investment properties at their carrying amounts are analysed as follows:

		At 31 December	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Investment properties in Hong Kong, held on:			
Medium-term leases	42,190	40,880	51,100

20. INTEREST IN SUBSIDIARIES

The Company

		At 31 December	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	30,708	30,708	30,708
Impairment loss recognised	(30,299)	(30,299)	(30,299)
	409	409	409
Amounts due from subsidiaries	1,495,633	1,504,319	1,603,524
Provision for amounts due from subsidiaries	(1,015,984)	(1,015,984)	(1,006,230)
	479,649	488,335	597,294
	480,058	488,744	597,703

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, the Company will not demand for repayment within twelve months from the balance sheet date and the amounts due from/to subsidiaries are therefore shown as non-current. The directors of the Company consider that the carrying amount of the amounts due from/to subsidiaries approximate to their fair values.

The amounts due from/to subsidiaries of the Company classified under current assets/liabilities 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/to subsidiaries as at 31 December 2005, 2006 and 2007 approximate to their fair values.

The carrying amounts of the interests in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

Details of the Company's principal subsidiaries for the Relevant Periods are set out in note 51.

21. GOODWILL

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to business as follow:

	HK$'000
Cost	
At 1 January 2005, 31 December 2005, 31 December 2006 and 31 December 2007	108,703
Impairment	
At 1 January 2005, 31 December 2005, and 31 December 2006	49,500
Impairment loss recognised during the year	30,141
At 31 December 2007	79,641
Carrying amount	
At 31 December 2007	29,062
At 31 December 2005 and 31 December 2006	59,203

For the years ended 31 December 2005, 2006 and 2007, the directors of the Company reassessed the recoverable amount of the CGU of film production with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that an impairment loss of approximately HK$30,141,000 for the year ended 31 December 2007 on goodwill associated with the CGU of film production was identified.

The recoverable amount of the CGU of film production was assessed by reference to value-in-use calculation based on a five year projection of the relevant cash-generating unit with a zero growth rate. Cash flows beyond the five year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which the CGU of film production operates. A discount rate of 17.61%, 18.04% and 19.61% per annum for the years ended 31 December 2005, 2006 and 2007 respectively was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included gross margin, growth and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the CGU Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*
Equity securities, listed in Hong Kong, at fair value	–	42,700	39,900

The fair values of equity securities listed in Hong Kong have been determined by reference to the quoted market bid prices available on the relevant stock market.

Disclosures pursuant to the requirement of section 129(1) and the disclosure requirement of the Listing Rules are as follows:

Name of entity	Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
Daido Group Limited	Bermuda	Hong Kong	Ordinary	16.79%	16.79%	Cold storage and logistic services, manufacturing and trading of ice and property investment

23. CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE

	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*
Convertible notes receivable from an associate	–	–	667
Conversion options embedded in convertible notes receivable from an associate	–	–	222
At 31 December	–	–	889

	Convertible notes receivable from an associate *HK$'000*	Convertible options embedded in convertible notes receivable from an associate *HK$'000*
At 1 January 2005, 31 December 2005, 31 December 2006 and 1 January 2007	–	–
Subscription of convertible notes	15,693	6,807
Imputed interest income	124	–
Conversion of convertible notes	(15,150)	(6,535)
Changes in fair value in respect of conversion options embedded in convertible notes receivable from an associate	–	(50)
At 31 December 2007	667	222

The convertible notes are held by Classical Statue Limited ("CSL"), a wholly owned subsidiary of the Company.

During the year ended 31 December 2007, CSL entered into an agreement to subscribe convertible notes ("Brilliant Arts CN") with principal amount of HK$25,000,000 from Brilliant Arts Multi Media Holding Limited (formerly known as "Milkyway Image Holdings Limited") ("Brilliant Arts") at a price of HK$22,500,000. Brilliant Arts has its shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Brilliant Arts CN carries zero coupon and will mature on 24 May 2012. The initial conversion price is HK$0.33 per share (subject to adjustment). Unless previously converted or lapsed, Brilliant Arts will redeem the Brilliant Arts CN on 24 May 2012 at the redemption amount which is 100% of the principal amount of outstanding Brilliant Arts CN.

On 15 June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts become an associate of the Company. At 31 December 2007, principal amount of HK$1,000,000 Brilliant Arts CN was receivable from Brilliant Arts.

24. INTEREST IN ASSOCIATES

	At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets of associates *(Note a)*	79,704	143,346	329,678
Goodwill *(Note b)*	86,769	54,767	45,470
	166,473	198,113	375,148
Market value of listed shares	463,533	317,016	150,353

Notes:

(a) Share of net assets of associates

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	38,249	79,704	143,346
Profit/(loss) attributable to the Group	(10,013)	(9,796)	16,548
Discount on acquisition	–	–	40,100
Share of results of associates	(10,013)	(9,796)	56,648
Disposal of an associate	–	(3,600)	–
Aggregate (decrease)/increase in share of net assets on deemed disposal of equity interest in associates	47,326	73,708	(19,849)
Initial acquisition of 29.17% equity interest in Brilliant Arts	–	–	3,616
Share of changes in reserves of associates	–	(4,388)	15,188
Further investments in associates	3,997	7,718	130,729
Recognition of unrealised gain eliminated on consolidation	624	–	–
Elimination of revaluation reserve of Riche	(479)	–	–
	51,468	73,438	129,684
At 31 December	79,704	143,346	329,678

(b) Goodwill

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	37,065	86,769	54,767
Aggregate decrease in goodwill on deemed disposal of equity interest in associates	(2,305)	(11,126)	(29,895)
Initial acquisition of 29.17% equity interest in Brilliant Arts	–	–	20,514
Further investments in associates	56,509	11,689	84
Impairment loss recognised	(4,500)	(32,565)	–
At 31 December	86,769	54,767	45,470

Impairment test

For the year ended 31 December 2005

The directors of the Company reassessed the recoverable amount of goodwill arising on the acquisition of the Riche Group and Golden Capital and its subsidiary, 北京澳昌科技有限公司, (herein collectively refer as "Golden Capital Group"), no impairment loss was recognised. The directors of the Company reassessed the recoverable amount of goodwill arising on the acquisition of TAL as at 31 December 2005, by reference to the valuation as at 31 December 2005 performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers, and determined that an impairment of approximately HK$4,500,000 be recognised in the income statement. The valuation of the goodwill was determined based on the present value of the expected future revenue arising from the business enterprises of TAL and its principal activities are the provision of artist management services.

For the year ended 31 December 2006

The directors of the Company reassessed the recoverable amount of goodwill and determined that impairment loss on goodwill associated with the Group's associate, Together Again Limited ("TAL") and its subsidiaries (the "TAL Group") amounted to approximately HK$32,565,000 was identified. The main factor contributing to the impairment was the failure of certain major artists to contribute to the revenue of the TAL Group. The balance of the goodwill of the Group amounted to approximately HK$54,767,000 at 31 December 2006 was related to Riche.

The recoverable amount of TAL Group was assessed by reference to value-in-use calculation. A discount rate of 15.72% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Approved Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Approved Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Approved Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

For the year ended 31 December 2007

The increase in goodwill was attributable to the acquisition of Brilliants Arts. During the year of 2007, the directors of the Company reassessed the recoverable amount of goodwill and determined that no impairment loss on goodwill associated with Brilliant Arts was identified. The recoverable amount of Brilliant Arts was assessed by reference to value-in-use calculation. A discount rate of 10% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Approved Forecast") covering a five-year period. Cash flows beyond the five year period have been extrapolated using zero growth rate. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Approved Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five year budgeted period and are consistent with the Approved Forecast. The discount rates used are pre-tax and reflect specific risks relating to the industry.

During the year ended 31 December 2007, the Group assessed the recoverable amount of goodwill of Riche and determined that no impairment loss was identified. The recoverable amount of Riche was assessed by reference to value-in-use calculation of its investment properties which is the major cash generating unit of Riche. A discount rate of 16.14% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Riche Forecast") covering a five year period. Cash flows beyond the five year period have been extrapolated using a steady 7% per annum. This growth rate was made by reference to National Bureau of Statistics of China and does not exceed the long term average growth rate for the market in which Riche operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Richie Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on the past experience and its expectation for the market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Riche Forecast. The discount rates used are pre-tax and reflect specific risks relating to the market.

(c) Disposal of an associate

On 15 March 2004, the shareholder of Golden Capital International Limited ("Golden Capital"), an associate of the Group, granted to the Group an option ("Option") to require Golden Capital's shareholder to purchase from the Group an aggregate of 356 shares of US$1 each in the share capital of Golden Capital which represents the Group's entire shareholding in Golden Capital, at an aggregate consideration of HK$25,000,000 ("Consideration"). The Group may exercise the Option in the event that the net profits after taxation but before extraordinary items as shown in the audited accounts ("Audited Accounts") of Golden Capital for year ended 31 December 2004 is less than HK$14,600,000.

As the net profits after taxation but before extraordinary items as shown in the Audited Accounts was less than HK$14,600,000, the Group exercised the Option in April 2006 and the shareholder of Golden Capital repaid the Consideration to the Group by two installments within the same month.

(d) Acquisition of an associate

On 15 June 2007, the Company exercised its conversion rights and principal amount of HK$24,000,000 of Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts becomes an associate of the Group. Thereafter, the Group has subscripted its entitlement for an amount of HK$5,455,000 in the open offer of Brilliant Arts on the basis of one offer share for every two existing shares held on the record date. During the year, Brilliant Arts issued 49,863,000 new shares of Brilliant Arts through placing and exercise of options. As a result, the Group's interest in Brilliant Arts was diluted by 3.43% to 25.74% as at 31 December 2007.

(e) Interests in Riche

During the year ended 31 December 2005, the Group further acquired the equity interest in Riche in the open market. In February 2005, the Group acquired 90,000,000 ordinary share of Riche ("Riche Shares") with the consideration of HK$30,334,000 and thereon the Group's equity holdings in Riche increased from 40.67% to 42.54%. On 12th September, 2005, CSL entered into a placing and subscription agreement with a placing agent and Riche respectively. Pursuant to the placing and subscription agreement, CSL agreed to place 400,000,000 Riche Shares to independent investors at a price of HK$0.34 per Riche Share and conditionally agreed to subscribe for 400,000,000 new Riche Shares at a price of HK$0.34 per Riche Share. After completion of the placing and subscription agreement, the Group's equity holdings in Riche decreased from 42.54% to 39.24%, resulting in a gain on deemed disposal of an associate of approximately HK$45,021,000 which had been credited to the income statement. From September 2005 to December 2005, the Company further acquired 94,060,000 Riche Shares with a total consideration of HK$30,172,000 which increased its shareholding of Riche from 39.24% to 41.07%.

During the year ended 31 December 2006, Riche issued 1,330,321,745 ordinary shares of HK$0.01 ("Riche Shares") at a price of HK$0.20 each amounted to approximately HK$266,064,000 as consideration in relation to an acquisition of a group of companies which major assets is the 96.7% equity interest in Beijing Jianguo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Group's interest in Riche was diluted by 8.43% from 41.07% to 32.64% immediately upon the issuance of the Riche Shares. Thereafter, the Group acquired 1.79% equity interest in Riche in the open market with a total consideration of approximately HK$19,407,000. As a result, goodwill of approximately HK$11,689,000 was recorded and the Group's interest in Riche increased to 34.43% as at 31 December 2006.

During the year ended 31 December 2007, Riche issued approximately 1,303,426,000 new shares of Riche (after considering the effect of consolidation of 10 shares into 1 new share of Riche) through open offer, placings and exercise of options. As a result, the Group's interest in Riche was diluted. Moreover, the Group acquired further equity interest in Riche in the open market at a total consideration of approximately HK$33,181,000. The Group has also subscripted its entitlement and applied for excess subscription for an aggregate amount of HK$92,177,000 in the open offer of Riche on the basis of one offer share for every two existing shares held on the record date. The aggregate effect of the above decreased the Group's interest in Riche from 34.4% to 29.9% as at 31 December 2007.

Details of the principal associates for the Relevant Periods are set out in note 52.

The following details have been extracted from the audited consolidated financial statements of the Group's significant associates:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	61,861	25,900	61,552
Profit/(loss) before taxation	(28,298)	(27,125)	29,677
Profit/(loss) after taxation attributable to the Group	(10,613)	(9,796)	16,548
Non-current assets	7,834	758,222	933,816
Current assets	262,311	195,344	700,329
Non-current liabilities	–	(408,274)	(366,949)
Current liabilities	(93,363)	(132,760)	(181,981)
Net assets	176,782	412,532	1,085,215
Net assets attributable to the Group	79,704	143,346	329,678

25. INVENTORIES

		At 31 December	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	362	364	301

Included above are finished goods of approximately HK$222,000, HK$188,000 and HK$197,000 which are carried at net realisable values as at 31 December 2005, 2006 and 2007 respectively.

26. CONVERTIBLE NOTES RECEIVABLES

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	52,000	42,000	52,000
Redemption of the convertible notes	–	–	(52,000)
Impairment loss (recognised)/reversed in respect of convertible notes receivables	(10,000)	10,000	–
At 31 December	42,000	52,000	–

Impairment of convertible notes receivables:

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	–	10,000	–
Impairment loss recognised in respect of convertible notes	10,000	–	–
Reversal of impairment loss in respect of convertible note	–	(10,000)	–
At 31 December	10,000	–	–

Notes:

On 15 March 2004, the Group entered into two subscription agreements with two shareholders ("Note Issuers") of Colima Enterprises Holdings Inc. ("Colima"), the holding company of TAL, pursuant to which the Group subscribed for two convertible notes of HK$26,000,000 each ("Convertible Notes") issued by the Note Issuers for an aggregate consideration of HK$52,000,000.

Each of the Convertible Notes bears interest at 1% per annum, secured by a charge on the relevant Note Issuers' entire equity interest in Colima and will mature on 36 months from the date of the relevant subscription agreements or the date of the listing of a proposed holding company of the artists management business on a recognised stock exchange, whichever is the earlier.

Each of the Convertible Notes carries the rights to convert the whole or any part of the outstanding principal amount of the Convertible Notes into shares in relevant Note Issuer in accordance with the formula as set out in the relevant subscription agreement from 15 March 2005 to 14 March 2007 or the date of the listing of a proposed holding company of the artists management business on a recognised stock exchange, whichever is earlier. If the Group exercises its rights to convert the full amount of the Convertible Notes into shares of each of the Note Issuers, the Group will have approximately 99% direct equity interests in the Note Issuers and 99% indirect equity interest in the group headed by Colima respectively.

The fair value of the Convertible Notes as at 31 December 2005 was determined by reference to the valuation as at 31 December 2005 performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers. The fair value of the Convertible Notes determined by the professional valuers is based on the amortised effective interest rate method. Impairment loss of HK$ 10,000,000 was recognised for the year.

On 14 March 2007, the Note Issuers redeemed all of the Convertible Notes and the whole amount of principal of HK$52,000,000 was repaid to the Group by the Note Issuers. As a result, HK$10,000,000 was reversed in the year of 2006 in respect of the impairment loss recognised during the year of 2005.

27. FILM RIGHT

	HK$'000
Cost	
At 1 January 2005	1,071,756
Additions	39,766
At 31 December 2005 and 1 January 2006	1,111,522
Additions	62,279
Disposals	(535,943)
At 31 December 2006 and 1 January 2007	637,858
Additions	13,967
Disposals	(348,249)
At 31 December 2007	303,576
Accumulated amortisation and impairment	
At 1 January 2005	917,878
Amortised for the year	57,646
At 31 December 2005 and 1 January 2006	975,524
Amortised for the year	100,850
Eliminated on disposals	(535,943)
At 31 December 2006 and 1 January 2007	540,431
Amortised for the year	43,747
Impairment loss recognised	16,850
Eliminated on disposals	(348,249)
At 31 December 2007	252,779
Carrying amount	
At 31 December 2007	50,797
At 31 December 2006	97,427
At 31 December 2005	135,998

During the year ended 31 December 2005, 2006 and 2007, the directors of the Company reassessed the recoverable amount of film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that impairment loss of approximately HK$16,850,000 on the film rights was identified for the year ended 31 December 2007.

The recoverable amount of film rights was assessed by reference to value-in-use calculation. A discount rate of 18.89%, 20.04% and 21.61% per annum for the years ended 31 December 2005, 2006 and 2007 respectively was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "Film Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using zero growth rate. This growth rate does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the Film Forecast. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the Film Forecast. The discount rates used are pretax and reflect specific risks relating to the industry.

28. FILMS IN PROGRESS

	At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Films in progress	47,461	29,469	24,948

The films in progress were measured at cost less any identifiable impairment loss.

29. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The aged analysis of the trade receivables is as follows:

	At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
The Riche Group and Brilliant Arts Group			
0 to 30 days	18	–	12
31 to 60 days	–	–	–
61 to 90 days	–	–	–
91 to 180 days	–	–	–
Over 181 days	–	–	–
	18	–	12
Others			
0 to 30 days	1,148	683	885
31 to 60 days	4,471	575	2,784
61 to 90 days	300	826	224
91 to 180 days	393	373	151
Over 181 days	11,489	9,595	51,644
	17,801	12,052	55,688
Less: Impairment on trade receivables	(3,222)	(4,036)	(4,034)
	14,579	8,016	51,654
Total	14,597	8,016	51,666
Aging of trade receivables which are past due but not impaired:			
61-90 days	300	826	224
Over 90 days	8,660	5,932	47,761
Total	8,960	6,758	47,985

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$8,960,000, HK$6,758,000 and HK$47,985,000 which are past due as at 31 December 2005, 2006 and 2007 respectively for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of the Company considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors of the Company considered provision for impairment in values be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The carrying amounts of the Group's trade receivables approximate to their fair values.

30. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group As at 31 December			The Company As at 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	73,931	39,573	32,237	20,025	1,086	1,426
Prepayments	1,871	623	579	265	351	382
Other receivables	4,745	4,965	3,974	–	–	–
	80,547	45,161	36,790	20,290	1,437	1,808

The carrying amounts of deposits, prepayments and other receivables approximate to their fair values.

Aging of other receivables which are past due but not impaired:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Over 90 days	–	780	780

Management believes that no impairment allowance is necessary in respect of these balances as the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

31. DEPOSITS FOR INVESTMENTS

On 15 June 2006, the Company entered into three sale and purchase agreements (the "Sale and Purchase Agreement") with three vendors (the "Vendors") in respect of acquisition of certain entities which indirectly held equity interest in Kingsway Hotel Limited ("KHL") for an aggregated consideration of HK$490,000,000 (the "Initial Acquisition"). The Company paid HK$40,000,000 as deposit to the Vendors upon entering into the Sale and Purchase Agreements and subsequent deed of variations. Details of the Initial Acquisition were set out in the Company's circular dated 8 September 2006.

On 16 August 2007 and 10 October 2007, the Company entered into agreements in respect of acquisitions of an aggregate 100% equity interest of Best Mind International Inc. ("Best Mind") with total considerations of HK$1,054,900,000. Total deposits of HK$400,000,000 was paid to the vendor at 31 December 2007. Details of the acquisitions of Best Mind were set out in the Company's circulars dated 6 December 2007 and 7 December 2007.

32. HELD-FOR-TRADING INVESTMENTS

		As at 31 December	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Listed investments:			
– Equity securities listed in Hong Kong, at fair value	23,345	64,560	16,600

At the balance sheet date, all financial assets at fair value through profit or loss are stated at fair value. Fair values of those listed investments have been determined by reference to the quoted market bid prices available on the relevant stock exchanges.

33. AMOUNT DUE FROM ASSOCIATES – THE GROUP AND THE COMPANY

The amounts due from associates of the Group and the Company are unsecured, interest free and repayable on demand.

34. CASH AND CASH EQUIVALENTS

	The Group As at 31 December			The Company As at 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	5,568	1,597	2,049	2,273	187	368
Time deposits	25,932	87,750	20,686	19,790	87,650	20,686
	31,500	89,347	22,735	22,063	87,837	21,054

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at 31 December 2005, 2006 and 2007 as shown in the cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	31,500	89,347	22,735
Cash and cash equivalents included in non-current assets held for sale *(note 35)*			
Bank balances and cash	–	–	181,102
Bank overdraft	–	–	(146,516)
	–	–	34,586
	31,500	89,347	57,321

35. NON-CURRENT ASSETS HELD FOR SALE

As described in note 13 to the financial statements, the major classes of assets and liabilities comprising the hotel operation classified as held for sale at the balance sheet date are as follow:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	–	–	3,758
Interests in leasehold land	–	–	517,568
Construction in progress	–	–	274,196
Inventories	–	–	213
Trade receivables	–	–	1,462
Deposits, prepayment and other receivables	–	–	12,773
Loan to a minority shareholder	–	–	196,000
Cash and cash equivalents	–	–	181,102
Assets of hotel business classified as held for sale	–	–	1,187,072
Bank overdraft	–	–	146,516
Trade payables	–	–	2,150
Accruals and other payables	–	–	4,170
Amounts due to minority shareholders	–	–	40,502
Tax payables	–	–	609
Deferred taxation	–	–	80,888
Bank borrowings	–	–	450,000
Minority interests	–	–	309,261
Liabilities of hotel business associated with assets classified as held for sale	–	–	1,034,096
Net assets of hotel business classified as held for sale	–	–	152,976

36. SHARE CAPITAL

	Number of shares At 31 December			**Amount At 31 December**		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	'000	*'000*	*'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.05 each Authorised:	20,000,000	20,000,000	20,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:						
At beginning of year	365,406	520,541	704,646	18,270	26,027	35,232
Conversion of convertible bonds *(Note 39)*	–	–	532,702	–	–	26,636
Rights issue *(Note j)*	–	–	843,769	–	–	42,188
Exercise of share options *(Note b and i)*	17,770	–	78,285	889	–	3,914
Placement of shares *(Note a, c, d, e, f, g & h)*	137,365	184,105	646,695	6,868	9,205	32,335
	520,541	704,646	2,806,097	26,027	35,232	140,305

Notes:

(a) On 15 December 2004, the Company had conditionally agreed to place 60,765,000 new shares to independent investors at a price of HK$0.60 per share, representing a discount of 14.29% to the closing price of the Company's shares on 14 December, 2004. The placing was completed on 27 January, 2005. Net proceeds of approximately HK$ 35,600,000 were intended to be used for two movies' production which have been scheduled to be produced in 2005 and as the general working capital of the Group. The issue of these new shares was approved by the shareholders of the Company at a special general meeting held on 21 January 2005.

(b) In January 2005, certain option holders exercised their option rights to subscribe for an aggregate of 7,969,939 shares at an exercise price of HK$0.564 per share and an aggregate of 9,800,000 shares at an exercise price of HK$0.52 per share respectively in an aggregate amount of approximately HK$9,591,000.

(c) On 24 February 2005, Porterstone Limited ("Porterstone"), a substantial shareholder of the Company, and Mr. Heung Wah Keung, a substantial shareholder and an executive director of the Company entered into a top-up placing agreement with a placing agent and a subscription agreement with the Company respectively. Pursuant to the top-up placing agreement, Porterstone and Mr. Heung Wah Keung placed an aggregate of 76,600,000 existing shares to independent investors at a price of HK$0.50 per share, representing a discount of 17.25% to the closing price of the Company's shares on 24 February 2005. Pursuant to the subscription agreement, Porterstone and Mr. Heung Wah Keung subscribed for an aggregate of 76,600,000 new shares at a price of HK$0.50 per share. 76,600,000 new shares issued for the subscription on 7th March, 2005 with net proceeds of approximately HK$37.3 million were intended to be used for general working capital of the Group and/or any future possible acquisition which is yet to be identified. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on 21 January 2005.

(d) On 17 May 2006, Porterstone, Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany (Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate of 104,105,000 existing shares of the Company to independent investors at a price of HK$0.33 per share. Pursuant to the top-up subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for an aggregate of 104,105,000 new shares at a price of HK$0.33 per share. The net proceeds of approximately HK$33,300,000 was intended to be used as to HK$20,000,000 for future investment and as to the balance for general working capital of the Group.

(e) On 6 June 2006, the Company had conditionally agreed to place 80,000,000 new shares to independent investors at a price of HK$0.365 per share, representing a discount of approximately 6.4% to the closing price of HK$0.39 per Company's share on 5 June 2006. The net proceeds of approximately HK$29,000,000 were intended to be used for the proposed acquisition of a hotel in Macau.

(f) On 28 September 2007, the Company alloted and issued an aggregate of 274,790,000 shares by way of placings to independent investors at a price of HK$0.21 per share. The net proceeds of approximately HK$56,200,000 were intended to be used for the acquisition of Best Mind.

(g) On 25 June 2007, the Company alloted and issued an aggregate of 165,905,000 shares by way of placings to independent investors at a price of HK$0.40 per share. The net proceeds of approximately HK$64,600,000 were intended to be used for general working capital of the Group.

(h) On 17 April 2007 and 30 May 2007, the Company allotted and issued 124,900,000 shares and 81,100,000 shares respectively by way of placing to independent investors at a price of HK$0.37 per share. The net proceeds of approximately HK$74,000,000 were intended to be used for general working capital of the Group.

(i) For the year ended 31 December 2007, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 shares at an exercise price of HK$0.242 per share, an aggregated of 26,800,000 shares at an exercise price of HK$0.277 per Share, an aggregate of 5,900,000 Shares at an exercise price of HK$0.42 per share and an aggregate of 12,600,000 shares at an exercise price of HK$0.277 per share respectively. The net proceeds from the exercise of option rights amounted to approximately HK$21,374,000.

(j) On 17 October 2007, the Company issued 843,769,024 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 15 October 2007 at a subscription price of HK$0.20 per share. The net proceeds of approximately HK$164,800,000 were used for the acquisition of Best Mind.

37. RESERVES

	Share premium HK$'000 (Note (a))	Contributed surplus HK$'000 (Note (b))	Convertible notes reserve HK$'000 (Note (c))	Share-based payment reserve HK$'000 (Note (d))	Capital reduction reserve HK$'000	Accumulated losses HK$'000 (Note (e))	Total HK$'000
The Company							
At 1 January 2005	778,975	207,548	566	7,841	316,008	(834,091)	476,847
Loss for the year	–	–	–	–	–	(25,408)	(25,408)
Share-based payment expenses	–	–	–	24,057	–	–	24,057
Placement of shares	67,891	–	–	–	–	–	67,891
Share issuing expenses	(1,759)	–	–	–	–	–	(1,759)
Exercise of share options	8,703	–	–	–	–	–	8,703
At 31 December 2005 and at 1 January 2006	853,810	207,548	566	31,898	316,008	(859,499)	550,331
Loss for the year	–	–	–	–	–	(5,166)	(5,166)
Share-based payment expenses	–	–	–	11,340	–	–	11,340
Placement of shares	54,350	–	–	–	–	–	54,350
Share issuing expenses	(1,172)	–	–	–	–	–	(1,172)
At 31 December 2006 and at 1 January 2007	906,988	207,548	566	43,238	316,008	(864,665)	609,683
Loss for the year	–	–	–	–	–	(27,969)	(27,969)
Share-based payment expenses	–	–	–	17,660	–	–	17,660
Placement of shares	167,953	–	–	–	–	–	167,953
Share issuing expenses	(10,226)	–	–	–	–	–	(10,226)
Issue of convertible bonds	–	–	54,307	–	–	–	54,307
Redemption of convertible bonds	–	–	(566)	–	–	566	–
Conversion of convertible bonds	134,409	–	(54,307)	–	–	–	80,102
Rights issue	126,565	–	–	–	–	–	126,565
Exercise of share options	30,761	–	–	(13,301)	–	–	17,460
At 31 December 2007	1,356,450	207,548	–	47,597	316,008	(892,068)	1,035,535

The loss attributable to equity holders of the Company for the year ended 31 December 2007 which has been dealt with in the financial statements of the Company amounted to approximately HK$27,969,000 (2006: HK$5,166,000, 2005: HK$25,408,000).

Notes:

(a) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the company as fully paid bonus shares.

(b) The contributed surplus of the Company represents the amounts transferred from the capital account due to the capital reduction effective on 10 September 2002. The difference between the underlying net tangible assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company at the time of the Group reorganization in 1992 and the amount transferred from the capital account due to the capital reduction effective on 10 September 2002. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

(d) Share-based payment reserve represents the fair value of employee services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options at grant date. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods (if any) and is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

(e) The capital reduction reserve of the Company represents the amount arising in relation to the reduction of the nominal value of 332,640,000 issued shares of the Company from HK$1.00 each to HK$0.05 each in 1998. Pursuant to a resolution passed by the directors pursuant to Bye-law 129 of the Company's Bye-laws, the capital reduction reserve shall be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied.

38. BANK BORROWINGS

	At 31 December		
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans	25,390	13,202	10,941
The maturity of the above borrowings is as follows:			
Within one year	12,197	2,254	2,418
Between one and two years	2,252	2,380	2,528
Between two and five years	7,538	7,966	5,681
Over five years	3,403	602	314
	25,390	13,202	10,941
Less: Amount due within one year shown under current liabilities	(12,197)	(2,254)	(2,418)
Amount due after one year	13,193	10,948	8,523

Secured bank loans comprise a mortgage loan which bears interest at commercial rates. The mortgage loan is secured by the Group's investment properties with carrying value of approximately HK$42,190,000, HK$40,880,000 and HK$51,100,000 as at 31 December 2005, 2006 and 2007 respectively. The mortgage loan is repayable in installments over a period of ten years. All interest bearing borrowings are denominated in Hong Kong dollar.

The directors of the Company consider that the carrying amounts of the Group's borrowings approximates to their fair values.

39. UNSECURED CONVERTIBLE NOTES

As at 31 December 2006, there was an unsecured convertible notes ("the Convertible Notes I") of principal value HK$20,000,000 bearing interest at 4 per cent per annum and was matured on 30 June 2007.

The Convertible Notes I carry the right to convert the principal amount of the Convertible Notes I into shares of HK$0.05 each in the share capital of the Company at a conversion price of HK$5.83 per share (after adjustments), subject to adjustment. From 14 June 2004 to the 14 business day immediately preceding 30 June 2007, the noteholder can convert the outstanding principal amount of the Convertible Notes I into shares of the Company and may request early repayment of the outstanding principal amount of the Convertible Notes I together with accrued interest. The Convertible Notes I was repaid on 30 June 2007.

On 18 May 2007, the Company issued convertible notes in the principal amount of HK$168,500,000 at an issue price of 95% of fair value ("Convertible Notes II"). The Convertible notes II were zero coupon, unsecured and will be matured on 17 May 2012. The Convertible Notes II are denominated in Hong Kong dollars. The initial conversion price is HK$0.32 per share and subject to anti-dilutive adjustments. The effective interest rate of the liability component is 9.75% per annum. The Convertible Notes II were fully converted into ordinary shares of the Company during the year ended 31 December 2007.

The fair value of the liability component was calculated using a market interest rate for an equivalent nonconvertible bond. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible notes reserve.

	The Group and the Company	
	Liability component of the convertible notes	**Equity component of the convertible notes**
	HK$'000	*HK$'000*
At 1 January 2005	19,434	566
Imputed interest expenses	800	–
Interest paid	(800)	–
At 31 December 2005 and 1 January 2006	19,434	566
Imputed interest expenses	1,233	–
Interest paid	(800)	–
At 31 December 2006 and 1 January 2007	19,867	566
Issue of convertible notes	105,768	54,307
Converted into ordinary shares	(106,738)	(54,307)
Imputed interest expenses	1,501	–
Interest paid	(398)	–
Redemption of convertible notes	(20,000)	(566)
At 31 December 2007	–	–

The maturity of the unsecured convertible notes is as follow:

	The Group and the Company At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	19,867	–
Between one and two years	19,434	–	–
	19,434	19,867	–

40. DEFERRED TAX LIABILITIES

The Group

The followings are the major deferred tax liabilities and assets recognised by the Group and movements thereon:

	Fair value changes of investment properties
	HK$'000
At 1 January 2005, 31 December 2005 and 1 January 2006	–
Charge to income statement	1,888
At 31 December 2006 and 1 January 2007	1,888
Charge to income statement	1,578
At 31 December 2007	3,466

As at 31 December 2005, 2006 and 2007, the Group had unused estimated tax losses of approximately HK$ 370,667,000, HK$414,330,000 and HK$417,320,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit.

The Company

No deferred tax assets has been recognised for the year ended 31 December 2005, 2006 and 2007 in respect of estimated tax losses of approximately HK$91,108,000, HK$79,316,000 and HK$81,870,000 respectively due to the unpredictability of future profit streams.

41. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	The Group At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	2,680	1,523	2,980
31 to 60 days	836	839	1,174
61 to 90 days	1,368	1,923	5
91 to 180 days	3,123	2,450	167
Over 180 days	10,885	11,575	13,295
	18,892	18,310	17,621

The carrying amounts of the Group's trade payables approximate to their fair value.

42. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	The Group At 31 December			The Company At 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received	77,692	32,949	55,123	10,000	10,000	10,000
Accruals	2,188	4,009	3,635	1,027	2,558	2,387
Other payables	812	2,603	7,260	78	255	2,611
	80,692	39,561	66,018	11,105	12,813	14,998

43. LOAN RECEIVABLE

	At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Loan receivable	25,000	–	–
Less: loan receivable with one year under current assets	25,000	–	–
Loan receivable after one year	–	–	–

The Group entered into letters of intent and deed with a third party during 2002 for the purchase of 49% of equity interest in a company ("Potential Investee Company") which principally engages in video advertising business on coaches in the PRC. The purchases were terminated in 2003 as the Group did not satisfy with the results of the financial and legal due diligence review on the Potential Investee Company. The loan receivables have been repaid on 28 March, 2006. The amount bears an interest at 2% per annum, payable semi-annually, and is guaranteed by another third party. The carrying amount of the loan receivable approximates to its fair value.

44. ACQUISITION OF SUBSIDIARIES

On 30 March 2007, the Group acquired 38.5% equity interest in KHL ("First Acquisition") at a consideration of approximately HK$231,777,000. On 30 May 2007, the Group further acquired 61.5% interest in KHL through acquisition of the entire interest in Triumph Up Investment Limited and its subsidiaries and Great Chain Limited and its subsidiaries ("Second Acquisition"), at a consideration of approximately HK$490,000,000.

Following the completion of the First Acquisition and Second Acquisition, the Group had 100% interest in KHL. The net assets acquired in the First Acquisition and Second Acquisition are as follows:

	Carrying amount before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	48,881	221,865	270,746
Interest in leasehold land	87,796	452,203	539,999
Inventories	1,035	–	1,035
Trade receivables	5,982	–	5,982
Prepayment, deposits and other receivables	425	–	425
Cash and cash equivalents	12,848	–	12,848
Amount due to immediate holding companies	(81,004)	–	(81,004)
Trade payables	(892)		(892)
Accruals, deposits received and other payables	(11,980)	–	(11,980)
Deferred tax	–	(80,888)	(80,888)
Net assets acquired	63,091	593,180	656,271
Discount on acquisition			(15,498)
			640,773
Total consideration satisfied by:			
Cash			721,777
Shareholder's loan			(81,004)
			640,773
Net cash outflow arising on acquisition:			
Cash consideration paid			721,777
Bank balances and cash acquired			(12,848)
			708,929
Deposit paid			(40,000)
			668,929

Details of the First Acquisition and Second Acquisition were set out in the Company's circulars dated 10 March 2007 and 8 September 2006 respectively.

45. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 22 June 2007, the Group had disposed of 50% interest in a subsidiary, KHL and the relevant sale loan at a consideration of approximately HK$315,000,000, resulting in a loss on disposal of approximately HK$45,471,000. Accordingly, the Group's shareholding in KHL has decreased from 100% to 50%.

The net assets of a subsidiary at the date of disposal were as follows:

	Fair value
	HK$'000
The Group's share of net assets before disposal	645,468
Expenses incurred by the Group	(4,526)
Share of net assets disposed	(320,471)
Share of net assets owned by the Group after disposal	320,471
Share of net assets disposed	320,471
Loss on disposal of interest in a subsidiary	(45,471)
	275,000
Total consideration satisfied by:	
Cash consideration received	315,000
Shareholder's loan disposed	(40,000)
	275,000
Net cash inflow arising on disposal:	
Cash consideration	315,000

Details of disposal of KHL were set out in the Company's circular dated 31 May 2007.

46. FINANCIAL INSTRUMENTS

		The Group At 31 December	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Held-for-trading investments	23,345	64,560	16,822
Loans and receivables	162,144	145,178	62,999
Available-for-sale financial assets	42,000	94,700	40,567
Financial liabilities			
Amortised cost	144,408	90,940	94,580

47. LEASE COMMITMENTS

As at 31 December 2005, 2006 and 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,059	940	1,566
In the second to fifth year inclusive	–	1,089	1,016
	1,059	2,029	2,582

Operating lease payments represented rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

48. COMMITMENTS

The Group had the following outstanding commitments in respect of acquisitions of equity interests in certain entities at the balance sheet dates:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Authorised and contracted, but not provided for	–	450,000	654,900

49. EQUITY SETTLED SHARE-BASED TRANSACTION

Pursuant to a resolution passed at the annual general meeting of the Company held on 27 May 2002, the share option scheme adopted by the Company on 23 October 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

The Old Option Scheme

The major terms of the Old Option Scheme are summarised as follows:

(i) The purpose was to provide incentives to the participants.

(ii) The participants included any employee or director of any members of the Group.

(iii) The maximum number of shares in respect of which share options might be granted must not exceed 10% of the issued share capital of the Company from time to time.

(iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregate with shares issued and issuable under any share option ranted to the same participant, must not exceed 25% of the maximum shares from time to time.

(v) Any share option may be exercised in whole or in part at any time after the date on which the share option is deemed to be granted.

(vi) The exercisable period of a share option must not exceed a period of 10 years commencing on the date of acceptance.

(vii) The acceptance of a share option, if accepted, must be made within 30 days from the date of the offer of the grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of a share option must be the higher of:

a. a price not less than 80% of the average closing price of a share of the Company for the 5 trading days immediately preceding the grant; and

b. the nominal value of a share of the Company. As the Old Option Scheme was terminated on 27 May 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

The New Option Scheme

The major terms of the New Option Scheme are summarised as follows:

(i) The purpose is to provide incentives and rewards to the participants for their contribution or potential contribution to the Group.

(ii) The participants include:

(1) (a) any directors or proposed director (whether executive or non-executive including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Company and any entity in which the Company, directly or indirectly, holds any equity interests (collectively the "Interested Group") or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(b) any individual for the time being seconded to work for any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(c) any holder of any securities issued by any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(d) any business or joint venture partner, contractor, agent or representative of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(e) any research assistant, technician, adviser, consultant, artist, actor, actress of, and any research company, technical support company, advisory company, consultancy company, production company, advertising company, distribution company and professional services company to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(f) any supplier, producer, director or licensor of films, television programmes, video features, goods or services to any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(g) any customer, licensee (including any sub-licensee) or distributor of films television programmes, video features, goods or services of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company;

(h) any landlord or tenant (including any sub-tenant) of any member of the Interested Group or any substantial shareholder of the Company or any company controlled by a substantial shareholder of the Company; and

(2) any company controlled by one or more persons belonging to any of the above classes of participants.

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of share options available for issue under the New Option Scheme (after refreshment) as at the date of this annual report was 24,698,263, which represented approximately 0.56% of the issued share capital of the Company at 25 April 2008.

(iv) The total number of shares issued and to be issued upon exercise of the share options granted to each participant (including exercised, cancelled and outstanding share options) in 12 month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

(v) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of offer for grant.

(vi) Save as determined by the board of directors provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

(vii) The acceptance of a share option, if accepted, must be made within 30 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of a share option must be the highest of:

a. the closing price of a share of the Company on the date of grant;

b. the average closing price of a share of the Company fro the 5 trading days immediately preceding the date of grant; and

c. the nominal value of a share of the Company.

(ix) The New Option Scheme is effective for 10 years from the date of adoption until 26 May 2012.

The following table discloses details of the Company's share options held by the Company's substantial shareholders, directors, the Group's employees and other participants and movements in such holdings:

Category of Particular	Name of scheme	Date of grant	Exercisable period	Exercise price per share	Outstanding as at 01.01.2005	Granted during 2005 (note i)	Exercised during 2005 (note ii)	Lapse during 2005	Outstanding as at 31.12.2005 and 01.01.2006	Granted during 2006 (note iii)	Expired during 2006	Outstanding as at 31.12.2006 and 01.01.2007	Granted during 2007 (note iv)	Exercised during 2007 (note v)	Transfer between category	Adjustment during 2007*	Outstanding as at 31.12.2007
Substantial shareholders and directors of the Company**	Old Option Scheme	21.11.1996	21.11.1996-20.11.2006	60.510	674,269	–	–	–	674,269	–	(674,269)	–	–	–	–	–	–
		28.03.2000	28.03.2000-27.03.2010	15.459*	922,123	–	–	–	922,123	–	–	922,123	–	–	–	78,965	1,001,088
		02.06.2000	02.06.2000-01.06.2010	7.492*	417,506	–	–	–	417,506	–	–	417,506	–	–	–	35,752	453,258
	New Option Scheme	16.07.2002	16.07.2002-15.07.2012	1.581*	221,446	–	–	–	221,446	–	–	221,446	–	–	–	18,964	240,410
		17.07.2003	17.07.2003-16.07.2013	0.520*	457,000	–	–	–	457,000	–	–	457,000	–	–	–	39,136	496,136
					2,692,344	–	–	–	2,692,344	–	(674,269)	2,018,075	–	–	–	172,817	2,190,892
Director of the Company***	New Option Scheme	16.07.2002	16.07.2002-15.07.2012	1.581*	1,109,557	–	–	–	1,109,557	–	–	1,109,557	–	–	–	95,017	1,204,574
		17.07.2003	17.07.2003-16.07.2013	0.520*	2,285,000	–	–	–	2,285,000	–	–	2,285,000	–	–	–	195,677	2,480,677
					3,394,557	–	–	–	3,394,557	–	–	3,394,557	–	–	–	290,694	3,685,251
Employees of the Group	Old Option Scheme	05.01.1999	05.01.1999-04.01.2009	4.616*	44	–	–	–	44	–	–	44	–	–	–	3	47
		28.03.2000	28.03.2000-27.03.2010	15.459*	250,539	–	–	(10,440)	240,099	–	–	240,099	–	–	–	20,562	260,661
		02.06.2000	02.06.2000-01.06.2010	7.492*	417,508	–	–	–	417,508	–	–	417,508	–	–	–	35,754	453,262
	New Option Scheme	16.07.2002	16.07.2002-15.07.2012	1.581*	3,328,671	–	–	(1,109,557)	2,219,114	–	–	2,219,114	–	–	–	190,035	2,409,149
		17.07.2003	17.07.2003-16.07.2013	0.520*	10,254,939	–	(7,969,939)	–	2,285,000	–	–	2,285,000	–	–	–	195,677	2,480,677
		13.12.2004	13.12.2004-12.12.2014	0.479*	15,800,000	–	(9,800,000)	–	6,000,000	–	–	6,000,000	–	–	–	513,812	6,513,812
		04.02.2005	04.02.2005-03.02.2015	0.496*	–	28,110,000	–	–	28,110,000	–	–	28,110,000	–	–	(4,200,000)	2,047,542	25,957,542
		30.12.2005	30.12.2005-29.12.2015	0.223*	–	18,005,000	–	–	18,005,000	–	–	18,005,000	–	(11,390,000)	–	566,477	7,181,477
		21.11.2006	21.11.2006-20.11.2016	0.255*	–	–	–	–	–	40,000,000	–	40,000,000	–	(22,000,000)	(6,000,000)	1,027,624	13,027,624
		25.05.2007	25.05.2007-24.05.2017	0.387*	–	–	–	–	–	–	–	–	27,585,000	(5,900,000)	–	1,857,003	23,542,003
		27.06.2007	27.06.2007-26.06.2017	0.385*	–	–	–	–	–	–	–	–	14,440,000	–	–	1,236,575	15,676,575
		23.10.2007	23.10.2007-22.10.2017	0.183	–	–	–	–	–	–	–	–	66,170,000	–	–	–	66,170,000
					30,051,701	46,115,000	(17,769,939)	(1,119,997)	57,276,765	40,000,000	–	97,276,765	108,195,000	(39,290,000)	(10,200,000)	7,691,064	163,672,829
Other participants	New Option Scheme	16.07.2002	16.07.2002-15.07.2012	1.581*	4,438,228	–	–	–	4,438,228	–	–	4,438,228	–	–	–	380,068	4,818,296
		17.07.2003	17.07.2003-16.07.2013	0.520*	7,055,000	–	–	–	7,055,000	–	–	7,055,000	–	–	–	604,156	7,659,156
		13.12.2004	13.12.2004-12.12.2014	0.479*	11,820,000	–	–	–	11,820,000	–	–	11,820,000	–	–	–	1,012,210	12,832,210
		04.02.2005	04.02.2005-03.02.2015	0.496*	–	10,205,000	–	–	10,205,000	–	–	10,205,000	–	–	4,200,000	1,233,576	15,638,576
		30.12.2005	30.12.2005-29.12.2015	0.223*	–	33,995,000	–	–	33,995,000	–	–	33,995,000	–	(21,595,000)	–	1,061,879	13,461,879
		21.11.2006	21.11.2006-20.11.2016	0.255*	–	–	–	–	–	20,400,000	–	20,400,000	–	(17,400,000)	6,000,000	770,718	9,770,718
		25.05.2007	25.05.2007-24.05.2017	0.387*	–	–	–	–	–	–	–	–	30,675,000	–	–	2,626,864	33,301,864
		27.06.2007	27.06.2007-26.06.2017	0.385*	–	–	–	–	–	–	–	–	10,250,000	–	–	877,762	11,127,762
		23.10.2007	23.10.2007-22.10.2017	0.183	–	–	–	–	–	–	–	–	46,530,000	–	–	–	46,530,000
					23,313,228	44,200,000	–	–	67,513,228	20,400,000	–	87,913,228	87,455,000	(38,995,000)	10,200,000	8,567,233	155,140,461
					59,451,830	90,315,000	(17,769,939)	(1,119,997)	130,876,894	60,400,000	(674,269)	190,602,625	195,650,000	(78,285,000)	–	16,721,808	324,689,433

* The exercise prices and numbers of options which remained outstanding during the year have been adjusted due to completion of rights issue during the year.

** Represented the share options held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany, the substantial shareholders and directors of the Company.

*** Represented the share options held by Ms. Li Yuk Sheung, a director of the Company.

Notes:

(i) The closing prices of the Company's shares immediately before the dates of grant of share options in 2005 were HK$0.500 per share and HK$0.248 per share.

(ii) The closing prices of the Company's shares immediately before the dates on which the share options were exercised in 2005 were HK$1.110 per share in respect of 800,000 shares and HK$0.720 per share in respect of 16,969,939 shares.

(iii) The closing price of the Company's shares immediately before the date of grant of share options in 2006 was HK$0.28 per share.

(iv) The closing prices of the Company's shares immediately before the dates of grant of share options in 2007 were HK$0.343 per share (after adjustment); HK$0.333 per share (after adjustment) and HK$0.186 per share.

(v) The closing prices of the Company's shares immediately before the dates on which the share options were exercised in 2007 were HK$0.343 per share (after adjustment) in respect of 59,785,000 shares; HK$0.360 per share (after adjustment) in respect of 5,900,000 shares and HK$0.303 per share (after adjustment) in respect of 12,600,000 shares.

(vi) No share option was lapsed or cancelled during the year 2007.

Share-based payment expenses

Following to the adoption of HKFRS2, Share-based Payment, the fair value of the employee services received in exchange for the grant of the options after 7 November 2002 is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The estimated fair value of the options is measured based on Binomial Option Pricing Model. The variables input into the model are as follows:

	2005	**2006**	**2007**
Weighted average share price at measurement date (HK$)	0.35	0.28	0.28
Weighted average exercise price (HK$)	0.370	0.277	0.280
Expected volatility (expressed as weighted average volatility)	65.82%	70.51%	55.77%
No. of years for option life (expressed as weighted average life)	10	6	10
Expected dividends	–	–	–
Risk-free interest rate	4.0%	5.0%	4.38%
Weighted average fair value at measurement date (HK$)	0.27	0.19	0.09

The expected volatility is based on historical volatility (calculated based on the weighted average remaining life of the share options). Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

50. MATERIAL RELATED PARTY TRANSACTIONS

(a) For the years ended 31 December 2005, 2006 and 2007, the Group entered into the following transactions with Riche Group:

	Note	2005 HK$'000	2006 HK$'000	2007 HK$'000
Interest income				
– Loan interest	(i)	238	100	–
– Interest on convertible notes	(i)	100	–	–
Term loan granted	(i)	33,800	–	–
Term loan repayment	(i)	–	33,800	–
Royalty paid	(ii)	–	200	–
Post-production fee received	(ii)	736	90	–
Film exhibition income received	(iii)	7,947	–	–
Acquisition of leasehold land and buildings	(iv)	9,000	–	–

Notes:

(i) On 19 April 2005, the convertible notes of HK$33,800,000 issued by the Riche Group were matured. The Group did not exercise the right to convert the outstanding principal amount of HK$33,800,000 into share capital of the Riche Group and Riche repaid HK$33,800,000 to the Group. On the same date, the Company granted a one year term loan of HK$33,800,000 to Riche. The loan was unsecured, bears interest at 1% per annum and was repaid on 19 April 2006.

(ii) The amounts were determined at prices agreed between the parties.

(iii) On 5 February 2002, the Group and the Riche Group entered into a territory supply agreement whereby the Group, during the term of three years from 8 April 2002, granted in favour of the Riche Group a first right of refusal to acquire the exclusive distribution rights of refusal to acquire the exclusive distribution rights excluding the theatrical and internet rights in respect of each film in the PRC and Mongolia and an option to acquire the theatrical rights. This agreement was expired in the year 2005 and no new agreement was entered into between the Group and the Riche Group.

(iv) During the year 2005, the Group acquired leasehold land and buildings from the Riche Group at a total consideration of HK$9,000,000. The consideration for the acquisition was fully settled in cash on 7 July 2005.

(b) For the years ended 31 December 2005, 2006 and 2007, the Group entered into the following transactions with Brilliant Arts Group:

	Note	2005 HK$'000	2006 HK$'000	2007 HK$'000
Convertible notes interest receivable from Brilliant Arts Group	(i)	–	–	124
Production service income received and receivable from Brilliant Arts Group	(ii)	–	–	58
Film production expense paid or payable to Brilliant Arts Group	(ii)	–	–	1,733
Firm distribution income	(ii)	–	–	21

Notes:

(i) During the year 2007, CSL subscribed HK$25,000,000 convertible notes issued from Brilliant Arts. An aggregate principal amount of HK$24,000,000 of convertible notes were converted into 72,727,272 shares of Brilliant Arts, which represented 29.17% issued share capital of Brilliant Arts. The effective interest rate on the liability component of the convertible notes was approximately 9.75%.

(ii) The amounts were determined at prices agreed between the parties.

(c) For the years ended 31 December 2005, 2006 and 2007, the Group entered into the following transactions with TAL Group:

	Note	2005 HK$'000	2006 HK$'000	2007 HK$'000
Management fee income from TAL Group	(i) & (ii)	4,860	4,860	4,860
Services charges paid and payable to TAL Group	(i) & (ii)	2,880	5,752	–
Artists promotion charges paid and payables to TAL Group	(i) & (ii)	4,382	4,193	1,720

Notes:

(i) The amounts were determined at prices agreed between the parties.

(ii) Ms. Chen Ming Yin, Tiffany is a common director of TAL.

(d) On 23 October 2007, KHL, a non-wholly owned subsidiary of the Company, entered into a loan agreement to grant a loan facility ("Loan Facility") of up to HK$196,000,000 to Most Famous Enterprises Limited, a substantial shareholder of KHL. The transaction is regarded as a connected transaction pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Loan Facility is unsecured, interest free and for a term not exceeding three years commencing from the drawdown date.

The directors of the Company confirmed that the Loan Facility is not on normal commercial terms as it is interest free, not in the ordinary course of the Company's business but in the interests of the Company and the independent shareholders of the Company as a whole.

The Loan Facility amounted to HK$196,000,000 was drawn on 3 December 2007 and is classified as non-current assets held for sale in the consolidated balance sheet as at 31 December 2007.

(e) During the year of 2007, the Company issued 72,727,272 ordinary shares to the directors and their associates (2006: 104,105,000; 2005: 137,365,000). Details of these subscriptions are set out in note 36.

(f) For the years ended 31 December 2005, 2006 and 2007, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany provided personal guarantees to a bank to secure banking facilities granted to the Group. No fee was paid to them by the Group.

(g) Details of the amounts due from associates are set out in note 33.

(h) Key management personnel Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in note 15, is as follow:

	2005 HK$'000	2006 HK$'000	2007 HK$'000
Salaries and other short-term benefit	5,568	5,732	6,742
Pension scheme contributions	60	60	60
Share-based payment	3,981	2,253	5,229
	9,609	8,045	12,031

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Business First Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of cable right
China Star Entertainment (BVI) Limited *(Note d)*	Incorporated	British Virgin Islands	Ordinary	100	200 shares of US$1 each	Investment holding
China Star Entertainment Holding Company	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each and 1,000,000 deferred non-voting shares of HK$ 1 each *(Note b)*	Investment holding
China Star HK Distribution Limited	Incorporated	Hong Kong	Ordinary	100	100,000 ordinary shares of HK$1 each	Distribution of motion pictures and television drama series
China Star HK Entertainment Company Limited	Incorporated	Hong Kong	Ordinary	100	1,000,000 ordinary shares of HK$1 each	Distribution of video rights and investment holding
China Star International Distribution Limited *(Note a)*	Incorporated	British Virgin Islands	Ordinary	100	8,001 shares of US$1 each	Distribution of motion pictures and television drama series
China Star Laser Disc Company Limited	Incorporated	Hong Kong	Ordinary	100	15,000 ordinary shares of HK$100 each	Provision of management services and investment holding
China Star Pictures Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Holding of film rights
China Star Production Services Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Provision of post–production services
China Star Trademark Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Holding of trademark and copyrights
China Star Worldwide Distribution B.V. *(Note a & d)*	Incorporated	Netherlands	Ordinary	100	400 ordinary shares of Dutch Guilders 100 each	Distribution of motion pictures and television drama series

Name of subsidiary	Form of business structure	Country/place of incorporation/ formation	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company %	Issued and fully paid share capital/ registered capital	Principal activities
Classical Statue Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Investment holding
Exceptional Gain Profits Limited	Incorporated	British Virgin Islands	Ordinary	100	1 share of US$1	Property investment
Kingsway Hotel Limited *(Note c)*	Incorporated	Macau	Ordinary	50	250,000 ordinary shares of MOP 1 each	Provision of hotel service in Macau
Newrich (HK) Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Property holding
One Hundred Years of Film Company Limited	Incorporated	Hong Kong	Ordinary	100	3,000,000 ordinary shares of HK$1 each	Film production
S & W Entertainment Limited	Incorporated	Hong Kong	Ordinary	100	2 ordinary shares of HK$1 each	Production of motion pictures and television drama series

Notes:

(a) Operating internationally.

(b) The non-voting deferred shares practically carry no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the Company nor to participate in any distribution on winding up.

(c) One of the shareholder of KHL holding 49% voting power in KHL has agreed to follow the voting and management decision of the Company. Therefore, KHL is considered as a subsidiary of the Company. Moreover, the disposal of all the Group's equity interest in KHL is expected to be completed in May 2008. Accordingly, all the results, assets and liabilities are classified as discontinued operations and non-current assets held for sale. Details are set out in notes 13 and 35 to the financial statements.

(d) China Star Entertainment (BVI) Limited and China Star Worldwide Distribution B.V. are directly held by the Company. All other subsidiaries are indirectly held by the Company.

Except otherwise stated, the principal place of operation of the subsidiaries is Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the Relevant Periods or at any time during the Relevant Periods.

52. PARTICULARS OF PRINCIPAL ASSOCIATES

The following table lists the associates of the Group which, in the opinion of the directors, principally affected the results and assets of the Group. To give details of other associates would, in the opinion of directors, result in particulars of excessive length.

Name of associate	Form of business structure	Country/place of incorporation/ formation	Proportion of nominal value of issued capital/registered capital held by the Company	Issued and fully paid share capital/ registered capital	Principal activities
			%		
Riche Multi-Media Holdings Limited *	Incorporated	Bermuda	29.90	1,951,860,000 ordinary shares of HK$0.1 each	Investment holding in Hong Kong
Together Again Limited	Incorporated	British Virgin Islands	49.00	48,080 shares of US$1 each	Investment Holding and provision of artists management services
Brilliant Arts Multi-Media Limited**	Incorporated	Cayman Islands	25.74	423,853,908 ordinary shares of HK$0.1 each	Investment Holding in Hong Kong

* The shares of Riche are listed on The Stock Exchange.

** The shares of Brilliant Arts are listed on The Growth Enterprises Market of The Stock Exchange.

53. SUBSEQUENT EVENTS

(a) On 26 March 2008, the directors of the Company announced that the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) Share consolidation: every 10 issued and unissued shares be consolidated into one share (the "Consolidated Share");

(ii) Capital reduction: (i) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK$0.45 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Share will be reduced from HK$0.50 to HK$0.05 each; and (ii) the nominal value of all the Consolidated Share in the authorized share capital of the Company be reduced from HK$0.50 each to HK$0.05 each; and

(iii) Share premium cancellation: the entire amount of HK$1,356,449,856.32 standing to the credit of the share premium account of the Company as at 31 December 2007 be cancelled, such credit amount arising from the share premium cancellation be transferred to the contributed surplus account of the Company, a sum of approximately HK$864,665,000 in the contributed surplus account of the Company be applied to set off against the accumulated losses of the Company, which amounted to approximately HK$864,665,000 as at 31 December 2006, and the remaining credit balance in the contributed surplus account of the Company will be utilized by the board of directors of the Company in accordance with the bye-laws of the Company and all applicable laws.

Details of the Capital Reorganisation were set out in the Company's circular dated 15 April 2008.

(b) On 1 August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of Riche, an associate of the Group, and Riche relating to the sale of 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and the relevant sale loan for an aggregate consideration of HK$447,000,000 (the "Disposal"). Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. Following the completion of the Disposal, KHL will cease to be a subsidiary of the Group. The directors of the Company believe that the Disposal will provide an opportunity to the Group and Riche to allocate their resources effectively and to avoid duplication of resources as Riche already possessed appropriate expertise and resources in hotel and property management and the value of Kingsway Hotel will be better realised and reflected in Riche as the Disposal will enable Riche to build up its own branding in hotel and hospitality industry and in turn will have a positive impact on the Group's return on investment in Riche.

(c) On 16 August 2007, the Company had entered into an acquisition agreement with Lucky State Group Limited ("Lucky State") in relation to the acquisition (the "Initial Acquisition") of 51% issued share capital of Best Mind at a total consideration of HK$538,000,000 to be satisfied as to HK$300,000,000 in cash, HK$196,000,000by the issue of 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK$0.30 per share and the balance of HK$42,000,000 by the allotment and issue of 140,000,000 shares credited as fully paid.

On 5 October 2007, the Company has entered into an agreement with Lucky State relating to the acquisition of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 (together with the Initial Acquisition, the "Acquisitions") to be satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK$0.30 per share and the balance of HK$28,900,000 by the allotment and issue of 96,333,333 shares credited as fully paid.

Best Mind has entered into profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau.

The Acquisitions were completed on 18 March 2008. After the completion of the Acquisitions, Best Mind becomes a subsidiary of the Group. In view of the recent booming economy of Macau and the prospects of Macau's gaming business, the directors of the Company believe that the Acquisitions will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's circulars dated 6 December 2007 and 7 December 2007 for details of the Acquisitions.

	Carrying amount before the Acquisitions	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Cash at bank and in hand	1	–	1
Trade receivables	5	–	5
Other payables	(6)	–	(6)
Net assets acquired	–	–	–
Total consideration			(1,054,900)
Discount on acquisition			1,054,900
Total consideration satisfied by:			
Cash consideration paid			600,000
Issue of shares			70,900
Issue of convertible notes			384,000
			1,054,900
Net cash outflow arising on Acquisitions:			
Cash consideration paid			600,000
Bank balances and cash acquired			(1)
Net cash outflow on Acquisitions			599,999

(d) On 13 May 2008, China Star Entertainment (BVI) Limited, a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Glenstone Investments Limited, a company incorporated in British Virgin Islands with limited liability and is a substantial shareholder of the Company. Pursuant to the agreement, the Group conditional agreed to dispose the entire issued share capital of Classical Statue Limited ("CSL") with a total consideration of HK$330,567,000 in cash. For further details, please refer to the Company's announcements dated 15 May 2008.

Included in the consolidated income statement of the Group are the following unaudited results attributable to CSL during the Relevant Periods.

Income Statement – CSL

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Other revenue	455	97	202
Other income	–	–	2,315
Net realised and unrealised (loss)/gain on financial assets classified as held-for-trading	–	(22,244)	9,621
Administrative expenses	(14)	(15)	(12)
Finance costs	–	–	(8)
Gain/(loss) on deemed disposal of interest in associates	–	62,582	(49,744)
Changes in fair value in respect of convertible options embedded in convertible notes receivable from an associate	–	–	(50)
Share of results of associates	(6,507)	(6,939)	61,059
(Loss)/profit for the year	(6,066)	33,481	23,383

Included in the consolidated balance sheet of the Group are the following unaudited balances of the assets and liabilities attributable to CSL as at respective balance sheet dates.

	At 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Interests in associates	123,041	193,703	375,148
Convertible notes receivable from an associate	–	–	667
Convertible options embedded in convertible notes receivable from an associate	–	–	222
Available-for-sale financial assets	–	42,700	39,900
	123,041	236,403	415,937
Current assets			
Held-for-trading investments	–	60,761	–
Deposits and other receivables	289	969	12
Cash and bank balances	–	51	18
	289	61,781	30
Total assets	123,330	298,184	415,967
Current liabilities			
Amount due to the ultimate holding company	194,723	350,284	432,299
Accruals	7	7	5
	194,730	350,291	432,304
Net liabilities	(71,400)	(52,107)	(16,337)
Capital and reserves			
Share capital	–	–	–
Reserves	(71,400)	(52,107)	(16,337)
Total equity	(71,400)	(52,107)	(16,337)

Included in the consolidated cash flow statement of the Group are the following unaudited cash flows attributable to CSL during the Relevant Periods.

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
(Loss)/profit before taxation	(6,066)	33,481	23,383
Adjustments for:			
Interest income	(8)	(82)	(202)
Dividend income	–	(15)	–
Interest expenses	–	–	8
(Gain)/loss on deemed disposal of interests in associates	–	(62,582)	49,744
Net realised and unrealised loss/(gain) on financial assets classified as held-for-trading	–	22,244	(9,621)
Change in fair value in respect of conversion options	–	–	50
Gain on conversion of convertible bonds	–	–	(2,315)
Share of results of associates	6,507	6,939	(61,059)
Operating cash flows before movements in working capital	433	(15)	(12)
Decrease/(increase) in deposits and other receivables	250	(680)	957
Decrease in accruals	(3)	–	(2)
Cash generated from operations	680	(695)	943
Tax paid	–	–	–
Net cash generated from/(used in) operating activities	680	(695)	943
Investing activities			
Interest received	8	82	78
Dividend received	–	15	–
Proceeds from disposal of financial assets classified as held-for-trading	–	7,494	83,545
Purchase of available-for-sale financial assets	–	(52,500)	–
Purchase of financial assets classified as held-for-trading	–	(90,499)	(13,163)
Subscription of convertible notes (including expenses)	–	–	(22,630)
Acquisition of interests in associates	(60,506)	(19,407)	(130,813)
Net cash used in in investing activities	(60,498)	(154,815)	(82,983)
Financing activities			
Interest paid	–	–	(8)
Increase in amount due to the ultimate holding company	59,818	155,561	82,015
Net cash generated from financing activities	59,818	155,561	82,007
Net increase in cash and cash equivalents	–	51	(33)
Cash and cash equivalents at the beginning of the year	–	–	51
Cash and cash equivalents at the end of the year	–	51	18

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2007 up to the date of this report. In addition, no dividend or distribution in respect of any period subsequent to 31 December 2007.

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

STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2008, being the latest practicable date for the purpose of the indebtedness, the Group had outstanding borrowings of approximately HK$764,997,000 which comprised of (i) bank borrowings and overdrafts of approximately HK$452,688,000, which were secured by the leasehold land and building and investment properties of the Group; and (ii) liability component of the convertible notes of approximately HK$312,309,000 with principal amount of HK$384,000,000.

Contingent liabilities

As at 30 April 2008, save as the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Group to the extent of HK$325,000,000, the Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30 April 2008, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees, convertible bonds or other material contingent liabilities.

WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the Disposal, the available credit facilities as described in more detail in the above section “Statement of indebtedness” and internal resources (for example, cash generated from operating activities) of the Group, the Directors are of opinion that the Group has sufficient working capital for its normal business for the next twelve months from the date of this circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Company were made up).

MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

Financial Review

For the year ended 31 December 2007, the Group's turnover decreased by 58% to approximately HK$64,305,000. Loss from operations and loss for the year from continuing operations amounted to approximately HK$44,354,000 and HK$41,252,000 respectively. Loss for the year from discontinued operations amounted to approximately HK$62,555,000. As set out in Appendix III of this circular, if the Disposal had been completed on 1 January 2007, the pro forma Remaining Group recorded the same turnover and loss from discontinued operations, loss from operations and loss for the year from continuing operations of the Company of approximately HK$56,480,000 and approximately HK$31,766,000 respectively which was mainly resulted from deducting the effect of the share of result of Riche Group and Brilliant Arts Group.

Business Review

In year 2007, the Group had released 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. On 13 September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Vendors"), all wholly-owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Vendors the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). Part of the income had recorded in the income statement for the year ended 31 December 2006 and the balance recorded in the income statement during the year.

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

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

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

As set out in Appendix III of this circular, if the Disposal had been completed on 1 January 2007, the pro forma financial information of the Remaining Group would record the same turnover and profit segment.

Liquidity and Financial Resources

As at 31 December 2007, the Group had total assets of approximately HK$2,307,603,000 and net current assets of HK$678,571,000, representing a current ratio of 1.6. The Group had total cash and cash equivalents of approximately HK$22,735,000. As at 31 December 2007, the Group had total borrowings of HK$10,941,000 comprising a bank mortgage loan which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 73 monthly instalments. As at 31 December 2007, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK$650,000,000 which were utilised to the extent of HK$596,516,000, comprising an unsecured bank loan of HK$450,000,000 which was interest bearing at 2% per annum below the bank's best lending rate and repayable by 18 equal quarterly instalments of HK$25,000,000 each and a bank overdraft of HK$146,516,000 which was interest bearing at 1% per annum below the bank's best lending rate and repayable after 12 months from the date of the availability of the overdraft. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet. The Group's gearing remained low during the year with total debts of HK$10,941,000 against shareholders' funds of HK$1,174,133,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 1%.

As set out in Appendix III of this circular, the pro forma Remaining Group had total assets of approximately HK$2,220,203,000 and a net current assets of HK$1,007,113,000, representing a current ratio of 1.9. The pro forma Remaining Group had a total cash and cash equivalents of approximately HK$351,284,000. The pro forma Remaining Group will have same total borrowings. The pro forma Remaining Group's gearing ratio was 1% with total debts of HK$10,941,000 against shareholders' funds of HK$1,086,738,000.

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

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

Associates

Riche Multi-Media Holdings Limited

As at 31 December 2007, the Group had approximately 29.90% equity interest in Riche. Riche Group is principally engaged in film distribution, sub-licensing of film rights, investments in securities and property investment. As at 31 December 2007, Riche Group had net assets of approximately HK$1,046,080,000. Turnover and net profit of Riche Group for the year ended 31 December 2007 were approximately HK$38,739,000 and HK$25,694,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$14,543,000 for the year ended 31 December 2007. The Group had recorded an aggregate result of profit of approximately HK$4,899,000 from Riche Group after taking into account the loss on deemed disposal of interest in associates of HK$49,744,000 and discount on acquisition of interest in associates of HK$40,100,000. As set out in Appendix III of this circular, if the Disposal had completed on 1 January 2007, the Remaining Group would not shared the result of Riche Group.

Brilliant Arts Multi-Media Holding Limited

As at 31 December 2007, the Group had approximately 25.74% equity interest in Brilliant Arts. Brilliant Arts and its subsidiaries ("Brilliant Arts Group") are principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. As at 31 December 2007, Brilliant Arts Group had net assets of approximately HK$65,658,000. Turnover and net profit of Brilliant Arts Group for the year ended 31 December 2007 were approximately HK$22,813,000 and HK$7,121,000 respectively. Accordingly, the Group had shared a net profit of approximately HK$6,415,000 for the year ended 31 December 2007. As set out in Appendix III of this circular, if the Disposal had completed on 1 January 2007, the Remaining Group would not shared the result of Brilliant Arts Group.

Together Again Limited

As at 31 December 2007, the Group held 49% equity interest in the group headed by Together Again Limited ("TAL Group"), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services. As at 31 December 2007, TAL Group had net liabilities of HK$7,945,000. Turnover and loss of TAL Group for the year ended 31 December 2007 were HK$17,403,000 and HK$16,954,000, respectively. Accordingly, the Group shared a loss of HK$4,410,000 for the year ended 31 December 2007.

Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

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

Acquisition of Best Mind International Inc.

On 16 August 2007, the Company had entered into an acquisition agreement in relation to the acquisition of 51% issued Share capital of Best Mind International Inc. ("Best Mind") at a total consideration of HK$538,000,000 ("Initial Acquisition") satisfied as to HK$300,000,000 in cash, HK$196,000,000 by the issue of 5% unsecured convertible note of the Company at an initial conversion price of HK$0.30 per Share and the balance of HK$42,000,000 by the allotment and issue of 140,000,000 Shares credited as fully paid. On 5 October 2007, the Company had entered into a sale and purchase agreement in relation to the acquisition of the remaining 49% issued share capital of Best Mind at a total consideration of HK$516,900,000 (together with the Initial Acquisition, "Acquisitions") satisfied as to HK$300,000,000 in cash, HK$188,000,000 by the issue of 5% unsecured convertible note of the Company at an initial conversion price of HK$0.30 per Share and the balance of HK$28,900,000 by the allotment and issue of 96,333,333 Shares credited as fully paid. Best Mind had entered into profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner in Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK$264,000,000 and HK$120,000,000 during the period from 17 August 2007 to 31 December 2008 and the period from 1 January 2009 to 16 August 2009 respectively. In view of the recent booming economy of Macau and the prospects of Macau's gaming business, the directors of the Company believe that this acquisition will broaden the Group's revenue sources and provide a stable income stream to the Group. Please refer to the Company's announcement dated 30 August 2007 and dated 10 October 2007 respectively for details of the Acquisitions. The Acquisitions have been completed on 18 March 2008. Best Mind becomes a subsidiary of the Group and starts to contribute cash profit in April 2008.

Employees

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

Prospect

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

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

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

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

24 June 2008

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out on pages 107 to 114 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the Company's circular dated 24 June 2008 (the "Circular") in connection with the proposed disposal of entire issued share capital of Classical Statue Limited (the "Disposal"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Disposal might have affected the relevant financial information presented, for inclusion in Appendix III of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 107 of Appendix III to this Circular.

Respective responsibilities of directors of the Company and Reporting Accountants

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

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

Basis of opinion

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

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

– the financial position of the Remaining Group (the Group excluding Classical Statue Limited) as at 31 December 2007 or any future date, or

– the results and cash flows of the Remaining Group for the year ended 31 December 2007 or any future periods.

Opinion

In our opinion:

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

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

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

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

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

The unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effect of the Disposal.

The following is the unaudited pro forma financial information of the Remaining Group as if the Disposal had taken place on 31 December 2007 for the unaudited pro forma consolidated balance sheet and on 1 January 2007 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

The unaudited pro forma financial information of the Remaining Group should be read in conjunctions with the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

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

(i) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE REMAINING GROUP

	The Group at 31 December 2007	Pro forma adjustment *Note 1*	*Note*	Pro forma adjustment *Note 2*	The Remaining Group at 31 December 2007
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	7,138				7,138
Interests in leasehold land	5,642				5,642
Investment properties	51,100				51,100
Goodwill	29,062				29,062
Available-for-sale financial assets	39,900	(39,900)	*1(a)*		–
Convertible notes receivable from an associate	667	(667)	*1(a)*		–
Conversion options embedded in convertible notes receivable from an associate	222	(222)	*1(a)*		–
Interests in associates	375,148	(375,148)	*1(a)*		–
	508,879				92,942
Current assets					
Inventories	301				301
Film rights	50,797				50,797
Films in progress	24,948				24,948
Trade receivables	51,666				51,666
Deposits, prepayments and other receivables	36,790	(12)	*1(a)*	7,359	44,137
Deposits for investments	400,000				400,000
Held-for-trading investments	16,600				16,600
Amounts due from associates	7,359			(7,359)	–
Prepaid tax	456				456
Cash and cash equivalents	22,735	328,549	*1(b)*		351,284
	611,652				940,189
Assets classified as held for sale	1,187,072				1,187,072
	1,798,724				2,127,261
Total assets	2,307,603				2,220,203

	The Group at 31 December 2007 *HK$'000*	Pro forma adjustment *Note 1* *HK$'000*	*Note*	Pro forma adjustment *Note 2* *HK$'000*	The Remaining Group at 31 December 2007 *HK$'000*
Capital and reserves					
Share capital	140,305				140,305
Reserves	1,033,828	(87,395)	*1(c)*		946,433
Equity attributable to equity holders of the Company	1,174,133				1,086,738
Minority interests	1,328				1,328
Total equity	1,175,461				1,088,066
Non-current liabilities					
Bank borrowings – due after one year	8,523				8,523
Deferred tax liabilities	3,466				3,466
	11,989				11,989
Current liabilities					
Trade payables	17,621				17,621
Deposit received, accruals and other payables	66,018	(5)	*1(a)*		66,013
Bank borrowings – due within one year	2,418				2,418
	86,057				86,052
Liabilities associated with assets classified as held for sale	1,034,096				1,034,096
	1,120,153				1,120,148
Total liabilities	1,132,142				1,132,137
Total equity and liabilities	2,307,603				2,220,203
Net current assets	678,571				1,007,113
Total assets less current liabilities	1,187,450				1,100,055

(ii) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE REMAINING GROUP

	The Group for the year ended 31 December 2007	Pro forma adjustment	Pro forma adjustment	The Remaining Group for the year ended 31 December 2007
		Note 3	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations:				
Turnover	64,305			64,305
Cost of sales	(44,843)			(44,843)
Gross profit	19,462			19,462
Other revenue	9,076	(202)		8,874
Other income	3,807	(2,315)		1,492
Administrative expenses	(39,343)	12		(39,331)
Marketing and distribution expenses	(5,791)			(5,791)
Share-based payment expenses	(17,660)			(17,660)
Net realised and unrealised gain on financial assets classified as held-for-trading	22,866	(9,621)		13,245
Impairment loss recognised in respect of film rights	(16,850)			(16,850)
Impairment loss recognised in respect of goodwill	(30,141)			(30,141)
Increase in fair value of investment properties	10,220			10,220
Loss from operations	(44,354)			(56,480)
Finance costs	(2,159)	8		(2,151)
Gain on disposal of a subsidiary	–		32,869	32,869
Share of results of associates	56,648	(61,059)		(4,411)
Loss on deemed disposal of interest in associates	(49,744)	49,744		–
Changes in fair value in respect of conversion options embedded in convertible notes receivables from an associate	(50)	50		–
Loss before taxation	(39,659)			(30,173)
Taxation	(1,593)			(1,593)
Loss for the year from continuing operations	(41,252)			(31,766)
Discontinued operations				
Loss for the year from discontinued operations	(62,555)			(62,555)
Loss for the year	(103,807)			(94,321)

(iii) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE REMAINING GROUP

	The Group for the year ended 31 December 2007 *HK$'000*	Pro forma adjustment *Note 5* *HK$'000*	Pro forma adjustment *Note 6* *HK$'000*	The Remaining Group for the year ended 31 December 2007 *HK$'000*
Cash flows from operating activities				
Loss before taxation, including loss from discontinued operations	(101,856)	(23,383)	32,869	(92,370)
Adjustments for:				
Interest expenses	12,827	(8)		12,819
Interest income	(3,897)	202		(3,695)
Dividend income	(79)			(79)
Impairment loss in respect of film rights	16,850			16,850
Impairment loss in respect of goodwill	30,141			30,141
Depreciation and amortisation of property, plant and equipment	23,866			23,866
Increase in fair value of investment properties	(10,220)			(10,220)
Gain on disposal of property, plant and equipment	(107)			(107)
Loss/(gain) on disposal of interest in a subsidiary	45,471		(32,869)	12,602
Discount on acquisition of a subsidiary	(15,498)			(15,498)
Loss on deemed disposal of interests in associates	49,744	(49,744)		–
Net realised and unrealised gain on financial assets classified as held-for-trading	(22,866)	9,621		(13,245)
Gain on conversion of convertible bonds	(2,315)	2,315		–
Change in fair value in respect of conversion options	50	(50)		–
Share of results of associates	(56,648)	61,059		4,411
Share-based payment expenses	17,660			17,660
Operating cash flows before movements in working capital	(16,877)			(16,865)
Decrease in inventories	885			885
Decrease in film rights	29,780			29,780
Decrease in films in progress	4,521			4,521
Increase in trade receivables	(39,130)			(39,130)
Increase in deposits, prepayments and other receivables	(3,977)	(957)		(4,934)
Increase in deposit for investment	(400,000)			(400,000)
Increase in amounts due from associates	(1,454)			(1,454)
Increase in trade payables	569			569
Change in amount due to a minority shareholder	502			502
Increase in deposits received, accruals and other payables	18,647	2		18,649

	The Group for the year ended 31 December 2007	Pro forma adjustment	Pro forma adjustment	The Remaining Group for the year ended 31 December 2007
		Note 5	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash used in operations	(406,534)			(407,477)
Tax refund	235			235
Net cash used in operating activities	(406,299)			(407,242)
Cash flows from investing activities				
Interest received	3,773	(78)		3,695
Dividend income	79			79
Acquisition of interests in associates	(130,813)	130,813		–
Acquisition of a subsidiary (net cash and cash equivalents)	(668,929)			(668,929)
Loan to a minority shareholder	(196,000)			(196,000)
Proceeds from disposal of financial assets at fair value through profit or loss	94,858	(83,545)		11,313
Proceeds from disposal of property, plant and equipment	20			20
Proceeds from disposal of interest in a subsidiary	315,000		328,516	643,516
Subscription of convertible notes (including expenses)	(22,630)	22,630		–
Purchase of financial assets at fair value through profit or loss	(24,032)	13,163		(10,869)
Purchases of property, plant and equipment	(5,899)			(5,899)
Repayment of convertible notes receivables	52,000			52,000
Net cash used in investing activities	(582,573)			(171,074)
Cash flows from financing activities				
Interest paid	(11,724)	8		(11,716)
Proceeds from issue of shares	390,415			390,415
Proceeds from issue of convertible bonds	160,075			160,075
Redemption of convertible notes	(20,000)			(20,000)
Repayment of bank loans	(2,261)			(2,261)
New bank loan acquired	450,000			450,000
Share issuing expenses	(10,226)			(10,226)
Net cash generated from financing activities	956,279			956,287
Net decrease in cash and cash equivalents	(32,593)			377,971
Cash and cash equivalents at the beginning of the year	89,347			89,347
Effect of foreign exchange rate changes	567			567
Cash and cash equivalents at the end of the year	57,321			467,885

NOTES ON THE PRO FORMA ADJUSTMENT TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. (a) The pro forma adjustment reflects the disposal of the assets and liabilities of Classical Statue Limited ("CSL") as at 31 December 2007, assuming the Disposal took place on 31 December 2007.

   (b) The pro forma adjustment on cash and cash equivalents of approximately HK$328,549,000 represents the net cash inflow from the Disposal which is comprised of (i) cash proceeds from the Disposal of approximately HK$330,567,000; (ii) estimated transaction cost directly attributable to the Disposal of approximately HK$2,000,000; and (iii) elimination of cash and bank balance of CSL of approximately HK$18,000 as at 31 December 2007, assuming the Disposal took place on 31 December 2007.

   (c) The pro forma adjustment on the reserves of approximately HK$87,395,000 represents the estimated loss of HK$78,670,000 resulted from the Disposal and the release of exchange reserves amounted to approximately HK$8,725,000 as at 31 December 2007, assuming the Disposal took place on 31 December 2007.

   The estimated loss of approximately HK$78,670,000 resulted from the Disposal is calculated based on the cash proceeds from the Disposal of approximately HK$330,567,000 less (i) the net liabilities of CSL of approximately HK$16,337,000 as at 31 December 2007; (ii) the release of exchange reserves amounted to approximately HK$8,725,000 as at 31 December 2007; (iii) waiver of the amount due from CSL to the Remaining Group of approximately HK$432,299,000 as at 31 December 2007; and (iv) estimated transaction costs directly attributable to the Disposal of approximately HK$2,000,000, assuming the Disposal took place on 31 December 2007.

2. The pro forma adjustment reflects the reclassification of amount due from associates to other receivables as at 31 December 2007, assuming the Disposal took place on 31 December 2007.

3. The pro forma adjustment excludes the results of CSL for the year ended 31 December 2007, assuming the Disposal took place on 1 January 2007.

4. The pro forma adjustment reflects the estimated gain of approximately HK$32,869,000 resulted from the Disposal, assuming the Disposal took place on 1 January 2007. The calculation is based on the cash proceeds from the Disposal of approximately HK$330,567,000 less (i) the net liabilities of CSL of approximately HK$52,107,000 as at 1 January 2007; (ii) the release of exchange reserves amounted to approximately HK$2,479,000 as at 1 January 2007; (iii) waiver of the amount due from CSL to the Remaining Group of approximately HK$350,284,000 as at 1 January 2007; and (iv) estimated transaction costs directly attributable to the Disposal of approximately HK$2,000,000, assuming the Disposal took place on 1 January 2007.

5. The pro forma adjustment excludes of the cash flows of CSL for the year ended 31 December 2007, assuming the Disposal took on 1 January 2007.

6. The pro forma adjustment reflects the net cash inflow from the Disposal of approximately HK$328,516,000 and the estimated gain of approximately HK$32,869,000 resulted from the Disposal, assuming the Disposal took on 1 January 2007.

   The net cash inflow from the Disposal is calculated based on the cash proceeds of approximately HK$330,567,000 less (i) estimated transaction costs directly attributable to the Disposal of approximately HK$2,000,000; and (ii) elimination on the cash and bank balance of CSL of approximately HK$51,000 as at 1 January 2007.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

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

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung	Beneficial owner/ interest of spouse/ interest of controlled corporation	106,011,911 *(Note a)*	219,088 *(Note b)*	106,230,999	23.91
Ms. Chen	Beneficial owner/ interest of spouse/ interest of controlled corporation	106,011,911 *(Note a)*	219,088 *(Note b)*	106,230,999	23.91
Ms. Li Yuk Sheung	Beneficial owner	1	368,525 *(Note c)*	368,526	0.08

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 5,459,250 Shares by Mr. Heung, as to 3,171,661 Shares by Ms. Chen (the spouse of Mr. Heung), as to 94,616,500 Shares by Porterstone and as to 2,764,500 Shares by Dorest.

(b) These underlying Shares comprised outstanding share options of the Company are held as to 109,544 options by Mr. Heung and as to 109,544 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the share options of each other.

(c) These underlying Shares comprised outstanding share options of the Company held by Ms. Li Yuk Sheung.

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

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Porterstone	Beneficial owner	94,616,500	–	94,616,500	
	Interest of controlled corporation	2,764,500*	–	2,764,500	
		97,381,000	–	97,381,000	21.92
Ng Cheuk Fai	Interest of controlled corporation	23,633,333	127,999,999	151,633,332	34.13

All interests stated above represent long positions.

* These Shares are held by Dorest, a wholly owned subsidiary of Glenstone which is in turn beneficially owned as to 60% by Porterstone. Ms. Chen, a Director is also a director of Porterstone. Mr. Heung is a director of Dorest and Glenstone.

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

4. DIRECTORS' SERVICE CONTRACTS

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

5. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. COMPETING INTERESTS

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

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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

Save for the S&P Agreement, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

8. MATERIAL CONTRACTS

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

(i) conditional agreements dated 6 June 2006 entered into between PMA Capital Management Limited as agent for and on behalf of PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company and the Company respectively for the placing of an aggregate 80,000,000 Shares at a price of HK$0.365 per Share;

(ii) a sale and purchase agreement dated 3 August 2006 entered into between CSL, Vision Harvest Limited, an independent third party (as defined in the Listing Rules) and its guarantor, Mr. To Shu Fai, for the purchase of 700,000,000 shares of HK$0.01 each in the share capital of Daido Group Limited at an aggregate consideration of HK$52,500,000;

(iii) a conditional sale and purchase agreement dated 13 June 2006 ("Harvest Metro Agreement") entered into between Harvest Metro Corporation ("Harvest Metro"), the Company and Wing On Travel (Holdings) Limited ("Wing On") relating to the acquisition of approximately 56.91% equity interest in Triumph Up Investments Limited ("Triumph Up") at a consideration of HK$252,789,344.97;

(iv) a conditional sale and purchase agreement dated 13 June 2006 ("CCM Agreement") entered into between Mr. Chan Chak Mo ("Mr. Chan") and the Company relating to the acquisition of approximately 34.96% equity interest in Triumph Up at a consideration of HK$155,284,883.34;

(v) a conditional sale and purchase agreement dated 13 June 2006 ("Top Region Agreement") entered into between Top Region Assets Limited, the Company and Macau Success Limited relating to the acquisition of approximately 8.13% equity interest in Triumph Up at a consideration of HK$36,112,763.57;

(vi) a conditional sale and purchase agreement dated 13 June 2006 ("Great Chain Agreement") entered into between Mr. Chan and the Company relating to the acquisition of the entire issued share capital of Great Chain Limited at a consideration of HK$45,813,008.13;

(vii) a deed of variation dated 12 July 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 30 days from 13 June 2006, being the date of the Harvest Metro Agreement to within 60 days from the date of the Harvest Metro Agreement;

(viii) a second deed of variation dated 11 August 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 60 days from 13 June 2006, being the date of the Harvest Metro Agreement to within 90 days from the date of the Harvest Metro Agreement;

(ix) a third deed of variation dated 12 September 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion from within 90 days from 13 June 2006, being the date of the Harvest Metro Agreement to within 140 days from the date of the Harvest Metro Agreement;

(x) the sale and purchase agreement dated 13 September 2006 entered into between One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited; the Company and Fortune Star Entertainment (HK) Limited in relation to the sale and purchase of a film library together with rights thereto at a total consideration of US$18,000,000 (approximately HK$140,000,000);

(xi) a fourth deed of variation dated 31 October 2006 entered into between the Company, Harvest Metro and Wing On to extend the period for obtaining financing by the Company for the purpose of satisfying the balance of the consideration of the Harvest Metro Agreement on completion on or before 28 February 2007 and to extend the longstop date of the fulfilment of the conditions precedent to 28 February 2007;

(xii) the deeds of variation dated 31 October 2006 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 28 February 2007;

(xiii) the acquisition agreement dated 3 January 2007 between the Company and Great Trust relating to the sale and purchase of a 19.25% interest in the issued quota in the capital of Kingsway Hotel Limited and a sale loan, and 38.5% interest in the issued quota in the capital of Xin Wei Property Investment Company Limited and a sale loan;

(xiv) the three subscription agreements dated 19 January 2007 entered into between the Company and Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited respectively in relation to the subscription of zero coupon unsecured convertible bonds due 2012 in the principal face volume amount of HK$168,500,000;

(xv) the deeds of variation dated 28 February 2007 entered into between the Company and the respective parties of the CCM Agreement, Top Region Agreement and Great Chain Agreement to extend the longstop date for the fulfilment of the conditions precedent in the CCM Agreement, Top Region Agreement and Great Chain Agreement to 31 May 2007;

(xvi) a subscription agreement dated 12 March 2007 entered into between CSL and Brilliant Arts relating to the subscription of zero coupon convertible bonds in principal amount of HK$25,000,000 due 2012 to be issued by Brilliant Arts at an issue price of HK$22,500,000;

(xvii) the agreement dated 19 March 2007 entered into between Most Famous Enterprises Limited and the Company relating to the disposal of 49% of the issued quota of Kingsway Hotel Limited and 49% of the amount of the shareholders' loan owing by Kingsway Hotel Limited to the Company;

(xviii) the agreement dated 19 March 2007 entered into between SJM-Investimentos Limitada and the Company relating to the disposal of 1% of the issued quota of Kingsway Hotel Limited and 1% of the amount of the shareholders' loan owing by Kingsway Hotel Limited to the Company;

(xix) the placing agreement dated 19 March 2007 entered into between CSL and Kingston Securities Limited ("Kingston") relating to the placing of 1,296,860,000 existing shares of Riche beneficially owned by CSL;

(xx) the subscription agreement dated 19 March 2007 entered into between CSL and Riche relating to the subscription of 1,296,860,000 new shares of Riche by CSL;

(xxi) the conditional placing agreements dated 29 March 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 124,900,000 new Shares and 81,100,000 new Shares respectively on a fully underwritten basis to independent investors at a price of HK$0.37 per Share;

(xxii) the conditional placing agreement dated 4 June 2007 entered into between the Company and the placing agent, Kingston relating to the placing of 165,905,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.40 per Share;

(xxiii) the top-up placing agreement dated 24 July 2007 entered into between CSL, Kingston and Riche relating to the placing of 173,000,000 existing shares of Riche beneficially owned by CSL;

(xxiv) the sale and purchase agreement dated 1 August 2007 entered into between the Company, Legend Rich and Riche relating to the sale and purchase of the 1 ordinary share in issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, and a sale loan amounted to approximately HK$409,222,000 for an aggregate consideration of HK$447,000,000;

(xxv) the acquisition agreement dated 16 August 2007 entered into among the Company, Mr. Ng Cheuk Fai and Lucky State Group Limited in respect of the acquisition of 51 ordinary shares of US$1.00 each in the issued share capital of Best Mind International Inc.;

(xxvi) the underwriting agreement dated 17 August 2007 entered into between the Company and Kingston relating to the issue of not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at HK$0.20 each on the basis of one rights Share for every two existing Shares held;

(xxvii) the conditional placing agreement dated 5 September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing of 274,790,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.21 per Share;

(xxviii) the conditional placing agreement dated 5 September 2007 entered into between the Company and the placing agent, Kingston, relating to the placing ("Placing I") of up to a maximum of 5,000,000,000 new Shares on a best effort basis to independent investors at a price of HK$0.21 per Share;

(xxix) the sale and purchase agreement dated 5 October 2007 entered into among the Company, Mr. Ng Cheuk Fai, an independent third party and Lucky State Group Limited, a company wholly owned by Mr. Ng Cheuk Fai in respect of the acquisition of 49 ordinary shares of US$1.00 each in the issued share capital of Best Mind International Inc.;

(xxx) the undertaking dated 16 October 2007 entered into between CSL and Riche, pursuant to which CSL has agreed to subscribe for 138,175,500 offer shares of Riche to which it is entitled under the open offer of Riche as announced on 18 October 2007 and to submit an excess application for a maximum of 169,079,628 offer shares of Riche at a price of HK$0.30 each;

(xxxi) a conditional loan agreement dated 23 October 2007 entered into between Kingsway Hotel Limited as lender and Most Famous Enterprises Limited as borrower in respect of the loan facility of up to HK$196,000,000 to be granted by Kingsway Hotel Limited to Most Famous Enterprises Limited;

(xxxii) a deed of variation dated 11 December, 2007 entered into between the Company and the Placing Agent, Kingston relating to extend the longstop date for Placing I and to change the price in Placing I from HK$0.21 to HK$0.12.

(xxxiii) the conditional placing agreement dated 11 December 2007 entered into between the Company and the policy agent, Kingston, relating to the placing of up to a maximum of 1,400,000,000 new Shares on a fully underwritten basis to independent investors at a price of HK$0.12 per Share; and

(xxxiv) the S&P Agreement.

9. MISCELLANEOUS

(i) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(iii) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

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

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

(vii) None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group are proposed to be acquired or disposed of by or leased to member of the Group since 31st December 2007, being the date to which the latest published audited accounts of the Group were made up.

10. EXPERT AND CONSENT AND EXPERTS INTEREST IN ASSETS

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

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Grand Cathay	a licensed corporation registered under the SFO to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activity

HLB Hodgson Impey Cheng and Grand Cathay are not beneficially interested in the share capital of any member of the Group nor have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of HLB Hodgson Impey Cheng and Grand Cathay has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which it appear.

As at Latest Practicable Date, each of HLB Hodgson Impey Cheng and Grand Cathay; (a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up; and (b) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

(a) the Memorandum and Bye-laws of the Company;

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

(c) the annual reports of the Group for the three financial years ended 31 December 2005, 2006 and 2007;

(d) the report of the financial information on the Group from HLB Hodgson Impey Cheng as set out in Appendix I to this circular;

(e) the letter from HLB Hodgson Impey Cheng regarding the unaudited pro forma financial information on the Remaining Group as set out in Appendix III to this circular;

(f) the letter of consent from HLB Hodgson Impey Cheng and Grand Cathay referred to in the section headed "Expert and Consent and Experts Interest in Assets" in this appendix;

(g) all circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/ or 14A of the Listing Rules which have been issued since 31 December 2007; and

(h) the S&P Agreement.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Entertainment Limited (the "Company") will be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Friday, 11 July 2008 at 4:00 p.m. for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the sale and purchase agreement dated 13 May 2008 (the "S&P Agreement") entered into between China Star Entertainment (BVI) Limited as vendor and Glenstone Investments Limited as purchaser relating to the disposal of the 1 ordinary share in the capital of Classical Statue Limited, being the entire issued share capital of Classical Statue Limited, for a total consideration of HK$330,567,000, a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purposes, be and is hereby approved, ratified and confirmed in all respects and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem to be necessary, desirable or expedient to carry into effect or to give effect to the disposal of the share in Classical Statue Limited under the S&P Agreement."

By Order of the Board
Wong Shuk Han, Dorothy
Company Secretary

Hong Kong, 24 June 2008

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

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.