THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution 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 accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE; (II) APPLICATION FOR WHITEWASH WAIVER; AND (III) NOTICE OF SPECIAL GENERAL MEETING

Joint financial advisers to the Company

Kingston Corporate Finance

中國農信財務顧問有限公司
China AF Corporate Finance Limited

Underwriter of the Rights Issue

Heung Wah Keung Family Endowment Limited

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

Shinco Capital
昇 豪 資 本

Shinco Capital Limited

Capitalised terms used in this cover page have the same meanings as those defined in this circular. A letter from the Board is set out on pages 9 to 33 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 34 to 35 of this circular. A letter of advice from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 67 of this circular.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date, which is currently expected to be Wednesday, 11 July 2018. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Registrar by 4:30 p.m. on Wednesday, 4 July 2018. The last day of dealings in Shares on a cum-rights basis is expected to be Friday, 29 June 2018. The Shares will be dealt with on an ex-rights basis from Tuesday, 3 July 2018.

A notice convening the SGM to be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong, on Thursday, 28 June 2018 at 4:15 p.m. is set out on pages SGM-1 to SGM-3 of this circular. If a Shareholder is unable to attend the SGM in person, such Shareholder is requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney to the office of the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time scheduled for the SGM. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM should the Shareholder so desire.

The Rights Issue is conditional upon the fulfilment of the conditions (or, in respect of certain conditions, waiver thereof) as set out in the paragraph headed "Conditions of the Rights Issue" under the section headed "The Underwriting Agreement" of the "Letter from the Board" in this circular.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter in its absolute discretion, by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate its obligations under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" on pages 7 to 8 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Tuesday, 3 July 2018. Dealings in the Rights Shares in the nil-paid form will take place from Monday, 16 July 2018 to Monday, 23 July 2018. If the conditions of the Rights Issue are not fulfilled on or before 4:00 p.m. on Monday, 30 July 2018 (or such later time and/or date as the Company and the Underwriter may determine), or if the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

7 June 2018

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EXPECTED TIMETABLE

The expected timetable of the Rights Issue is set out below. All times and dates in this circular refer to Hong Kong local times and dates. The expected timetable set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled or waived (as the case may be). The expected timetable may be subject to change, and any such change will be further announced by the Company as and when appropriate.

Event	**Date**
	2018
Latest time for lodging transfers of the existing Shares in order to qualify for the attendance and voting at the SGM	4:30 p.m. on Thursday, 21 June
Register of members closes (both days inclusive)	From Friday, 22 June to Thursday, 28 June
Latest time for lodging forms of proxy for the purpose of the SGM (not less than 48 hours prior to time of SGM)	4:15 p.m. on Tuesday, 26 June
Record date for attendance and voting at the SGM	Thursday, 28 June
Expected date and time of the SGM	4:15 p.m. on Thursday, 28 June
Announcement of the poll results of the SGM	Thursday, 28 June
Last day of dealings in Shares on a cum-rights basis of the Rights Issue	Friday, 29 June
First day of dealings in Shares on an ex-rights basis of the Rights Issue	Tuesday, 3 July
Latest time for lodging transfers of the existing Shares in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 4 July
Register of members closes to determine the entitlements under the Rights Issue (both days inclusive)	From Thursday, 5 July to Wednesday, 11 July
Record Date for determining entitlements to the Rights Issue	Wednesday, 11 July
Register of members of the Company re-opens and despatch of Prospectus Documents	Thursday, 12 July

Event	Date
	2018
First day of dealings in nil-paid Rights Shares	9:00 a.m. on Monday, 16 July
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Wednesday 18 July
Last day of dealings in nil-paid Rights Shares	Monday, 23 July
Latest time for acceptance of, and payment for, the Rights Shares and the application for excess Rights Shares	4:00 p.m. on Thursday, 26 July
Latest Time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Monday, 30 July
Announcement of results of the Rights Issue	Friday, 3 August
Refund cheques for wholly or partially unsuccessful applications for excess Rights Shares to be despatched on or before	Monday, 6 August
Despatch of certificates for fully paid Rights Shares on or before	Monday, 6 August
Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Tuesday, 7 August

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will be postponed if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning, if such circumstances are:

a. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or

b. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of the abovementioned warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section (including, without limitation, the Latest Time for Termination) may be affected. An announcement will be made by the Company in such event.

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the Company's announcement dated 19 April 2018 in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Bonus Convertible Bonds"	the bonus convertible bond(s) constituted by the deed polls executed by the Company on 9 January 2013 and 22 January 2014, respectively, carrying right entitling holders thereof to convert its principal amount into a new Share at the adjusted conversion price of HK$0.25 per conversion Share (being adjusted as a result of capital reorganisation of the share capital of the Company which became effective on 9 November 2015) with the aggregate outstanding principal amount of HK$265,079.61, which is convertible into an aggregate of 1,060,317 Shares, as at the Latest Practicable Date
"Business Day"	any day (excluding a Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Company"	China Star Entertainment Limited (stock code: 326), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Dorest"	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung
"EAF(s)"	the forms of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such usual form as may be agreed between the Company and the Underwriter
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, which has been established to advise the Independent Shareholders on the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
"Independent Financial Adviser"	Shinco Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser appointed by the Company to advise the Independent Board Committee in respect of the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the Underwriter, parties acting in concert with it, and any Shareholders who are involved or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver

"Irrevocable Undertaking"	an irrevocable undertaking dated 13 April 2018 given by the Underwriter in favour of the Company, details of which are set out in the paragraph headed "The Underwriting Agreement - Irrevocable Undertaking by a Substantial Shareholder" in the "Letter from the Board" of this circular
"Last Trading Day"	13 April 2018, being the date of the Underwriting Agreement and the last trading day for the Shares on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	5 June 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
"Latest Time for Acceptance"	4:00 p.m. on Thursday, 26 July 2018 or such later time or date as agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus Documents
"Latest Time for Termination"	4:00 p.m. on Monday, 30 July 2018, being the second Business Day following the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
"Listing Committee"	has the same meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Mr. Heung"	Mr. Heung Wah Keung, a Substantial Shareholder and an executive Director and the spouse of Ms. Chen
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, a Substantial Shareholder and an executive Director and the spouse of Mr. Heung
"Non-Qualifying Shareholders"	those Overseas Shareholders whom the Directors, based on legal opinions provided by the Company's legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to such Shareholders

"Overseas Shareholder(s)"	the Shareholder(s) whose address(es) on the register of members of the Company on the Record Date are outside of Hong Kong
"PAL(s)	the renounceable provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
"Posting Date"	Thursday, 12 July 2018 or such other date as may agree between the Underwriter and the Company for the despatch of the Prospectus Documents
"Prospectus"	the prospectus to be despatched to Shareholders containing details of the Rights Issue
"Prospectus Documents"	the Prospectus, PAL and the EAF
"Qualifying Shareholders"	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders
"Record Date"	Wednesday, 11 July 2018 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Rights Issue
"Registrar"	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the Hong Kong branch share registrar and transfer office of the Company
"Relevant Period"	the period beginning 6 months immediately prior to the date of the Announcement and ending on the Latest Practicable Date
"Rights Issue"	the proposed issue by way of rights issue to the Qualifying Shareholders on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
"Rights Share(s)"	new Shares to be allotted and issued under the Rights Issue, being not less than 1,807,406,986 new Shares and not more than 1,809,921,048 new Shares
"SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at Macau Jockey Club, 3/F., East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong at 4:15 p.m. on Thursday, 28 June 2018 to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver
"Share(s)"	ordinary share(s) of HK$0.01 each in share capital of the Company
"Shareholder(s)"	the holder(s) of Shares
"Share Options"	the total of 196,714 outstanding share options granted by the Company pursuant to the Share Option Scheme adopted by the Company
"Share Option Scheme"	the share option scheme adopted on 27 May 2002 which was expired on 26 May 2012, of which the outstanding Share Options granted prior to the paid expiry shall remain valid and excisable
"Specified Event"	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	HK$0.25 per Rights Share
"Substantial Shareholder(s)"	has the meaning as ascribed thereto under the Listing Rules
"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs
"Underwriter" or "HWKFE"	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors of which are Mr. Heung and Ms. Chen

"Underwriting Agreement"	the underwriting agreement dated 13 April 2018 entered into among the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue as supplemented by a letter dated 3 May 2018 made by the same parties clarifying the maximum number of Rights Shares to be underwritten in light of the lapse of 53,720,000 Share Options on 3 May 2018
"Underwritten Shares"	all the Rights Shares (being not less than 1,807,406,986 Rights Shares and not more than 1,809,921,048 Rights Shares) in excess of the aggregate of 372,893,004 Rights Shares that shall be provisionally allotted to and subscribed for by the Underwriter pursuant to the Irrevocable Undertaking, which are fully underwritten by the Underwriter pursuant to the terms and subject to the conditions set out in the Underwriting Agreement
"Whitewash Waiver"	a waiver of the obligation of the Underwriter to make a mandatory general offer as a result of the underwriting of the Rights Issue for all the Shares not already owned, controlled or agreed to be acquired by them pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code by the Executive
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination:

(a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

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

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

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

(c) any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing, the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

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

(e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(f) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or

(g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

(a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If prior to the Latest Time for Termination any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out under the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in the "Letter from the Board" of this circular. Accordingly, the Rights Issue may or may not proceed. Furthermore, the Rights Issue is subject to the approval of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver by the Independent Shareholders at the SGM and the granting of the Whitewash Waiver by the Executive.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

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. Tang Chak Lam, Gilbert

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

7 June 2018

To the Shareholders

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE; (II) APPLICATION FOR WHITEWASH WAIVER; AND (III) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

The Board proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK$0.25 per Rights Share. The Company will provisionally allot to the Qualifying Shareholders two Rights Shares in nil-paid form for every one Share in issue and held on the Record Date. The Rights Issue will not be available to the Non-Qualifying Shareholders.

The Company will raise gross proceeds of not less than approximately HK$451.85 million (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than approximately HK$452.48 million (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date) before expenses by way of the issue of not less than 1,807,406,986 Rights Shares and not more than 1,809,921,048 Rights Shares.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. Shinco Capital Limited has been appointed and approved by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you, among other things, (i) further details of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; and (iv) a notice of the SGM.

A notice of the SGM is set out on pages SGM-1 to SGM-3 of this circular. The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 34 to 35 of this circular. The letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 67 of this circular.

PROPOSED RIGHTS ISSUE

The Board proposes to implement the Rights Issue. Details of the Rights Issue are summarised below:

Issue statistics

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price:	HK$0.25 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	903,703,493 Shares

Minimum number of Rights Shares:	1,807,406,986 Rights Shares (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date)
Maximum number of Rights Shares:	1,809,921,048 Rights Shares (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date)
Aggregate nominal value of the Rights Shares:	not less than HK$18,074,069.86 (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than HK$18,099,210.48 (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date)
Minimum number of the enlarged Shares in issue upon completion of the Rights Issue:	2,711,110,479 Shares (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date)
Maximum number of the enlarged Shares in issue upon completion of the Rights Issue:	2,714,881,572 Shares (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date)
Amount to be raised before expenses:	Not less than approximately HK$451.85 million and not more than approximately HK$452.48 million
Right of excess application:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

As at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date.

Assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date, the minimum number of 1,807,406,986 Rights Shares to be issued pursuant to the Rights Issue represents (i) approximately 200.00% of the existing issued Shares as at the Latest Practicable Date; and (ii) approximately 66.67% of the enlarged issued Shares immediately after completion of the Rights Issue.

Assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date, the maximum number of 1,809,921,048 Rights Shares to be issued pursuant to the Rights Issue represents (i) approximately 200.28% of the existing issued Shares as at the Latest Practicable Date; and (ii) approximately 66.67% of the enlarged issued Shares immediately after completion of the Rights Issue.

Qualifying Shareholders

The Company will send the Prospectus Documents to Qualifying Shareholders only. To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company at the close of business on the Record Date; and

2. be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, owners of Shares must lodge any transfers of Shares (together with the relevant share certificates) with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 July 2018.

Closure of register of members for the Rights Issue

The Company's register of members will be closed from Thursday, 5 July 2018 to Wednesday, 11 July 2018, both days inclusive, to determine the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

In compliance with the necessary requirements of the Listing Rules, the Company will make enquiries with its lawyers in the relevant jurisdictions regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. If, based on such legal opinions, the Directors consider that it is necessary or expedient not to offer the Rights Issue to the Overseas Shareholders due to either the legal restrictions of the relevant jurisdiction or the applicable requirements of the relevant regulatory body or stock exchange in that place or it is not reasonably practicable to do so, the Rights Issue will not be available to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Non-Qualifying Shareholders.

Further information in this connection will be set out in the Prospectus Documents containing, among other things, details of the Rights Issue, to be despatched to the Qualifying Shareholders on Thursday, 12 July 2018. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but no PAL and EAF will be sent to them.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK$100 or less for the benefits of the Company. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

Subscription Price

The Subscription Price for the Rights Shares is HK$0.25 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(a) a discount of approximately 23.08% to the closing price of HK$0.325 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 36.71% to the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 35.40% to the average closing price of HK$0.387 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 41.04% to the average closing price of approximately HK$0.424 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 16.11% to the theoretical ex-rights price of approximately HK$0.298 per Share based on the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(f) a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK$3.63 (based on the Company's audited consolidated net assets attributable to the owners of the Company of approximately HK$3,281,574,000 as at 31 December 2017 and 903,703,493 Shares in issue as at the Latest Practicable Date).

The terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the recent market prices of the Shares under the prevailing market conditions and the funding needs of the Group as detailed in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below.

Based on the funding needs for the existing business of the Group of approximately HK$450 million, the Rights Issue would need to be at least on a ratio of 7 Rights Shares for 6 existing Shares with a discount of approximately 10% to the trading prices of Shares. However, the Company is of the view that 10% discount to the prevailing market price would be insufficient to attract the existing Shareholders or any underwriters. As such, the Company decided to proceed with a subscription ratio of at least 7 Rights Shares for 4 existing Shares, which provides the Company with more flexibility in terms of discount ratios. On this basis, the Directors considered all possible discount to the prevailing market price ranges up to 40% discount. Having reviewed the level of valid acceptance for provisional allotments of the recent comparable rights issue transactions in the market, the Board believes that the discount ranging from 30% to 40% would be sufficiently attractive to the Shareholders and potential underwriters. With a view to avoiding the potential odd lots problem that would arise due to a non-whole number offer ratio per one existing Share, the Company resolved the subscription ratio to be 2 Rights Shares for 1 existing Share and the discount to be within 40%.

The Board also observed that it is not uncommon for listed issuers in Hong Kong to set the subscription price in a rights issue at a discount to the closing prices. In addition, taking into account the scale of the Rights Issue (approximately HK$451.85 million to approximately HK$452.48 million in gross proceeds, being approximately 1.3 times of the Company's market capitalisation of approximately HK$356.96 million as at the Last Trading Day), the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that it is necessary to offer a relatively deeper discount under the Rights Issue in order to encourage Qualifying Shareholders to participate in the Rights Issue by taking up their respective entitlements to maintain their shareholdings in the Company and participate in the potential growth of the Group. Given that each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the Subscription Price in proportion to his/her/its shareholding in the Company held on the Record Date, the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as they are each offered an equal opportunity to participate in the Rights Issue. Rather, the Company believes that such discount and ratio of Rights Shares will give each Qualifying Shareholder the option to maintain their respective shareholding in the Company at a relatively low price as compared to the prevailing market price, allowing them to have greater flexibility in determining the extent of his/her/its participation in the Rights Issue that is best suited to his/her/its own financial condition and/or investment strategy.

The Board is aware of the fact that the Subscription Price represents a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK$3.63. The Board also noted that during the period from 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Last Trading Day, the Shares have been consistently traded at a discount to the net asset value per Share, ranging from approximately 82% to 90%, with an average of approximately 86%. Notwithstanding this, given the fact that the Rights Shares are offered to all existing Qualifying Shareholders on a pro-rata basis with nil-paid rights and excess application, all Shareholders are afforded the same anti-dilution protection. The Board considers that it would be more appropriate to determine the Subscription Price with reference to the prevailing market prices of the Shares, which reflect the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the net asset value per Share.

The Board considers that the terms of the Rights Issue are the best terms available to the Company, having regard to the fact that the Company has approached three other financial institutions which could act as underwriters, yet no positive feedbacks had been received by the Company from any of these or other potential underwriters. The Company then approached its executive Director and chairman of the Company, Mr. Heung. Mr. Heung indicated his willingness to participate in underwriting the Rights Issue through HWKFE to demonstrate his commitment to and confidence in the prospects and sustainable development of the Group over the long run. The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that the present terms and structure of the Rights Issue reflects the best commercial deal that the Company could negotiate with the Underwriter on terms commercially acceptable to both the Company and the Underwriter.

Given that (i) the Rights Shares are offered to all Qualifying Shareholders and each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to their respective shareholdings in the Company held on the Record Date; (ii) the Subscription Price has been set at a discount to the recent closing prices of the Shares with a view to encouraging the existing Shareholders to participate in the Rights Issue; and (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

After deducting all relevant expenses relating to the Rights Issue, the net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK$0.248 (assuming the maximum of 1,809,921,048 Rights Shares are issued).

Basis of provisional allotment

The basis of the provisional allotment shall be two (2) Rights Shares for every one (1) existing Share held on the Record Date, being not less than 1,807,406,986 Rights Shares (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than 1,809,921,048 Rights Shares (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date), at the Subscription Price of HK$0.25 per Rights Share.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar by 4:00 p.m. on Thursday, 26 July 2018.

Fractions of the Rights Shares

On the basis of provisional allotment of two (2) Rights Shares for every one (1) existing Share held on the Record Date, no fractional entitlements to the Rights Shares will arise as result of the Rights Issue.

Status of the Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares may be made by completing the EAFs for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar by 4:00 p.m. on Thursday, 26 July 2018.

The Directors will allocate the excess Rights Shares at their discretion on a pro rata basis in proportion to the number of excess Rights Shares being applied for under each application. No reference will be made to the Rights Shares comprised in applications by PAL or the number of new Shares held by the Qualifying Shareholders. No preference will be given to applications to topping up odd lot holdings to whole lot holdings.

Shareholders with Shares held by a nominee company (or which are held in CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are therefore advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date for the purpose of the Rights Issue.

Shareholders whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with the Registrar for completion of the relevant registration by 4: 30 p.m. on Wednesday, 4 July 2018.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue as set out in the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in this circular, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Monday, 6 August 2018. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Monday, 6 August 2018 by ordinary post to the applicants at their own risk.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms to be allotted and issued pursuant the Rights Issue.

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company in Hong Kong will be subject to the payment of stamp duty and other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

THE UNDERWRITING AGREEMENT

On 13 April 2018 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The principal terms of the Underwriting Agreement are set out as follows:

Date

13 April 2018

Parties

(i) the Company (as the issuer); and

(ii) HWKFE (as the Underwriter).

The Underwriter is an investment holding company incorporated in the British Virgin Islands and its ordinary course of business does not include underwriting. The Underwriter will not be entitled to any underwriting commission. As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (including its associate, Dorest) hold an aggregate of 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company.

Total number of Underwritten Shares

The Rights Issue is fully underwritten by the Underwriter. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders, being not less than 1,434,513,982 Rights Shares and not more than 1,437,028,044 Rights Shares, excluding 372,893,004 Rights Shares undertaken to be subscribed by the Underwriter pursuant to the Irrevocable Undertaking set out in the paragraph headed “The Underwriting Agreement – Irrevocable Undertaking by a Substantial Shareholder” of this circular.

Underwriting commission

No commission will be paid to the Underwriter under the Underwriting Agreement. The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) is of the view that the terms of the Underwriting Agreement, including nil commission, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

(a) the passing of the necessary resolution by the Independent Shareholders at the SGM approving and confirming (a) the Rights Issue and the transactions contemplated thereunder (including the Underwriting Agreement), and authorizing the Directors to allot and issue the Rights Shares (in their nil paid and fully paid forms) and (b) the Whitewash Waiver, each in accordance with the bye-laws of the Company, the Listing Rules and the Takeovers Code on or before the Record Date;

(b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;

(c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;

(d) the Listing Division of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares in nil-paid and fully-paid forms by no later than the first day of their dealings;

(e) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated pursuant to the terms thereof prior to the Latest Time for Termination;

(f) the Executive having granted the Whitewash Waiver to the Underwriter, and the satisfaction of all conditions (if any) attached thereto and such other necessary waiver or consent as may be required to be obtained from the Executive for the transactions contemplated under the Rights Issue;

(g) the compliance with and performance of all undertakings and obligations of the Company under the terms of the Underwriting Agreement; and

(h) the compliance with and performance of all undertakings and obligations of the Underwriter under the Irrevocable Undertaking.

The conditions above are incapable of being waived. If the conditions are not satisfied in whole or in part by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches. As at the Latest Practicable Date, none of the conditions above has been satisfied.

Irrevocable Undertaking by a Substantial Shareholder

As at the Latest Practicable Date, the Underwriter is interested in an aggregate of 186,446,502 Shares, representing approximately 20.63% of the existing issued Shares of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to the Company, among other things, that (i) it will not dispose of, or agree to dispose of the Shares held by it from the date of the Underwriting Agreement to the close of business on the Record Date; and (ii) it will subscribe for 372,893,004 Rights Shares, representing its full entitlements to the new Rights Shares under the Rights Issue. Owing to the fact that the Shares held by Dorest, the associate of the Underwriter, are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

(a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

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

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

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

(c) any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing, the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

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

(e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(f) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or

(g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

(a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If prior to the Latest Time for Termination any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out under the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in the "Letter from the Board" of this circular. Accordingly, the Rights Issue may or may not proceed. Furthermore, the Rights Issue is subject to the approval of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver by the Independent Shareholders at the SGM and the granting of the Whitewash Waiver by the Executive.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

ADJUSTMENTS TO EXERCISE PRICES AND NUMBERS OF SHARE OPTIONS AND CONVERSION PRICE OF BONUS CONVERTIBLE BONDS

On 3 May 2018, 53,720,000 Share Options (exercisable into 53,720,000 Shares at the exercise price of HK$3.15 per Share) granted by the Company expired. As such, as at the Latest Practicable Date, there are (i) remaining 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date. Adjustments to the exercise prices and numbers of the Share Options and the conversion price of the Bonus Convertible Bonds will be required under the Share Option Scheme and the relevant terms under the deed polls constituting the Bonus Convertible Bonds respectively as a result of the Rights Issue. An approved financial adviser or the auditor of the Company will be appointed to certify the necessary adjustments to the exercise prices and numbers of the Share Options and the conversion price of the Bonus Convertible Bonds. Further announcement relating to such adjustments will be made by the Company in this regard as and when appropriate.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in investment, production and distribution of films and television drama series, provision of artist management services and property development and investment.

The gross proceeds from the Rights Issue will be not less than approximately HK$451.85 million (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than approximately HK$452.48 million (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date) before expenses. The estimated expenses of the Rights Issue (including professional fees and other related expenses) amount to approximately HK$3 million and will be borne by the Company. The estimated net proceeds from the Rights Issue will be not less than approximately HK$448.85 million (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than approximately HK$449.48 million (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date), which are intended to be used in the following manner:

(i) approximately HK$350.00 million will be applied to finance the business operation of the property development and investment; and

(ii) approximately HK$98.85 million to HK$99.48 million will be applied to fund the film and television drama series related business operations.

In respect of proceeds to be allocated for financing the business operation of the property development and investment, the Group intends to utilise such proceeds to fund the development costs for the existing properties under development in Macau. As set out in the Company's annual report for the year ended 31 December 2017 (the "**2017 Annual Report**"), the Group has a positive outlook on the Macau property market and believes that there is strong demand for housing in Macau and considers that property development and investment is stable investment for maintaining stable future revenue for the Group. In regard to these development and investment, the Group expects that substantial cash resources is required to invest in this business operation in the next few years.

Currently, the Group has two projects under development in Macau, namely (i) the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the "**Combined Site**"); and (ii) "Lote 7 da Zona C do Plano de Urbanizaçäo da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho (the "**Property C7**"). The construction works of the Combined Site already started in June 2017 and is expected to complete in 2019. As at the Latest Practicable Date, the Combined Site has just completed foundation and basement structure works and started the reinforced concrete framed structure works. It is expected that the reinforced concrete framed structure works will complete by around October 2018, the architectural works, mechanical, electrical and plumbing (MEP) services installation and fitting-out works will complete by around August 2019, the whole Combined Site will complete by around September 2019, and occupation permit from The Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") will be obtained by around October 2019. The total construction cost of the Combined Site was estimated to be approximately HK$1,600 million. As the Group had invested approximately HK$212 million in the construction of the Combined Site up to 31 March 2018, the expected remaining fund required to be invested in the construction of the Combined Site would be approximately HK$1,388 million. However, the cash and cash equivalent as at 31 March 2018 (including the actual net proceeds of approximately HK$1,362.4 million received from a disposal of Hotel Lan Kwai Fong Macau of the Company which completed on 3 January 2018 (details of which are disclosed on the circular in relation to a very substantial disposal of the Company dated 21 November 2017)) amounted to approximately HK$1,228 million. Having considered that the existing cash and cash equivalent is insufficient to finance the remaining fund required to be invested in the construction of the Combined Site, the Company intends to apply approximately HK$350.00 million from the net proceeds from the Rights Issue for the development of the Combined Site.

Save for the existing cash and cash equivalent, the Company had taken into consideration other internal resources, amongst others, (i) financial assets; (ii) loan to a director; and (iii) loan receivables, in order to fund the development of the Combined Site and the cash requirement of the Group before arriving at the need of fund raising. As disclosed in the 2017 Annual Report, the financial assets were comprised of (a) market value of the equity securities listed in Hong Kong (excluding suspended trading security) of approximately HK$508,237,000 as at 31 December 2017, which subsequently decreased to approximately HK$257,938,000 as at 26 March 2018 (i.e. the date of the 2017 Annual Report), due to the decrease in the share prices of the equity securities (where the Group did not acquire or dispose any equity securities listed in Hong Kong during such period); and (b) call option embedded in loan to a director of approximately HK$213,944,000 (the "**Call Option Portion**") as at 31 December 2017. The Company adopted an investment strategy with a focus on long term investment returns and considered that such investment in the listed securities represents an opportunity for the Company and the Shareholders to capture the investment gain in the future. Moreover, the Call Option Portion and the loan to a director of approximately HK$293,371,000 as at 31 December 2017 represented the fair value of a loan in principal sum of HK$500,000,000 granted to Ms. Chen on 6 April 2017 (the "**Loan**") pursuant to a loan agreement entered into between Ms. Chen and Best Combo Limited (a wholly owned subsidiary of the Company) on 29 November 2016 (the "**Loan Agreement**"). Pursuant to the Loan Agreement, Ms. Chen has agreed to grant a call option (the "**Call Option**") to the Group which allowed the Group to require Ms. Chen to sell the entire issued share capital of Reform Base Holdings Limited which indirectly owned 25% interest in the Property C7, at HK$500,000,000 (subject to loan amount adjustment) during the exercise period falling on the expiry of 60 months from the drawdown date of the Loan (i.e. 6 April 2017) (details of which are disclosed on the circular in relation to a very substantial acquisition of the Company dated 10 March 2017). As such, the Loan is intended to be utilised to settle the consideration for the exercise of the Call Option as and when appropriate. Under the provisions of the Loan Agreement, the Group has no right to demand early repayment of the Loan and interest accrued thereon.

As for the loan receivables of approximately HK$200,000,000 as at 31 December 2017, the Company intends to apply the loan receivables (which contain a clause of repayable on demand with maturity dates during the period from July 2019 to August 2019) as the general working capital of the Company for the operations of the businesses of the Group.

Having considered that (i) the nature of the existing businesses of the Group (being investment, production and distribution of films and television drama series, provision of artist management services and property development and investment) is capital intensive; (ii) the nature of its businesses results in an uneven revenue stream due to the uneven progress of project delivery and settlement; and (iii) the Group experienced net cash outflow from operating activities for the years ended 31 December 2016 and 2017, the Company adopted a prudent approach on the reserve of general working capital and cash flows for the operations of the Group. In view that failure to acquire adequate capital may adversely affect the liquidity position and hinder the development of the business of the Group, which could materially and adversely affect business, results of operation, financial performance and financial position of the Group, the Company considered that the fund raising is necessary and in the interests of the Shareholders and the Company as a whole.

As regards the Property C7, an architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to DSSOPT for approval. Accordingly, at this early stage for the development of the Property C7, it is estimated that the cost of architectural design and documentation work for construction amounts to not less than approximately HK$30 million. It is expected that substantial cash resources is also required in the next few years and its development is estimated to start after the development of the Combined Site is completed.

In respect of proceeds to be allocated for funding the film and television drama series related business operations, the Group intends to utilise approximately HK$98.85 million to approximately HK$99.48 million from the net proceeds from the Rights Issue to fund the production of television drama series and/or films. Following the establishment of the production line in the television drama series in the beginning of 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series after for more than 10 years from its last production in television drama series. This television drama series will be around 36 episodes which is expected to be released on internet platform. Shooting for this first television drama series is expected to start before the end of 2018. Besides, more films production will commence recently so long as the feasibility study for new films is satisfactory. Accordingly, the Company expects to apply approximately HK$98.85 million to HK$99.48 million from the net proceeds of the Rights Issue to the production of films and television drama series.

Having considered that the proceeds from the Rights Issue can satisfy the Company's expected funding needs for the next 12 months, as at the Latest Practicable Date, the Board has no intention to undertake further fund raising activities in the next 12 months based on the current plan of the business development of the Company.

Taking into account that the Rights Issue will provide a good opportunity for the Company to raise funds to strengthen its capital base and will be conducive to its business development, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that the terms and conditions of the Rights Issue to be fair and reasonable and the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

The Directors had considered alternative ways of fund raising, including debt financing from banks. Having considered the tight schedule of the construction and the lengthy due diligence for bank financing, the Directors considered the debt-financing may not be appropriate. Among different equity fund raising methods, the Directors have focused on evaluating the possibilities of carrying out fund raising through rights issue and open offer as they are relatively larger in scale as compared to placing of new shares under a general mandate. Moreover, unlike a rights issue which offers an opportunity for the Qualifying Shareholders to participate in the enlargement of the capital base of the Company, a placing of new Shares to third party placees will result in immediate dilution to the percentage shareholding of existing Shareholders. The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation into the Rights Issue, providing an opportunity to all Qualifying Shareholders to participate in the growth of the Group. However, under an open offer, Shareholders who do not wish to take up their entitlements will not be afforded the opportunity to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection.

The Company had approached three financial institutions and these potential underwriters did not indicate interest in acting as underwriter for the Rights Issue. Upon receiving these negative feedbacks, and having taken into account the tight time schedule of the Rights Issue, the Company began negotiations with its executive Director and chairman of the Company, Mr. Heung. Mr. Heung indicated his willingness to participate in underwriting the Rights Issue through HWKFE to demonstrate his commitment to and confidence in the prospects and sustainable development of the Group over the long run. As HWKFE agreed on the proposed terms of the Rights Issue with the Company including but not limited to accepting the tight schedule of the Rights Issue, the proposed subscription ratio, the proposed price discount and the nil underwriting commission arrangement, the Company did not further approach other financial institutions given the tight schedule of the construction of the Combined Site. In view of the Underwriter being the only currently commercially feasible available option for the Group which is willing to act as the underwriter for the Rights Issue under the proposed terms without charging any underwriting commission, the Directors appointed the Underwriter as the underwriter for the Rights Issue.

The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that the Rights Issue will enable the Group to strengthen the capital base of the Group, reduce its liabilities and finance costs and equip the Group with the funding for further development of the Group's existing business. Notwithstanding the potential dilution impact of the Rights Issue as set out in the paragraph headed "Effects on the shareholding structure of the Company" above, in view of the reasons mentioned above and other relevant factors as disclosed in this circular, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive

Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee to this circular) considers that the terms and conditions of the Rights Issue and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any other fund raising activities in the past 12 months immediately prior to the date of the Announcement.

INTENTION OF THE UNDERWRITER REGARDING THE GROUP

Immediately upon completion of the Rights Issue, the Underwriter will remain the single largest Shareholder. In the performance of the Underwriter's obligations under the Underwriting Agreement, the Underwriter may become the controlling Shareholder (as defined in the Listing Rules).

As at the Latest Practicable Date, the Underwriter intends to continue the existing businesses of the Group and maintain the listing status of the Company on the Stock Exchange following the completion of the Rights Issue.

As at the Latest Practicable Date, the Underwriter has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group or terminate the continued employment of the employees of the Group.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose only, set out below is the shareholding structure of the Company as at the Latest Practicable Date, and the effect on the shareholding structure of the Company immediately upon completion of the Rights Issue in the manner contemplated under the Underwriting Agreement as set out below:

(a) Assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date

	As at the Latest Practicable Date		Assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted on or before the Record Date, and that all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate) have taken up any entitlements of the Rights Shares	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and its parties acting in concert						
The Underwriter *(Note 1)*	186,446,502	20.63	559,339,506	20.63	1,993,853,488	73.54
Dorest *(Note 2)*	1,644	0.00	4,932	0.00	1,644	0.00
Sub-total	**186,448,146**	**20.63**	**559,344,438**	**20.63**	**1,993,855,132**	**73.54**
Public Shareholders						
Other public Shareholders	717,255,347	79.37	2,151,766,041	79.37	717,255,347	26.46
Sub-total	**717,255,347**	**79.37**	**2,151,766,041**	**79.37**	**717,255,347**	**26.46**
Total	**903,703,493**	**100.00**	**2,711,110,479**	**100.00**	**2,711,110,479**	**100.00**

(b) Assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, from the Latest Practicable Date up to and including the Record Date

	As at the Latest Practicable Date		Assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full on or before the Record Date, and all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full on or before the Record Date, and no Qualifying Shareholders (except the Underwriter and its associate) have taken up any entitlements of the Rights Shares	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and its parties acting in concert						
The Underwriter *(Note 1)*	186,446,502	20.63	559,339,506	20.60	1,996,367,550	73.53
Dorest *(Note 2)*	1,644	0.00	4,932	0.00	1,644	0.00
Sub-total	**186,448,146**	**20.63**	**559,344,438**	**20.60**	**1,996,369,194**	**73.53**
Public Shareholders						
Holders of Share Options *(Note 3)*	–	0.00	590,142	0.02	196,714	0.01
Holders of Bonus Convertible Bonds *(Note 3)*	–	0.00	3,180,951	0.12	1,060,317	0.04
Other public Shareholders	717,255,347	79.37	2,151,766,041	79.26	717,255,347	26.42
Sub-total	**717,255,347**	**79.37**	**2,155,537,134**	**79.40**	**718,512,378**	**26.47**
Total	**903,703,493**	**100.00**	**2,714,881,572**	**100.00**	**2,714,881,572**	**100.00**

Notes:

1. HWKFE, being the Underwriter, is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

2. Dorest is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The Shares held by Dorest are under a charging order. These Shares had been deposited in C.A. Pacific Finance Limited which is in liquidation. Owing to the fact that the Shares held by Dorest are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.

3. As at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. None of the Share Options and Bonus Convertible Bonds was held by the Underwriter and its parties acting in concert, and all the outstanding Share Options and Bonus Convertible Bonds are held by employees and other participants, which are counted as public Shareholders.

4. Save for Mr. Heung and Ms. Chen who are beneficially interested in the Shares held by HWKFE, none of the Directors had any interests or short position in the Shares, underlying Shares or debentures of the Company as at the Latest Practicable Date.

5. Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

As illustrated in the above tables, immediately upon completion of the Rights Issue, the Company is able to fulfill the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules.

LISTING RULES IMPLICATIONS

Give that the Rights Issue will increase the number of issued Shares by more than 50%, pursuant to Rule 7.19(6) of the Listing Rules, amongst other things, the Rights Issue must be made conditional on approval by the Independent Shareholders at the SGM and any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (other than the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue.

As at the Latest Practicable Date, the Company has no controlling Shareholder. Accordingly, HWKFE, which is owned as to 50% by Mr. Heung, the chairman of the Company and an executive Director and as to 50% by Ms. Chen, the vice chairman of the Company and an executive Director, and its associate, Dorest which are in aggregate interested in 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in favour of resolutions relating to the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder at the SGM.

As the Underwriter is a Substantial Shareholder and thus, a connected person of the Company, the entering into of the Underwriting Agreement by the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.92(2) of the Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules, the issue of the Rights Shares to the Underwriter under the Rights Issue is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter alone holds 186,446,502 Shares, representing approximately 20.63% of the existing issued share capital of the Company. The Underwriter and parties acting in concert with it (including its associate, Dorest) hold an aggregate of 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, including its full acceptance of provisional entitlement for Rights Shares under the Irrevocable Undertaking, the aggregate interest of the Underwriter and parties acting in concert with it will increase to approximately 73.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue (assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date). In such circumstances, the underwriting by the Underwriter of the Underwritten Shares under the Rights Issue and its full acceptance of provisional entitlement for Rights Shares will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or to be acquired by the Underwriter and parties acting in concert with it, unless a waiver is granted by the Executive. If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Underwriter may exceed 50%, in which event the Underwriter may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make the general offers.

As at the Latest Practicable Date: (a) save for (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company, the Company does not have any outstanding options, derivatives, warrants or other convertible securities; (b) none of the Underwriter or parties acting in concert with it holds, controls or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; (c) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the shares of the Underwriter or the Company; (d) there are no agreements or arrangements to which the Underwriter is a party which relate to the circumstances in which the Underwriter may or may not invoke or seek to invoke a precondition or a condition to the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver; and (e) there is no borrowing or lending of any relevant securities (as defined in note 4 of Rule 22 of the Takeovers Code) of the Company by the Underwriter and the parties acting in concert with it.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders at the SGM by way of poll in accordance with the requirements of the Takeovers Code. The Underwriter and parties acting in concert with it (including its associate, Dorest), and any Shareholders who are involved in, or interested in, the Rights Issue, the Underwriting Agreement or the Whitewash Waiver, shall abstain from voting on the resolution(s) approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver at the SGM. Save for the above, none of the Shareholders are required to abstain from voting at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Rights Issue will not become unconditional and the Rights Issue will not proceed.

The Executive has indicated that it will agree, subject to the approval by the Independent Shareholders at the SGM, by way of poll, to waive the Underwriter from any obligation to make the general offers under Rule 26 of the Takeovers Code as a result of its underwriting obligations under the Underwriting Agreement.

Save for the Underwriting Agreement and the Irrevocable Undertaking, none of the Underwriter or parties acting in concert with it has any dealings in any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

As at the Latest Practicable Date, save for the Irrevocable Undertaking from the Underwriter which provides for irrevocable commitments to accept its entitlement of the Rights Shares, the Company has not received any irrevocable commitments to accept or reject the Rights Shares or to vote in favour of or against the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver.

As at the Latest Practicable Date, the Company did not believe that the Rights Issue gave rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of this circular. The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue and the transactions contemplated thereunder do not comply with other applicable rules and regulations.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out under the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in the "Letter from the Board" of this circular. Accordingly, the Rights Issue may or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

SGM

A notice convening the SGM is set out on pages SGM-1 to SGM-3 of this circular. The SGM will be convened and held to consider and, if appropriate, approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver. The voting in respect of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver will be conducted by way of a poll. The Underwriter and parties acting in concert with it, and those who have a material interest in the Rights Issue, the Underwriting Agreement or the Whitewash Waiver shall abstain from voting on the resolutions approving the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver.

Kingston Securities Limited, an affiliated company of Kingston Corporate Finance Limited, being one of the joint financial advisers to the Company in respect of the Rights Issue was interested in 4 Shares as at the Latest Practicable Date. Accordingly, Kingston Securities Limited shall abstain from voting in favour of resolutions relating to the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver at the SGM.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, except for (a) Kingston Securities Limited who holds 4 Shares as disclosed above; (b) the Underwriter, which holds 186,446,502 Shares, representing approximately 20.63% of the existing issued Shares of the Company; and (c) Dorest, which holds 1,644 Shares, no other Shareholder is required to abstain from voting in respect of the resolution to be proposed at the SGM.

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting (except resolutions relating purely to procedural or administrative matter) must be taken by poll. Therefore, the Chairman of the SGM will demand a poll for the resolution set out in the notice of the SGM. After the conclusion of the SGM, the results of the poll will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.chinastar.com.hk).

Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Registrar, in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event, not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting (as the case may be) should you so desire.

RECOMMENDATION

The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee set out on pages 34 to 35 of this circular) considers that the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee set out on pages 34 to 35 of this circular) recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver.

Shareholders are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser before deciding how to vote on the resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

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

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

The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

7 June 2018

To the Independent Shareholders

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE; AND (II) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company to the Shareholders dated 7 June 2018 (the "**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote regarding the ordinary resolution pursuant to the Takeovers Code at the SGM.

Shinco Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote regarding the ordinary resolution at the SGM. Details of the advice of the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 36 to 67 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 9 to 33 to the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Rights Issue and Underwriting Agreement and the letter from the Independent Financial Adviser, we consider that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver at the SGM.

Yours faithfully,
For and on behalf of
The Independent Board Committee

Mr. Hung Cho Sing	**Mr. Ho Wai Chi, Paul**	**Mr. Tang Chak Lam, Gilbert**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from the Independent Financial Adviser prepared for the purpose of this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

Shinco Capital
昇 豪 資 本

Room 1106, 11/F
Office Plus@Sheung Wan
No. 93-103 Wing Lok Street
Sheung Wan
Hong Kong

7 June 2018

To the Independent Board Committee and Independent Shareholders of
*China Star Entertainment Holdings Limited (the "**Company**")*

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE; AND (II) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 7 June 2018 (the "**Circular**"), of which this letter (the "**Letter**") forms a part. Capitalised terms used in this Letter shall have the same meanings as those defined in the Circular unless otherwise specified.

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

The Board proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK$0.25 per Rights Share. On 13 April 2018, the Company (as the issuer) and the Underwriter entered into the Underwriting Agreement (as supplemented by a letter dated 3 May 2018 made by the same parties clarifying the maximum number of Rights Shares to be underwritten in light of the lapse of 53,720,000 Share Options on 3 May 2018), pursuant to which the Underwriter has conditionally agreed to underwrite the Underwritten Shares on a fully underwritten basis and subject to the terms and conditions thereof. The Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out under the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in the Letter from the Board. If the conditions of the Underwriting Agreement are not satisfied, the Rights Issue will not proceed.

LISTING RULES IMPLICATIONS

As the Rights Issue will increase the number of issued Shares by more than 50%, pursuant to Rule 7.19(6) of the Listing Rules, amongst other things, the Rights Issue must be made conditional on approval by the Independent Shareholders at the SGM and any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (other than the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue.

As at the Latest Practicable Date, the Company has no controlling Shareholder. Accordingly, HWKFE (also the Underwriter), which is owned as to 50% by Mr. Heung, the chairman of the Company and an executive Director, and as to 50% by Ms. Chen, the vice chairman of the Company and an executive Director, and its associate, Dorest, which are in aggregate interested in 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in favour of resolutions relating to the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

As the Underwriter is a Substantial Shareholder and thus a connected person of the Company, the entering into of the Underwriting Agreement by the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.92(2) of the Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules, the issue of the Rights Shares to the Underwriter under the Rights Issue is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, the Underwriter alone holds 186,446,502 Shares, representing approximately 20.63% of the existing issued share capital of the Company. The Underwriter and parties acting in concert with it (including its associate, Dorest) hold an aggregate of 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, including its full acceptance of provisional entitlement for Rights Shares under the Irrevocable Undertaking, the aggregate interest of the Underwriter and parties acting in concert with it will increase to approximately 73.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue (assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date). In such circumstances, the underwriting by the Underwriter of the Underwritten Shares under the Rights Issue and its full acceptance of provisional entitlement for Rights Shares will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or to be acquired by the Underwriter and parties acting in concert with it, unless a waiver is granted by the Executive.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders at the SGM by way of poll in accordance with the requirements of the Takeovers Code. The Underwriter and parties acting in concert with it (including its associate, Dorest), and any Shareholders who are involved in, or interested in, the Rights Issue, the Underwriting Agreement or the Whitewash Waiver, shall abstain from voting on the resolution(s) approving the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver at the SGM. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive, or if granted, is not approved by the Independent Shareholders, the Rights Issue will not become unconditional and the Rights Issue will not proceed.

The Executive has indicated that it will agree, subject to the approval by the Independent Shareholders at the SGM, by way of poll, to waive the Underwriter from any obligation to make the general offers under Rule 26 of the Takeovers Code as a result of its underwriting obligations under the Underwriting Agreement. Further details of the Underwriting Agreement are set out in the Letter from the Board.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM.

We, Shinco Capital Limited, as the Independent Financial Adviser, have been approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in these regards.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company and the Underwriter or any other parties that could reasonably be regarded as relevant to the independence of us. For the last two years up to the Latest Practicable Date, we have not acted as an independent financial adviser to the Group in relation to other transactions. Apart from normal professional fee payable to us in connection with this appointment, no arrangements existed or remained in existence whereby we had received or will receive any fees or benefits from the Company or any other party related to the aforesaid transactions. Therefore, we consider we are independent pursuant to Rule 13.84 of the Listing Rules and are accordingly eligible to give independent advice in respect of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Group, its advisers, its management team (the "**Management**") and/or the Directors.

We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Group, its advisers, the Management and/or the Directors in the Circular were reasonably made after due enquiry and careful consideration. 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 facts contained in the Circular, or the reasonableness of the opinions expressed by the Group, its advisers, the Management and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

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

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this Letter.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date. Nothing contained in this Letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this Letter has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of these information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In arriving at our opinion in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background and financial information of the Group

1.1 Business overview of the Group

During the financial year ended 31 December 2017, the Group has restructured and repositioned its business operations. After the discontinuance of three business segments (being hotel and gaming service operations, Nam Pei Hong operations and gaming promotion operations) (the "**Discontinued Business**"), the Group proposes to focus its resources on the Group's remaining business activities based upon the Group's long-term business strategy. As at the Latest Practicable Date, the Group is principally engaged in two business segments, being (i) property development and investment; and (ii) investment, production and distribution of films and television drama series and provision of artist management services.

1.1.1 Property Development Operations

The Group has a positive outlook on the Macau property market and believes that there is a strong demand for housing in Macau. Therefore, the Group considers that property development and investment is a stable investment for maintaining stable future revenue for the Group. As advised by the Company, the Group has several property development projects in the pipeline in Macau, which include:

(i) "Lote 7 da Zona C do Plano de Urbanizaçäo da Zona da Baía da Praia Grande" located in Avenida Doutor Stanley Ho (the "**Property C7**")

The Property C7 was acquired by the Group on 6 April 2017. It comprises a parcel of land with a site area of approximately 4,669 square meters. Under the urbanistic conditions plan of the Property C7, the Property C7 will be developed for residential and parking purposes, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilisation rate of 5.58 (parking not included). An architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to the Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") for approval. Owing to its prime location, the Property C7 will be developed into high-end residential properties. The very preliminary development plan is to develop a building under strata title with gross floor areas for residential of 26,047 square meters and car parking of 5,200 square meters.

The development is scheduled to be completed in 2023. At the early stage for the development of the Property C7, it is estimated that the cost of architectural design and documentation work for construction amounts to not less than approximately HK$30 million. As advised by the Company, the preliminary construction cost of the Property C7 is expected to be approximately HK$800 million based on the existing estimation and its development is expected to start after the development of the Combined Site (as defined below) is completed.

(ii) The combined site at Lot 6C, 6D and 6E at Zona de Aterros do Porto Exterior, Macau (the "**Combined Site**")

The Combined Site is in a rectangular shape with each site area of approximately 1,292 square meters (total site area: approximately 3,876 square meters) next to Lot 6B (as defined below) and adjacent to each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Combined Site, the Group has decided to build a luxury residential and commercial complex of two towers with spacious apartment units in the Combined Site. Total gross floor area of the Combined Site is expected to be approximately 45,989 square meters, which comprises (i) residential – approximately 28,422 square meters; (ii) clubhouse – approximately 1,927 square meters; (iii) commercial – approximately 4,132 square meters; and (iv) car parking – approximately 11,508 square meters.

The development plan of the Combined Site has been approved by DSSOPT and the development period of the Combined Site has been approved to be extended to 20 December 2019. Construction works of the Combined Site commenced in June 2017 with the expected completion date of 2019. As at the Latest Practicable Date, the Combined Site has completed foundation and basement structure works and started the reinforced concrete framed structure works.

Total construction cost of the Combined Site was estimated to be approximately HK$1,600 million. As the Group had invested approximately HK$212 million in the construction of the Combined Site up to 31 March 2018, the expected remaining fund required to be invested in the construction of the Combined Site would be approximately HK$1,388 million. The Group intends to use part of the proceeds from the Rights Issue to finance part of the remaining fund required to be invested in the construction of the Combined Site.

Based on the property valuation set out in Appendix III to the Circular, performed by an independent property valuer, the market value of the three parcels of land in the Combined Site in existing state as at 30 April 2018 is HK$2,288,320,000.

(iii) Lot B in Quarteirão 6 at Zona de Aterros do Porto Exterior, Macau ("**Lot 6B**")

Lot 6B is in a trapezium shape with a site area of approximately 1,420 square meters next to Hotel Lan Kwai Fong Macau and the Combined Site. As stated in the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"), owing to the delay by the government of Macau Special Administrative Region (the "**Macau Government**") in granting the proposed development of the Combined Site, the land concession of Lot 6B has expired on 25 December 2014. DSSOPT has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23 November 2016 according to

Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25 December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30 December 2016 and the Macau Second Instance Court has not ruled on this matter as at the Latest Practicable Date. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Macau Second Instance Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, if the Group fails in its appeal and Lot B is reclaimed by the Macau Government, the Group will seek compensation for damages from the Macau Government whereas if the Group succeeds in the appeal, Lot 6B will not be reclaimed by the Macau Government and will remain the asset of the Group.

Lot 6B is planned to be developed into recreational area beside the Combined Site and Lot 6B is one of the properties classified as those of 65 properties which non-development are not the responsibility of the land concessioner announced by DSSOPT in year 2011. As set out in the Circular, the Board is of the view that the action by the Macau Government will to have minimal effect on the development value of the Combined Site (as the existing development value of the Combined Site had excluded Lot 6B) and it is now uncertain that what ruling will be obtained from the Macau Government on Lot 6B.

As set out in the 2017 Annual Report, the Group will continue to identify and invest in properties when suitable opportunities arise.

1.1.2 Film related business operations

The Group's film related business operations include investment, production, distribution and licensing of films and television drama series and provision of other film related services including artist management services.

As disclosed in the 2017 Annual Report, the Group has been engaging in the film business for more than 20 years. As advised by the Company, as at the Latest Practicable Date, the Group is investing in (i) a new film which is tentatively named "追夢男女" (expected to be released before the end of 2018); and (ii) a new action film (expected to be released in 2019), in which the Group will invest approximately HK$35 million.

Apart from the above, the Company is also conducting feasibility study on several new films which are in different stages, among them there is one in mature stage of preparation, which if it proceeds to pre-production, the Group will invest in total approximately HK$100 million and will start shooting in 2019. Other potential new films are only in very preliminary stage of feasibility study, from film idea creation to preliminary film script plotting. The Group has not decided whether to proceed such investment and has not decided the investment method nor approach any potential investors for cooperation. These films will come to production in coming years so long as the feasibility study on new films is satisfactory.

Also, as set out in the 2017 Annual Report, following the establishment of the production line in the television drama series in the beginning of 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series which will comprise around 36 episodes and is expected to be released on the internet platform. Shooting for this first television drama series is expected to start before the end of 2018. The Group will continue to proceed with investment and production of films and television drama series on its own or co-financing with other production companies in a cautious manner.

1.2 Historical financial information of the Group

Set out below are extracts of the consolidated income statement and consolidated statement of financial position of the Group for the two years ended 31 December 2017 as extracted from the annual reports of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") and the 2017 Annual Report respectively.

Table 1: Consolidated income statement of the Group

	For the year ended 31 December	
	2016	**2017**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Revenue from continuing operations *(Note 1)*	266,420	9,272
– Film related business operations	266,240	9,264
– Property development operations	180	8
Gross (loss)/profit	(221,173)	870
Gross profit margin (%) *(Note 2)*	N/A	9.38%
(Loss)/profit from continuing operations	(291,928)	110,031
(Loss)/profit attributable to the Shareholders	(335,609)	73,312
Net profit margin (%) *(Note 3)*	N/A	1,186.70%

Notes:

(1) Revenue from Discontinued Business is excluded.

(2) The gross profit margin is calculated by dividing the gross profit by revenue from continuing operations.

(3) The net profit margin is calculated by dividing the profit from continuing operations by revenue from continuing operations.

Table 2: Consolidated statement of financial position of the Group

	As at 31 December	
	2016	**2017**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Total assets	4,277,204	5,099,803
Cash and bank balances	769,939	424,200
Net current assets	2,713,711	3,012,777
Net assets	3,207,927	3,281,460
Net assets attributable to the Shareholders	3,208,362	3,281,574

As set out in Table 1 above, the revenue of the Group's continuing operations decreased from approximately HK$266.42 million for the financial year ended 31 December 2016 to approximately HK$9.27 million for the financial year ended 31 December 2017, representing a decrease of approximately 96.52%. As advised by the Management, the substantial reduction in revenue was mainly attributed to the fact that (i) the revenue recognition of film production and distribution is not evenly distributed/recognised as it normally takes more than one year and sometimes several years to complete a film and the majority of revenue generated from film production will be recorded within the following two years after the film is released. During the financial year ended 31 December 2017, no new film was distributed; and (ii) the properties on hand are still in the development stage, thus no revenue was recognised from this business segment during the year.

While there was a decrease in revenue from continuing operations, the Group's financial results in terms of profit were improved for the financial year ended 31 December 2017. For the financial year ended 31 December 2017, the Group recorded a net profit from continuing operations of approximately HK$110.03 million as compared to a loss of approximately HK$291.93 million in the previous financial year. As advised by the Company, the improvement in performance is mainly attributable to (i) the substantial increase in the recognition of unrealised gain of approximately HK$210.79 million arising on change in fair value of financial assets at fair value through profit or loss as compared to unrealised loss of approximately HK$18.88 million recognised in the previous financial year which mainly represented the increase in market values of the Group's equity securities listed in Hong Kong as at 31 December 2017; and (ii) the absence of substantial gross loss incurred in the new film released in 2016 in the amount of approximately HK$222.93 million recognised in the previous financial year.

Besides financial performance, as at 31 December 2017, the Group's net assets amounted to approximately HK$3,281.46 million, representing an increase of approximately 2.29% as compared to approximately HK$3,207.93 million as at 31 December 2016. Yet, as set out in the 2017 Annual Report, the Group's cash and bank balances amounted to approximately HK$424.20 million as at 31 December 2017, representing a decrease of approximately 44.90% as compared to approximately HK$769.94 million as at 31 December 2016. As advised by the Management, the decrease in cash and bank balances was mainly attributable to more cash outflows during the financial year (mainly (i) the operating cash outflow of approximately HK$179.36 million; (ii) loan advanced to a Director of approximately HK$500.00 million (2016: Nil); and (iii) the repayment of promissory note of approximately HK$400.00 million (2016: Nil)) than the major cash inflows during the financial year (mainly the deposit received in relation to discontinued business of HK$200 million and the loan receivables received in principal amount of HK$625 million).

Our view

In the view that (i) revenue from continuing operations of the Group decreased during the latest financial year and the cash and bank balances as at 31 December 2017 has significantly shrunk as compared to that in the previous financial year; (ii) the property development projects are all in the development stage and yet to generate income; and (iii) the timing of cash flow to be generated from film related business is unstable as it may take more than one year to complete a film production and generate revenue, we consider that the Group would need more financial resources to finance the current property development projects on hand. Also, it is expected that substantial cash resources are required in the next few years for the Group to operate its existing property development businesses and film related businesses and/or any future expansion strategies.

Also, though the Group recorded profit from continuing operations of approximately HK$110.03 million in the recent financial year ended 31 December 2017 as compared to a loss in the previous financial year, such turnaround was mainly due to the recognition of unrealised gain of financial assets and other income but not from its principal businesses in the property development and production and distribution of films and television drama series. As stated above, the Group had undergone business restructure and reposition and disposed three business segments in the financial year ended 31 December 2017, the remaining business in the property development is at the development stage and film related business operations is of the business nature of uneven revenue stream, it may take time for the Group to generate revenue and operating cash inflow from the projects.

2. Rights Issue

2.1 Reasons for the Rights Issue and Use of Proceeds

As at 31 March 2018, the Group's cash and cash equivalent (including the actual net proceeds of approximately HK$1,362.4 million received from a disposal of Hotel Lan Kwai Fong Macau of the Company which completed on 3 January 2018 (details of which are disclosed on the circular in relation to a very substantial disposal of the Company dated 21 November 2017)) amounted to approximately HK$1,228 million, which is insufficient to finance the remaining fund required to be invested in the construction of the Combined Site, therefore the Group proposed to raise fund through the Rights Issue.

As set out in the Letter from the Board, the estimated net proceeds from the Rights Issue (after deducting the estimated expenses of the Rights Issue of approximately HK$3 million) will be not less than approximately HK$448.85 million (assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) and not more than approximately HK$449.48 million (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date), which are intended to be used in the following manner:

(i) approximately HK$350.00 million will be applied to finance the development of the Combined Site in Macau; and

(ii) approximately HK$98.85 million to HK$99.48 million will be applied to fund the film and television drama series related business operations.

After deducting all relevant expenses relating to the Rights Issue, the net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK$0.248 (assuming the maximum of 1,809,921,048 Rights Shares are issued).

Having considered that the proceeds from the Rights Issue can satisfy the Company's expected funding needs for the next 12 months, as at the Latest Practicable Date, the Board has no intention to undertake further fundraising activities in the next 12 months based on the current plan of the business development of the Company. Taking into account that the Rights Issue will provide a good opportunity for the Company to raise funds to strengthen its capital base and will be conducive to its business development, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions will not express their view in this regard) considers that the terms and conditions of the Rights Issue to be fair and reasonable and the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

2.2 Financial resources

The Group's cash and cash equivalent amounted to approximately HK$424.20 million as at 31 December 2017 and approximately HK$1,228 million (including the net proceeds from the disposal of Hotel Lan Kwai Fong Macau of the Company which was completed on 3 January 2018) as at 31 March 2018, respectively. As set out in the Letter from the Board, save for the existing cash and cash equivalent of the Group, the Company had taken into consideration other internal resources, amongst others, (i) financial assets; (ii) loan to a director; and (iii) loan receivables, in order to fund the development of the Combined Site and the cash requirement of the Group before arriving at the need of fund raising.

As disclosed in the 2017 Annual Report, the financial assets comprised (i) market value of the equity securities listed in Hong Kong (excluding suspended trading security) of approximately HK$508,237,000 as at 31 December 2017, which subsequently decreased to approximately HK$257,938,000 as at 26 March 2018 (i.e., the date of the 2017 Annual Report and as shown on the 2017 Annual Report), due to the decrease in the share prices of the equity securities (where the Group did not acquire or dispose any equity securities listed in Hong Kong during such period); and (ii) the Call Option Portion (as defined in the Letter from the Board) as at 31 December 2017. The Company adopted an investment strategy with a focus on long term investment returns and considered that such investment in the listed securities represents an opportunity for the Company and the Shareholders to capture the investment gain in the future. Moreover, the Call Option Portion and the loan to a director of approximately HK$293,371,000 as at 31 December 2017 represented the fair value of the Loan (as defined in the Letter from the Board, i.e., in the principal sum of HK$500,000,000 granted to Ms. Chen on 6 April 2017 pursuant to a loan agreement entered into between Ms. Chen and Best Combo Limited (a wholly owned subsidiary of the Company) on 29 November 2016). The Group intends to utilise the Loan to settle the consideration for the Call Option (as defined in the Letter from the Board) as and when appropriate.

As for the loan receivables of approximately HK$200,000,000 as at 31 December 2017, it is repayable on demand with maturity dates on July 2019 to August 2019. The Company intends to apply the loan receivables as the general working capital of the Company for the business operations of the Group.

Also, the Company adopted a prudent approach on the reserve of general working capital and cash flows for the operations of the Group as it had net cash outflow from operating activities for the years ended 31 December 2016 and 2017, while the nature of the business it operates is also capital intensive with uneven revenue stream.

In view of the (i) current cash position and other existing current assets of the Group have already been earmarked for its business development and general working capital purpose; (ii) the funding needs of the Group for the development in the Combined Site and the film business in the short-to-medium term; and (iii) both the property investment business and the film business take long time to generate revenues, we concur with the Group the needs to have external financing for its ongoing business operations and other business potential.

2.3 Other financing alternatives available to the Group

As set out in the Letter from the Board, the Directors had considered alternative ways of fund raising, including debt financing from banks. Having considered the tight schedule of the construction and the lengthy due diligence for bank financing, the Directors considered the debt-financing may not be appropriate. Among different equity fund raising methods, the Directors have focused on evaluating the possibilities of carrying out fund raising through rights issue and open offer as they are relatively larger in scale as compared to placing of new shares under a general mandate. Moreover, unlike a rights issue which offers an opportunity for the Qualifying Shareholders to participate in the enlargement of the capital base of the Company, a placing of new Shares to third party placees will result in immediate dilution to the percentage shareholding of existing Shareholders. The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation into the Rights Issue, providing an opportunity to all Qualifying Shareholders to participate in the growth of the Group. However, under an open offer, Shareholders who do not wish to take up their entitlements will not be afforded the opportunity to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection.

Also as set out in the Letter from the Board, prior to negotiations with the executive Director and chairman of the Company, Mr. Heung, the Company had approached three financial institutions and these potential underwriters did not indicate interest in acting as underwriter for the Rights Issue. In view of the Underwriter being the only currently commercially feasible available option for the Group which is willing to act as the underwriter for the Rights Issue under the proposed terms without charging any underwriting commission, the Directors appointed the Underwriter as the underwriter for the Rights Issue.

The Directors (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions will not express their view in this regard) consider that the Rights Issue will enable the Group to strengthen the capital base of the Group, reduce its liabilities and finance costs and equip the Group with the funding for further development of the Group's existing business. Notwithstanding the potential dilution impact of the Rights Issue as set out in the section headed "2.8 Possible dilution of the Shareholding interests of the existing public Shareholders" in this Letter, in view of the reasons mentioned above and other relevant factors as disclosed in the Letter from the Board, the Board (excluding Mr. Heung and Ms. Chen) considers that the terms and conditions of the Rights Issue and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Taking into account the factors considered by the Company as stated above, in particular the fund raising through rights issue would provide anti-dilution protection to all the Shareholders as (i) placing of new Shares to third party placees does not provide Shareholders a chance to participate in the fund raising exercise to maintain their shareholding, and given the substantial amount of fund to be raised, the dilution effect would inevitably be material to all existing Shareholders; and (ii) unlike an open offer, the Rights Issue allows those Qualifying Shareholders who do not participate in the Rights Issue to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection, we concur with the Directors that the Rights Issue is the preferred option over the other financing alternatives.

2.4 Principal terms of the Rights Issue

Major terms of the Rights Issue are summarised as below:

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholder on the Record Date
Subscription Price	:	HK$0.25 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	903,703,493 Shares
Number of Rights Shares	:	Minimum number of 1,807,406,986 Rights Shares (assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) Maximum number of 1,809,921,048 Rights Shares (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares on or before the Record Date)
Amount to be raised before expenses	:	Not less than approximately HK$451.85 million and not more than approximately HK$452.48 million
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue	:	Minimum number of 2,711,110,479 Shares (assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date) Maximum number of 2,714,881,572 Shares (assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, on or before the Record Date)

Underwriter	:	HWKFE
Right of excess application	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

For more details of the terms of the Rights Issue, please refer to the disclosure on the Letter from the Board.

After entering into of the Underwriting Agreement on 13 April 2018, 53,720,000 Share Options (exercisable into 53,720,000 Shares at the exercise price of HK$3.15 per Share) granted by the Company expired. As such, as at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date.

2.5 The Subscription Price

As set out in the Letter from the Board, the Subscription Price for the Rights Shares is HK$0.25 per Rights Share and it represents:

(i) a discount of approximately 23.08% to the closing price of HK$0.325 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 36.71% to the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 35.40% to the average closing price of HK$0.387 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 41.04% to the average closing price of approximately HK$0.424 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 16.11% to the theoretical ex-rights price of approximately HK$0.298 per Share based on the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK$3.63 (based on the Company's audited consolidated net assets attributable to the owners of the Company of approximately HK$3,281,574,000 as at 31 December 2017 and 903,703,493 Shares in issue as at the Latest Practicable Date); and

(vii) a discount of approximately 96.21% to the unaudited adjusted consolidated net asset value of the Company per Share as at 30 April 2018 of approximately HK$6.60 per Shares set out the section headed "9. PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE" in Appendix I to the Circular (the "**Adjusted NAV Per Share**").

As stated in the Letter from the Board, the terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the recent market prices of the Shares under the prevailing market conditions and the funding needs of the Group.

As stated in the Letter from the Board, the Board is aware of the fact that the Subscription Price represents a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK$3.63. The Board also noted that during the period from 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Last Trading Day, the Shares have been consistently traded at a discount to the net asset value per Share, ranging from approximately 82% to 90%, with an average of approximately 86%. Notwithstanding this, given the fact that the Rights Shares are offered to all existing Qualifying Shareholders on a pro-rata basis with nil-paid rights and excess application, all Shareholders are afforded the same anti-dilution protection. The Board considers that it would be more appropriate to determine the Subscription Price with reference to the prevailing market prices of the Shares, which reflect the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the net asset value per Share.

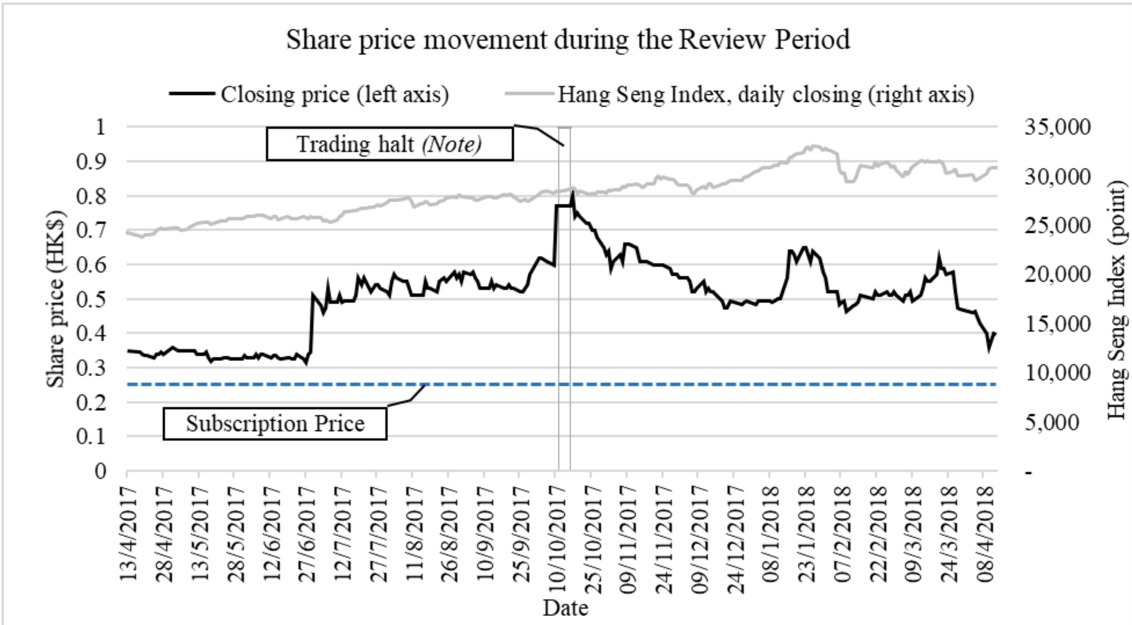
2.6 Analysis on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following analyses:

(i) Review on the historical Share price performance and trading volume of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 13 April 2017 to the Last Trading Day (the "**Review Period**") (being a period of approximately 12 months prior to and including the Last Trading Day), which is commonly used for analysis purpose to illustrate the general trend of the closing prices and the level of movement of the Shares and compared with the Subscription Price.

Chart 1: Share price performance against the Subscription Price during the Review Period



Source: Announcement of the Company dated 19 April 2018 and information from the website of the Stock Exchange

Note: Trading in the Shares has been halted from 11 October 2017 to 17 October 2017.

As shown in the Chart 1 above, during the Review Period, movement of the closing price of the Shares was relatively fluctuated, with the average closing price of approximately HK$0.504 per Share (the "**Average Closing Price**"). The daily closing price ranged from HK$0.315 per Share recorded on 27 June 2017 (the "**Lowest Closing Price**") to HK$0.800 per Share recorded on 17 October 2017 (the "**Highest Closing Price**") during the Review Period.

As shown in the Chart 1 above, during the beginning of the Review Period from 13 April 2017 to 29 June 2017, movement of the closing price of the Shares was relatively stable, which ranged from the Lowest Closing Price to HK$0.360 per Share. Subsequently, a general upward trend was observed from 30 June 2017 to 17 October 2017, which ranged from HK$0.460 per Share to the Highest Closing Price. We have enquired into the possible reasons attributed to the general increase in Share price during the 4-month period and as confirmed by the Directors, save as the Company announced on 29 June 2017 in relation to entered into a letter of intent to sell a group of companies which owns and operates Hotel Lan Kwai Fong Macau, the Directors were not aware of any matters which might have affected the price of the Shares.

As shown in the Chart 1 above, after reaching the peak on 17 October 2017, the closing price of the Shares fluctuated and was generally moving downward up to the end of the Review Period (i.e., from HK$0.750 per Share on 19 October 2017 to HK$0.395 per Share on the Last Trading Day, representing a decrease of approximately 47.33%). We have enquired into the possible reasons attributed to the general decrease in Share price during the 6-month period and as confirmed by the Directors, save as the release of announcement in relation to the disposal of hotel and gaming service operations, the Directors were not aware of any matters which might have affected the price of the Shares.

As shown in the Chart 1 above, the Subscription Price is always below the level of the historical closing price of the Shares in the Review Period. The Subscription Price of HK$0.25 per Rights Share, represents (i) a discount of approximately 20.63% to the Lowest Closing Price; (ii) a discount of approximately 68.75% to the Highest Closing Price; and (iii) a discount of approximately 50.39% to the Average Closing Price for the Review Period. Nevertheless, each of the Qualifying Shareholders is entitled to subscribe for the Rights Shares at the same Subscription Price in proportion to his/her/its shareholding in the Company held on the Record Date, thus the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price.

Apart from the daily closing price of the Shares, we have also performed a review on the average daily trading volume per month (the "**Monthly Average Volume**") of the Shares in the Review Period, which is commonly used for analysis purpose to illustrate the liquidity of the Shares.

Table 3: Average daily trading volume of the Shares in the Review Period

Month	**Number of trading day(s) during the month/period** *(number of day)*	**Average daily trading volume of the Shares during the month/period** *(Shares)* *(approximately)*	**Average daily trading volume during the month/period as a percentage of the total number of issued Shares as at the Latest Practicable Date** *(%)* *(approximately)*
2017			
April *(Note 1)*	10	354,681	0.0392%
May	20	648,085	0.0717%
June	22	4,181,937	0.4628%
July	21	4,477,632	0.4955%
August	22	2,330,107	0.2578%
September	21	1,679,974	0.1859%
October *(Note 2)*	16	9,361,027	1.0359%
November	22	1,486,300	0.1645%
December	19	2,584,741	0.2860%
2018			
January	22	12,571,480	1.3911%
February	18	2,015,809	0.2231%
March	21	4,295,125	0.4753%
April *(Note 3)*	8	4,517,700	0.4999%
	Maximum	**12,571,480**	**1.3911%**
	Minimum	**354,681**	**0.0392%**
	Average	**3,966,383**	**0.4389%**

Source: Information from the website of the Stock Exchange

Notes:

(1) The calculation of average trading volume of the Shares in April 2017 began on 13 April 2017.

(2) Trading in the Shares has been halted from 11 October 2017 to 17 October 2017. These trading days are excluded in Table 3 above.

(3) The calculation of average trading volume of the Shares in April 2018 was up to the Last Trading Day (i.e., 18 April 2018).

As noted from the Table 3 above, the respective percentages of the Monthly Average Volume as compared with the total number of issued Shares at the end of the respective month/period ranged from approximately 0.0392% to approximately 1.3911% with an average of approximately 0.4389%, thin trading in the Shares is exhibited during the Review Period.

(ii) Comparison with other rights issue exercises

As part of our analysis, we have further reviewed the rights issue exercises initially announced by companies listed on the Stock Exchange from 1 October 2017 up to the Last Trading Day (being the six full calendar months period prior to the Last Trading Day), which do not include H share and the rights issue which have been terminated as of the Latest Practicable Date. To the best of our knowledge, we have found an exhaustive list of 17 transactions which met the said criteria (the "**Comparable(s)**"). Amongst the Comparables, (i) none of them are principally engaged in investment, production and distribution of films and television drama series and provision of artist management services; and (ii) only 1 comparable company is principally engaged in property development and investment which is in similar business with that of the Company, thus there are not sufficient samples to make a representative reference, as such all the rights issues during the said period are being reviewed as a whole. We consider that despite that the industry, sector, business model, financial status, reasons for the respective rights issue of the Comparables are unique and mostly are differ from that of the Group, the Comparables can serve as a general reference for recent market trend in relation to subscription price under the respective rights issue as compared to the relevant prevailing market share price, theoretical ex-rights price, net asset value per share, and provide an insight into the prevailing market practice.

Table 4: Comparable analysis from 1 October 2017 up to the Last Trading Day

	Date of announcement	Name of listed issuer and stock code	Basis of entitlement	Premium/(discount) of the subscription price over/to the closing price on the last trading day (%) (approximately)	Premium/(discount) of the subscription price over/to the theoretical ex-entitlement price, based on the last trading day (%) (approximately)	Premium/(discount) of the subscription price over/to the consolidated net asset value per share (%) (approximately)	Maximum dilution based on offer ratio *(Note 1)* (%) (approximately)	Maximum dilution based on share value *(Note 1)* (%) (approximately)	Excess application (Yes/No) (approximately)	Underwriting commission (%) (approximately)	Involve underwriter who is connected person (Yes/No)	Level of acceptance (excluding excess part) *(Note 5)* (%) (approximately)
1.	4 October 2017	China AgriProducts Exchange Limited (149.HK)	5 for 1	(30.16)	(6.38)	(85.01)	83.33	25.13	Yes	2.50	No	32
2.	20 October 2017	The 13 Holdings Limited (577.HK)	10 for 1	(87.91)	(39.89)	(98.22)	90.91	79.92	Yes	3.00	No	75
3.	7 November 2017	China Overseas Grand Oceans Group Limited (81.HK)	1 for 2	(7.90)	(5.34)	(22.73)	33.33	2.63	Yes	1.50 (for connected person)	Yes	97
4.	8 November 2017	China Power International Development Limited (2380.HK)	1 for 3	(27.49)	(22.14)	(59.26)	25.00	6.87	Yes	2.00	No	95
5.	19 November 2017	REXLot Holdings Limited (555.HK)	1 for 2	(12.07)	(8.38)	(90.56)	33.33	4.02	Yes	1.00 (for connected person)	Yes	38
6.	21 November 2017	National Investments Fund Limited (1227.HK)	1 for 2	(41.67)	(32.26)	438.46 *(Note 2)*	33.33	13.89	Yes	3.00	No	33
7.	28 November 2017	TCL Multimedia Technology Holdings Limited (1070.HK)	1 for 3	(25.75)	(20.64)	(10.45)	25.00	6.44	Yes	2.15 *(Note 3)*	No	73
8.	18 December 2017	China Tonghai International Financial Limited (952.HK) *(Note 4)*	8 for 3	6.80	1.85	19.57	72.73	N/A	Yes	1.50 (for connected person)	Yes	N/A
9.	20 December 2017	Yu Tak International Holdings Limited (8048.HK)	1 for 2	5.26	3.45	45.30	33.33	N/A	Yes	Nil (for connected person)	Yes	38
10.	3 January 2018	DeTai New Energy Group Limited (559.HK)	2 for 1	(29.73)	(11.86)	(63.89)	66.67	19.82	Yes	2.50	No	N/A

	Date of announcement	Name of listed issuer and stock code	Basis of entitlement	Premium/(discount) of the subscription price over/to the closing price on the last trading day (%) (approximately)	Premium/(discount) of the subscription price over/to the theoretical ex-entitlement price, based on the last trading day (%) (approximately)	Premium/(discount) of the subscription price over/to the consolidated net asset value per share (%) (approximately)	Maximum dilution based on offer ratio *(Note 1)* (%) (approximately)	Maximum dilution based on share value *(Note 1)* (%) (approximately)	Excess application *(Yes/No)* (approximately)	Underwriting commission (%) (approximately)	Involve underwriter who is connected person *(Yes/No)*	Level of acceptance (excluding excess part) *(Note 5)* (%) (approximately)
11.	23 January 2018	Bolina Holding Co., Ltd. (1190.HK)	2 for 1	(24.78)	(9.89)	(87.19)	66.67	16.52	Yes	2.50	No	N/A
12.	23 January 2018	China New Economy Fund Limited (80.HK)	1 for 8	(3.85)	(2.34)	(56.90)	11.11	0.43	Yes	1.50	No	33
13.	25 January 2018	LongiTech Smart Energy Holding Limited (1281.HK)	1 for 2	(41.46)	(32.20)	81.82	33.33	13.82	Yes	Nil (for connected person)	Yes	76
14.	25 January 2018	China Agroforestry Low-Carbon Holdings Limited (1069.HK)	3 for 2	(29.73)	(14.75)	(35.00)	60.00	17.84	Yes	1.00 (for connected person) to 2.50 *(Note 6)*	Yes	N/A
15.	16 March 2018	Xinyi Automobile Glass Hong Kong Enterprises Limited (8328.HK)	1 for 5	(11.90)	(10.10)	709.69 *(Note 2)*	16.67	1.98	Yes	Nil (for connected person)	Yes	94
16.	28 March 2018	Enerchina Holdings Limited (622.HK)	1 for 1	(7.22)	(3.74)	(78.50)	50.00	3.61	Yes	3.00	No	N/A
17.	11 April 2018	PPS International (Holdings) Limited (8201.HK)	1 for 1	(32.08)	(19.28)	(67.55)	50.00	16.04	Yes	Nil (for connected person) to 3.00 *(Note 6)*	Yes	N/A
		Maximum		**6.80**	**3.45**	**81.82** *(Note 2)*	**90.91**	**79.92**		**3.00**		
		Minimum		**(87.91)**	**(39.89)**	**(98.22)** *(Note 2)*	**11.11**	**0.43**		**Nil**		
		Average		**(23.63)**	**(13.76)**	**(40.57)** *(Note 2)*	**46.16**	**15.26**		**1.72**		
		The Company	**2 for 1**	**(36.71)**	**(16.11)**	**(93.11)**	**66.67**	**24.56**	**Yes**	**Nil**	Yes	

Source: Information from the website of the Stock Exchange and the rights issue announcement issued by the respective listed issuers.

Notes:

(1) Maximum dilution effect based on offer ratio of each of the Comparables is calculated as:

(number of new shares to be issued under the basis of entitlement) / (number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%.

Maximum dilution effect based on share value of each of the Comparables is calculated as:

(1 – (theoretical ex-entitlement price / closing price of the share on the last trading day)) x 100%.

(2) The net asset value attributable to owners of the company per shares of National Investments Fund Limited (stock code: 1227.HK) and Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328.HK) are excluded from our analysis as they appear to be extreme outlier as compared to the rest of the Comparables, thus do not provide a meaningful analysis.

(3) The underwriting commission is fixed at US$1,432,395, being approximately HK$11.17 million and for the purpose of our analysis, the commission is expressed in percentage of the aggregate subscription price in respect of the maximum number of the underwritten shares.

(4) China Tonghai International Financial Limited (stock code: 952.HK) is formerly named as "China Oceanwide International Financial Limited".

(5) Level of acceptance is the portion of the valid acceptance for provisional allotments of rights shares to the total number of rights shares available for subscription under the rights issue, where "N/A" denotes that the rights issue of the respective Comparables is not complete yet as at the Latest Practicable Date.

(6) In these cases the connected person will be the first party (before the independent third parties underwriters) to take up the underwritten shares that have not been subscribed by the qualified shareholders.

As set out in the Table 4 above, the subscription prices of the Comparables:

(i) ranged from a discount of approximately 87.91% to a premium of approximately 6.80% (the "**Comparable LTD Range**"), with an average discount of approximately 23.63% (the "**Comparable LTD Average**") for their respective closing prices per share on the last trading day prior to/on the dates of the relevant announcements of the Comparables;

(ii) ranged from a discount of approximately 39.89% to a premium of approximately 3.45% (the "**Comparable TERP Range**"), with an average discount of approximately 13.76% (the "**Comparable TERP Average**") for their respective average theoretical ex-rights prices per share based on the closing prices on the last trading day prior to/on the dates of the relevant announcements of the Comparables; and

(iii) (after excluding the outliers as stated in Note 2 to the Table 4 above) ranged from a discount of approximately 98.22% to a premium of approximately 81.82% (the "**Comparable Price-to-NAV Range**"), with an average discount of approximately 40.57% (the "**Comparable Price-to-NAV Average**") for their respective consolidated net assets value of the respective company per share based on the latest published consolidated net assets attributable to the owners of the respective company and the issued shares of the respective company on the last trading day prior to/on the dates of the relevant announcements of the Comparables.

The Subscription Price of HK$0.25 per Rights Share represents (i) a discount of approximately 36.71% to the closing price per Share on the Last Trading Day (the "**LTD Discount**"); (ii) a discount of approximately 16.11% to the theoretical ex-rights price per Share based on the closing price per Share on the Last Trading Day (the "**TERP Discount**"); (iii) a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK$3.63 (the "**Price-to-NAV Discount**"); and (iv) a discount of approximately 96.21% to the Adjusted NAV Per Share (the "**Price-to-Adjusted-NAV Discount**").

We observed that, (i) each of the LTD Discount and the TERP Discount is within the Comparable LTD Range and the Comparable TERP Range, and is below the Comparable LTD Average and the Comparable TERP Average, respectively; and (ii) the Price-to-Adjusted-NAV Discount is within the Comparable Price-to-NAV Range but is at the low end of the range.

In respect of the above and the relatively wide range represented by the Price-to-NAV Discount Range, taking into account (i) during the period from 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Last Trading Day, the Shares had been consistently traded at a discount to the net asset value per Share, ranging from approximately 82% to 90%, with an average of approximately 86%; (ii) it would be more appropriate to consider the Subscription Price with reference to the prevailing market prices of the Shares, which reflect the fair market value of the Shares traded on the Stock Exchange, than making reference to the net asset value per Share; and (iii) the negative feedbacks from the three financial institutions in acting as the underwriter for the Rights Issue while the Underwriter is the only currently feasible option to the Group, we consider the Subscription Price is justifiable.

Furthermore, as shown in the Table 4 above, 15 out of 17 Comparables are having a discounted subscription price to the respective closing prices of their shares on the last trading day prior to the release of the rights issue announcements. As shown in the Table 4 above, 10 of the Comparables with discounted subscription price have completed the rights issue and 6 out of the 10 Comparables have acceptance level of more than half. Thus it is a common market practice that the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares with a view to enhance the attractiveness of a rights issue and to encourage the existing shareholders to participate in the rights issue.

Though the Subscription Price represents a discount to the Lowest Closing Price and the Average Closing Price for the Review Period, and under our comparable analysis, the discount as represented by the Subscription Price is below the average of the Comparable LTD Range and the Comparable TERP Range and is at low end of the Comparable Price-to-NAV Range as discussed above, having considered as a whole that:

(i) the Group had undergone business restructure and reposition in the last financial year ended 31 December 2017 and the remaining business in the property development is at the development stage and film related business operations is of the business nature of uneven revenue stream, it may take time for the Group to generate revenue and operating cash inflow from the projects;

(ii) the Group is in need of readily available financial resource to proceed with its development plan on the Combined Site;

(iii) the Group had approached three financial institutions but none of them indicated interest in acting as underwriter for the Rights Issue, while the Underwriter, without charging any underwriting commission, is the only currently commercially feasible available option to proceed with the Rights Issue;

(iv) it is a common market practice that the subscription price of a rights issue is normally set at a discount to the prevailing market prices of the relevant shares in order to enhance the attractiveness of a rights issue and to encourage the existing shareholders to participate in the rights issue;

(v) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as the Rights Issue offers all the Qualifying Shareholders equal opportunity to subscribe for their pro-rata entitlement of the Rights Shares and hence avoids dilution or to increase its shareholding (by way of excess application) and to participate as fully as they wish in the future development of the Company by way of applying for excess Rights Shares; and

(vi) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid rights of subscription in the market.

we are of the view that the terms of the Rights Issue, including the Subscription Price, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

2.7 Underwriting Agreement

As set out in the Letter from the Board, on 13 April 2018 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The principal terms of the Underwriting Agreement are summarised as below:

Date	:	13 April 2018
Parties	:	(i) the Company (as the issuer); and (ii) HWKFE (as the Underwriter) HWKFE, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors of which are Mr. Heung and Ms. Chen
Total number of Underwritten Shares	:	The Rights Issue is fully underwritten by the Underwriter. The Underwriter has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders, being:

		(i) not less than 1,434,513,982 Rights Shares; and (ii) not more than 1,437,028,044 Rights Shares (excluding 372,893,004 Rights Shares undertaken to be subscribed by the Underwriter pursuant to the Irrevocable Undertaking and pursuant to the terms and subject to the conditions set out in the Underwriting Agreement)
Underwriting commission	:	No commission will be paid to the Underwriter
Irrevocable Undertaking by a Substantial Shareholder	:	As at the Latest Practicable Date, the Underwriter is interested in an aggregate of 186,446,502 Shares, representing approximately 20.63% of the existing issued Shares of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to the Company, among other things, that (i) it will not dispose of, or agree to dispose of the Shares held by it from the date of the Underwriting Agreement to the close of business on the Record Date; and (ii) it will subscribe for 372,893,004 Rights Shares, representing its full entitlements to the new Rights Shares under the Rights Issue. Owing to the fact that the Shares held by Dorest, the associate of the Underwriter, are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.

For more details of the principal terms of the Underwriting Agreement, please refer to the disclosure on the Letter from the Board.

The Underwriter has conditionally agreed to underwrite the Underwritten Shares, being not less than 1,434,513,982 Rights Shares and not more than 1,437,028,044 Rights Shares (i.e., excluding 372,893,004 Rights Shares undertaken to be subscribed by the Underwriter pursuant to the Irrevocable Undertaking), representing, respectively (i) approximately 52.91% of the issued share capital of the Company as enlarged by the issue of the Rights Shares, assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted on or before the Record Date; and (ii) approximately 52.93% of the issued share capital of the Company as enlarged by the issue of the Rights Shares, assuming all the outstanding Share Options being exercised and all the Bonus Convertible Bonds being converted in full on or before the Record Date.

Pursuant to the Underwriting Agreement, there is no commission for the aggregate Subscription Price in respect of the Underwritten Shares being underwritten. As set out under the section headed "2.6 Analysis on the Subscription Price" in this Letter, for the six-month period immediately before the Last Trading Day, the underwriting commission of the Comparables received by the respective underwriter(s) ranges from nil to 3%. Given no underwriting commission is to be charged by the Underwriter pursuant to the Underwriting Agreement, we are of the view that the absence of the underwriting commission is fair and reasonable and in the interests of the Company and the Shareholders. As set out in the list of Comparable in Table 4 above, 8 out of the 17 Comparables are partly or wholly underwritten by connected person of the respective Comparables, 4 of which are underwritten without underwriting commission on the part of connected persons and the remaining 4 Comparables are underwritten at the commission rate ranging from 1% to 1.5% on the part of connected persons, which is in general lower than that underwritten by independent third parties ranging from 1.5 % to 3%. Thus, it is not uncommon for an underwriter who is a connected person to obtain a lower or even no underwriting commission.

We have obtained a copy of the Underwriting Agreement from the Company and reviewed other major terms of the Underwriting Agreement including, (i) the number of Underwritten Shares compared to the total issued share capital prior to the Rights Issue; (ii) the termination clauses of the Underwriting Agreement; and (iii) conditions of the Underwriting Agreement, we consider that the principal terms of the Underwriting Agreement are in line with market practice. As such, we are of the view that the terms of the Underwriting Agreement, including the absence of the underwriting commission, are fair and reasonable so far as the Independent Shareholders are concerned.

2.8 Possible dilution of the Shareholding interests of the existing public Shareholders

For illustration purpose only, set out below is the shareholding structure of the Company as at the Latest Practicable Date, and the effect on the shareholding structure of the Company upon completion of the Rights Issue in the manner contemplated under the Underwriting Agreement:

(i) Assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares from the Latest Practicable Date up to the Record Date:

	As at the Latest Practicable Date		**Assuming that all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full**		**Assuming that no Qualifying Shareholders (except the Underwriter and its associate) have taken up any entitlements of the Rights Shares**	
	No. of Shares	*% (Approximately)*	*No. of Shares*	*% (Approximately)*	*No. of Shares*	*% (Approximately)*
The Underwriter and its parties acting in concert						
The Underwriter *(Note 1)*	186,446,502	20.63	559,339,506	20.63	1,993,853,488	73.54
Dorest *(Note 2)*	1,644	0.00	4,932	0.00	1,644	0.00
Sub-total	**186,448,146**	**20.63**	**559,344,438**	**20.63**	**1,993,855,132**	**73.54**
Public Shareholders						
Other public Shareholders	717,255,347	79.37	2,151,766,041	79.37	717,255,347	26.46
Sub-total	**717,255,347**	**79.37**	**2,151,766,041**	**79.37**	**717,255,347**	**26.46**
Total	**903,703,493**	**100.00**	**2,711,110,479**	**100.00**	**2,711,110,479**	**100.00**

(ii) Assuming all the outstanding Share Options being exercised and all the Bonus Convertible Bonds being converted in full, and that there is no other change in the number of issued Shares, from the Latest Practicable Date up to the Record Date:

	As at the Latest Practicable Date		Assuming that all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming that no Qualifying Shareholders (except the Underwriter and its associate) have taken up any entitlements of the Rights Shares	
	No. of Shares	*%* *(Approximately)*	*No. of Shares*	*%* *(Approximately)*	*No. of Shares*	*%* *(Approximately)*
The Underwriter and its parties acting in concert						
The Underwriter *(Note 1)*	186,446,502	20.63	559,339,506	20.60	1,996,367,550	73.53
Dorest *(Note 2)*	1,644	0.00	4,932	0.00	1,644	0.00
Sub-total	**186,448,146**	**20.63**	**559,344,438**	**20.60**	**1,996,369,194**	**73.53**
Public Shareholders						
Holders of Share Options *(Note 3)*	–	–	590,142	0.02	196,714	0.01
Holders of Bonus Convertible Bonds *(Note 3)*	–	–	3,180,951	0.12	1,060,317	0.04
Other public Shareholders	717,255,347	79.37	2,151,766,041	79.26	717,255,347	26.42
Sub-total	**717,255,347**	**79.37**	**2,155,537,134**	**79.40**	**718,512,378**	**26.47**
Total	**903,703,493**	**100.00**	**2,714,881,572**	**100.00**	**2,714,881,572**	**100.00**

Notes:

(1) HWKFE, being the Underwriter, is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen as at the Latest Practicable Date.

(2) Dorest is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung as at the Latest Practicable Date. The Shares held by Dorest are under a charging order. These Shares had been deposited in C.A. Pacific Finance Limited which is in liquidation. Owing to the fact that the Shares held by Dorest are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.

(3) As at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. None of the Share Options and Bonus Convertible Bonds was held by the Underwriter and its parties acting in concert, and all the outstanding Share Options and Bonus Convertible Bonds are held by employees and other participants, which are counted as public Shareholders.

(4) Save for Mr. Heung and Ms. Chen who are beneficially interested in the Shares held by HWKFE, none of the Directors had any interests or short position in the Shares, underlying Shares or debentures of the Company as at the Latest Practicable Date.

(5) Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

As illustrated in the above tables, upon completion of the Rights Issue, the Company is able to fulfill the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules.

The shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Shares in full will not suffer any dilution, while the shareholding interests of those who decide not to take up any of their provisional allotments of the Rights Shares will be diluted to a maximum extent of approximately 66.67% (which is calculated by dividing the number of Rights Shares to be issued by the summation of the number of existing Shares in issue as at the Latest Practicable Date and the number of Rights Shares to be issued). As in all other cases of rights issue, dilution on the shareholdings of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. As set out under the section headed "2.6 Analysis on the Subscription Price" in this Letter, the dilution of the Comparables (i) ranged from approximately 11.11% to approximately 90.91% with an average dilution of approximately 46.16% based on the offer ratio; and (ii) ranged from approximately 0.43% to approximately 79.92% with an average dilution of approximately 15.26% based on the share value. The dilution of the Rights Issue falls within the range and is higher than the average dilution of the Comparables.

We are aware of the potential dilution effects as just mentioned. Nonetheless, we consider that the foregoing should be balanced against the following factors:

(i) all Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder through their votes at the SGM;

(ii) all Qualifying Shareholders are offered a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining or increasing (by way of excess application) their respective shareholdings in the Company at a relatively low price as compared to the historical price of the Shares;

(iii) those Qualifying Shareholders who choose to accept the Rights Shares in full can maintain their respective shareholdings in the Company after the Rights Issue;

(iv) offering a discount on the Subscription Price would encourage Qualifying Shareholders to participate in the Rights Issue and accordingly to maintain or to increase (by way of excess application) their shareholdings in the Company; this is not an uncommon practice in similar rights issue arrangements on the Stock Exchange;

(v) those Qualifying Shareholders who choose not to accept the Rights Shares have the opportunity to realise their nil-paid Rights Shares in the market as anti-dilution protection; and

(vi) the net proceeds from the Rights Issue will be used to finance the business development of the Group which will be beneficial to the Shareholders as a whole.

Having considered the above, we consider the dilution effect, which is the same for all Qualifying Shareholders, is fair and reasonable.

Nonetheless, Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market, the Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

2.9 Application for excess Rights Shares

With reference to the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

The Directors will allocate the excess Rights Shares at their discretion on a pro rata basis in proportion to the number of excess Rights Shares being applied for under each application. No reference will be made to the Rights Shares comprised in applications by PAL or the number of new Shares held by the Qualifying Shareholders. No preference will be given to applications to topping up odd lot holdings to whole lot holdings.

Taking into account the above major terms of the Rights Issue and that (i) the respective discounts represented by the Subscription Price are in line with market practice based on our analysis; (ii) the maximum possible dilution effect to the Qualifying Shareholders as a result of the Rights Issue, whom do not take up its entitlement under the Rights Issue in full, is justifiable; (iii) the expected financial effects attributable to the Rights Issue as set out under the section headed "2.10 Possible financial effects of the Rights Issue" in this Letter below; and (iv) the proposed use of proceeds from the Rights Issue by the Company as set out in the Letter from the Board, we are of the view that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2.10 Possible financial effects of the Rights Issue

(a) Effect on net tangible assets

Referring to the unaudited pro forma statement of adjusted consolidated net tangible assets value of the Group attributable to owners of the Company set out in Appendix II to the Circular, which has been prepared to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group ("**NTAV**") as at 31 December 2017, as if the Rights Issue had been completed on 31

December 2017. The unaudited consolidated NTAV of the Group attributable to owners of the Company was approximately HK$3,281.57 million and approximately HK$3.63 per Share as at 31 December 2017 before the Rights Issue. Upon completion of the Rights Issue,

(i) based on 1,807,406,986 Rights Shares to be issued (i.e., assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted), the unaudited pro forma adjusted consolidated NTAV of the Group attributable to owners of the Company as adjusted for the Rights Issue would be approximately HK$3,730.43 million and approximately HK$1.376 per Share as at 31 December 2017; and

(ii) based on 1,809,921,048 Rights Shares to be issued (i.e., assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full), the unaudited pro forma adjusted consolidated NTAV of the Group attributable to owners of the Company as adjusted for the Rights Issue would be approximately HK$3,740.37 million and approximately HK$1.378 per Share as at 31 December 2017.

Thus, the overall unaudited consolidated NTAV of the Group attributable to owners of the Company would be increased, but the NTAV per Share will be reduced.

(b) Effect on working capital

As advised by the Management, immediately upon completion of the Rights Issue, the bank balances and cash of the Group is expected to increase by an amount equivalent to the estimated net proceeds of the Rights Issue. As such, the working capital position of the Group would be improved upon completion of the Rights Issue.

(c) Effect on gearing ratio

The gearing ratio (being total borrowings of the Group of HK$173,817,000 as at 31 December 2017 (excluding liabilities associated with assets classified as held for sale (i.e., Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries, of which the disposal has been completed on 3 January 2018) of HK$670,353,000) divided by equity attributable to owners of the Company of HK$3,281,574,000 as at 31 December 2017, was approximately 5.30% as at 31 December 2017. As the borrowings of HK$173,817,000 (in respect of the carrying amount of the promissory note) have been repaid and the Group did not have any bank borrowing, upon completion of the Rights Issue, the gearing ratio will be zero.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

Taking into account the aforesaid possible financial effects, we are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

THE WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, including its full acceptance of provisional entitlement for Rights Shares under the Irrevocable Undertaking, the aggregate interest of the Underwriter and parties acting in concert with it will increase to approximately 73.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue (assuming no outstanding Share Options being exercised and no Bonus Convertible Bonds being converted, and that there is no change in the number of issued Shares on or before the Record Date). In such circumstances, the underwriting by the Underwriter of the Underwritten Shares under the Rights Issue and its full acceptance of provisional entitlement for Rights Shares will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it, unless a waiver is granted by the Executive. If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Underwriter may exceed 50%, in which event the Underwriter may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make the general offers.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Underwriter and parties acting in concert with it (including its associate, Dorest), and any Shareholders who are involved in, or interested in, the Rights Issue, the Underwriting Agreement or the Whitewash Waiver, shall abstain from voting on the resolution(s) approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver at the SGM. Save for the above, none of the Shareholders are required to abstain from voting at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver.

The Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out under the paragraph headed "The Underwriting Agreement – Conditions of the Rights Issue" in the Letter from the Board. Accordingly, the Rights Issue may or may not proceed. Furthermore, the Rights Issue is subject to the approval of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver by the Independent Shareholders at the SGM and the granting of the Whitewash Waiver by the Executive.

Having considered (i) the reasons for the Rights Issue and the use of proceeds; (ii) the terms of the Rights Issue and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned as discussed above; and (iii) the underwriting arrangement by the Underwriter is a demonstration of its commitment to the Company as well as its confidence in the future and growth prospects of the Company, we are of the opinion that the approval for the Whitewash Waiver, which is a condition of the Underwriting Agreement, is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

RECOMMENDATION

We are of the view that the terms of the Rights Issue are in the interests of the Company and the Shareholders as a whole, although the entering into of the Underwriting Agreement and the Rights Issue are not in the ordinary and usual course of business of the Company, but such are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned. Also, having taken into consideration the reasons for and possible benefits of the Rights Issue and that the Rights Issue is conditional upon the grant of the Whitewash Waiver, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Shinco Capital Limited

Bobby Chow	**Teresa Tsang**
Managing Director	*Director*

Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

1. THREE-YEAR FINANCIAL INFORMATION

Financial information on the Group for each of the three financial years ended 31 December 2015, 2016 and 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.chinastar.com.hk):

- **Annual report of the Company for the year ended 31 December 2015:**

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0429/LTN20160429553.pdf

- **Annual report of the Company for the year ended 31 December 2016:**

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428702.pdf

- **Annual report of the Company for the year ended 31 December 2017:**

  http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804271157.pdf

2. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2015, 2016 and 2017, as extracted from the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017.

	For the year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
	(restated)	*(restated)*	
Revenue from continuing operations	1,039,758	266,420	9,272
Profit/(loss) from continuing operations before tax	104,768	(291,928)	110,036
Profit/(loss) for the year from continuing operations	104,917	(291,928)	110,031
Profit/(loss) for the year from discontinued operations *(Note)*	2,947	(43,683)	(36,695)
Profit/(loss) for the year	107,864	(335,611)	73,336
Profit/(loss) for the year attributable to:			
Owners of the Company	107,871	(335,609)	73,312
Non-controlling interests	(7)	(2)	24
	107,864	(335,611)	73,336

	For the year ended 31 December		
	2015	**2016**	**2017**
	HK cents	*HK cents*	*HK cents*
	(audited)	*(audited)*	*(audited)*
	(restated)	*(restated)*	
Earnings/(loss) per Share from continuing operations			
Basic	14.83	(37.38)	12.16
Diluted	13.92	(37.38)	12.16
Earnings/(loss) per Share from discontinued operations *(Note)*			
Basic	0.42	(5.60)	(4.06)
Diluted	0.39	(5.60)	(4.06)
Dividend per Share	–	–	–

Note: Discontinued operations included (i) hotel and gaming service operations; (ii) Nam Pei Hong operations; and (iii) gaming promotion operations. Hotel and gaming service operations and Nam Pei Hong operations of the Group were discontinued for the year ended 31 December 2017, and gaming promotion operations of the Group were discontinued for the year ended 31 December 2016.

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Total assets	4,791,461	4,277,204	5,099,803
Total liabilities	1,325,704	1,069,277	1,818,343
Net assets	**3,465,757**	**3,207,927**	**3,281,460**

The auditor of the Company for each of the three years ended 31 December 2015, 2016 and 2017 was HLB Hodgson Impey Cheng Limited. There were no audit qualifications issued by the auditor of the Company for each of the three years ended 31 December 2015, 2016 and 2017. There were no exceptional or extraordinary items for each of the three years ended 31 December 2015, 2016 and 2017. The Company did not declare any dividend for each of the year ended 31 December 2015, 2016 and 2017.

3. AUDITED FINANCIAL STATEMENTS

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2017 as extracted from the 2017 Annual Report:

Consolidated Income Statement
For the year ended 31st December 2017

	Notes	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	7	9,272	266,420
Cost of sales		(8,402)	(487,593)
Gross profit/(loss)		870	(221,173)
Other revenue and other income	8	96,385	102,933
Administrative expenses		(68,931)	(76,066)
Distribution expenses		(2,392)	(4,650)
Gain/(loss) arising on change in fair value of financial assets at fair value through profit or loss		210,791	(18,879)
Other operating expenses		(63,014)	(43,783)
Profit/(loss) from operations		173,709	(261,618)
Finance costs	9	(63,896)	(30,220)
Share of result of a joint venture		223	(90)
Profit/(loss) before tax	10	110,036	(291,928)
Income tax expense	11	(5)	–
Profit/(loss) for the year from continuing operations		110,031	(291,928)
Discontinued operations	13		
Loss for the year from discontinued operations		(36,695)	(43,683)
Profit/(loss) for the year		73,336	(335,611)

	Notes	2017 HK$'000	2016 HK$'000
Profit/(loss) for the year attributable to:			
Owners of the Company		73,312	(335,609)
Non-controlling interests		24	(2)
		73,336	(335,611)
Earnings/(loss) per share	14		
From continuing and discontinued operations			
Basic		8.10	(42.98)
Diluted		8.10	(42.98)
From continuing operations			
Basic		12.16	(37.38)
Diluted		12.16	(37.38)
From discontinued operations			
Basic		(4.06)	(5.60)
Diluted		(4.06)	(5.60)

Consolidated Statement of Comprehensive Income
For the year ended 31st December 2017

	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) for the year	73,336	(335,611)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to consolidated income statement:		
Exchange differences arising on translation of foreign operations:		
Exchange differences arising during the year	(60)	14
Reclassification adjustments relating to foreign operations disposed of during the year	58	–
Other comprehensive (loss)/income for the year	(2)	14
Total comprehensive income/(loss) for the year	73,334	(335,597)
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	73,310	(335,595)
Non-controlling interests	24	(2)
	73,334	(335,597)

Consolidated Statement of Financial Position
At 31st December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	17	12,190	361,857
Interests in leasehold land	18	55,282	395,297
Investment properties	19	81,100	82,620
Available-for-sale financial assets	21	173	–
Goodwill	22	–	–
Intangible assets	23	–	7,582
Loan to a director	24	293,371	–
Deposit paid for investment	32	–	400,000
Interest in a joint venture	25	384	161
		442,500	1,247,517
Current assets			
Inventories	26	–	66,006
Stock of properties	27	2,107,376	583,240
Film rights	28	12,049	21,446
Films in progress	29	168,992	81,461
Investment in film	30	–	11,325
Trade receivables	31	3,099	231,777
Deposits, prepayment and other receivables	32	289,981	152,560
Financial assets at fair value through profit or loss	33	725,816	286,933
Loan receivables	34	200,000	825,000
Time deposits	35	155	–
Cash and bank balances	36	424,200	769,939
		3,931,668	3,029,687
Assets classified as held for sale	37	725,635	–
		4,657,303	3,029,687
Total assets		5,099,803	4,277,204

	Notes	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	38	9,037	9,037
Reserves		3,272,537	3,199,325
Equity attributable to owners of the Company		3,281,574	3,208,362
Non-controlling interests		(114)	(435)
Total equity		3,281,460	3,207,927
Non-current liabilities			
Bank borrowings	39	–	670,000
Promissory note	40	173,817	–
Obligations under finance leases	41	–	353
Deferred tax liabilities	42	–	82,948
		173,817	753,301
Current liabilities			
Bank borrowings	39	–	133,513
Obligations under finance leases	41	–	231
Trade payables	43	26,589	43,820
Deposits received, accruals and other payables	44	294,070	138,202
Amounts due to non-controlling interests	45	503,116	210
		823,775	315,976
Liabilities associated with assets classified as held for sale	37	820,751	–
		1,644,526	315,976
Total liabilities		1,818,343	1,069,277
Total equity and liabilities		5,099,803	4,277,204
Net current assets		3,012,777	2,713,711
Total assets less current liabilities		3,455,277	3,961,228

Consolidated Statement of Changes in Equity

For the year ended 31st December 2017

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Exchange reserve HK'000 (note c)	Statutory reserve HK$'000 (note d)	Share-based payment reserve HK$'000 (note e)	Bonus convertible bonds reserve HK$'000 (note f)	Capital reduction reserve HK$'000 (note g)	Property revaluation reserve HK$'000 (note h)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1st January 2016	7,531	1,411,925	1,925,439	733	291	88,834	1,132	316,008	48,171	(333,874)	3,466,190	(433)	3,465,757
Loss for the year	–	–	–	–	–	–	–	–	–	(335,609)	(335,609)	(2)	(335,611)
Other comprehensive income for the year	–	–	–	14	–	–	–	–	–	–	14	–	14
Total comprehensive income/(loss) for the year	–	–	–	14	–	–	–	–	–	(335,609)	(335,595)	(2)	(335,597)
Expiry of share options	–	–	–	–	–	(12,690)	–	–	–	12,690	–	–	–
Placement of new shares	1,506	78,312	–	–	–	–	–	–	–	–	79,818	–	79,818
Share issuing expenses	–	(2,051)	–	–	–	–	–	–	–	–	(2,051)	–	(2,051)
At 31st December 2016 and at 1st January 2017	9,037	1,488,186	1,925,439	747	291	76,144	1,132	316,008	48,171	(656,793)	3,208,362	(435)	3,207,927
Profit for the year	–	–	–	–	–	–	–	–	–	73,312	73,312	24	73,336
Other comprehensive loss for the year	–	–	–	(2)	–	–	–	–	–	–	(2)	–	(2)
Total comprehensive (loss)/income for the year	–	–	–	(2)	–	–	–	–	–	73,312	73,310	24	73,334
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	(98)	(98)	(58)	(156)
Non-controlling interests arising on acquisition	–	–	–	–	–	–	–	–	–	–	–	(70)	(70)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	425	425
Lapsed of share options	–	–	–	–	–	(6,284)	–	–	–	6,284	–	–	–
Expiry of share options	–	–	–	–	–	(14,195)	–	–	–	14,195	–	–	–
At 31st December 2017	**9,037**	**1,488,186**	**1,925,439**	**745**	**291**	**55,665**	**1,132**	**316,008**	**48,171**	**(563,100)**	**3,281,574**	**(114)**	**3,281,460**

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 shareholders of the Company as fully paid bonus shares.

(b) The contributed surplus of the Group brought forward represents the amount transferred from the capital account due to the capital reduction effective on 10th September 2002 and various capital reduction subsequently.

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution. However, the Company cannot make a distribution out of the 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 its liabilities.

(c) Exchange reserve represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollar ("HK$")) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

(d) In accordance with the article 377 of the Macau Commercial Code, the Company's subsidiaries incorporated in Macau are required to transfer a minimum of 25% of the annual net profits to a statutory reserve until that reserve equals 50% of the nominal value of their capital. The statutory reserve may not be distributed in the form of cash dividends or otherwise, during the life of the companies.

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

(f) Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 25th October 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive bonus convertible bonds ("Bonus CBs") in lieu of bonus shares), Bonus CBs can be converted into ordinary shares at initial conversion price of HK$0.01 per share were issued by the Company. The Bonus CBs are recognised as equity and are presented in "bonus convertible bonds reserve". The Bonus CBs are unlisted and irredeemable but have conversion rights entitling the bondholders to convert into an equivalent number of shares as the number of bonus shares which the bondholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the Bonus CBs. The Bonus CBs do not carry voting rights at any general meeting of shareholders of the Company. The bondholders can exercise the conversion rights at any time after the issue of Bonus CBs, subject to the terms and conditions of the applicable deed poll constituting the Bonus CBs.

(g) The capital reduction reserve 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.

(h) Property revaluation reserve relates the property transferred from owner-occupied to investment property. The excess amount between the fair value and the carrying amount of the property at the date of transfer is included in the property revaluation reserve, and will be transferred to accumulated losses upon the retirement or disposal of the relevant property.

Consolidated Statement of Cash Flows
For the year ended 31st December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax from continuing operations		110,036	(291,928)
Loss before tax from discontinued operations		(36,683)	(43,683)
Adjustments for:			
Finance costs		63,961	30,543
Interest income		(78,616)	(99,725)
Dividend income		(1,722)	(1,679)
Amortisation of film rights		8,373	487,578
Amortisation of interests in leasehold land		21,649	23,158
Depreciation of property, plant and equipment		59,814	70,110
Impairment loss recognised in respect of film rights		1,024	4,877
Impairment loss recognised in respect of intangible assets		–	449
Impairment loss recognised in respect of films in progress		–	422
Impairment loss recognised in respect of amount due from a joint venture		–	12
Impairment loss recognised in respect of trade receivables		–	1,143
Impairment loss recognised in respect of deposits, prepayment and other receivables		–	3,900
Reversal of impairment loss recognised in respect of trade receivables		(135)	–
Reversal of impairment loss recognised in respect of deposits paid and other receivables		(3,152)	–
(Gain)/loss arising on change in fair value of financial assets at fair value through profit or loss		(210,791)	18,879
(Gain)/loss on fair value change of investment properties		(4,120)	33,440
(Gain)/loss on disposal of property, plant and equipment		(732)	886
Gain on disposal of subsidiaries		(551)	–
Gain on derecognition of intangible assets		–	(120)
Loss on early redemption of promissory note		66,110	–
Share of result of a joint venture		(223)	90
Write-down of obsolete inventories		30	58

	Notes	2017 HK$'000	2016 HK$'000
Operating cash flows before movements in working capital		(5,728)	238,410
Decrease in inventories		10,175	4,145
Increase in stock of properties		(136,051)	(15,267)
Increase in films in progress		(87,531)	(202,633)
Decrease in investment in film		11,325	–
Decrease/(increase) in trade receivables		175,530	(113,493)
Increase in deposits, prepayment and other receivables		(156,307)	(97,597)
(Increase)/decrease in amounts due from non-controlling interests		(371)	329
Increase in trade payables		18,839	4,172
Decrease in deposits received, accruals and other payables		(9,015)	(138,996)
Decrease in amount due to a joint venture		–	(25)
(Decrease)/increase in amounts due to non-controlling interests		(210)	210
Cash used in operations		(179,344)	(320,745)
Tax (paid)/refund		(17)	153
Net cash used in operating activities		(179,361)	(320,592)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		1,722	1,679
Interest received		58,122	107,930
Loan advanced to a director		(500,000)	–
Deposit paid for investment		–	(400,000)
Deposit received associated with the discontinued operation		200,000	–
Increase in time deposits with original maturities more than three months		(155)	–
Net cash outflow for acquisition of assets through acquisition of subsidiaries	46(b)	(172)	–
Proceeds from disposal of property, plant and equipment		1,089	7,535
Proceeds from disposal of gaming promotion operations		–	10,000
Net cash inflow arising on disposal of subsidiaries	47	72,298	–
Payments for purchases of property, plant and equipment		(11,339)	(13,755)
Repayment of loan receivables		625,000	400,000
Net cash generated from investing activities		446,565	113,389

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(37,860)	(30,681)
Repayment of promissory note	40	(400,000)	–
New bank borrowings raised		–	63,439
Proceeds from issue of new shares		–	79,818
Repayment of obligations under finance leases		(231)	(235)
Repayment of bank borrowings		(133,513)	(184,854)
Share issuing expenses		–	(2,051)
Net cash used in financing activities		(571,604)	(74,564)
Decrease in cash and cash equivalents		(304,400)	(281,767)
Cash and cash equivalents at the beginning of the reporting period		769,939	1,051,692
Reclassification to assets classified as held for sale	37	(41,350)	–
Effect of foreign exchange rate changes		11	14
Cash and cash equivalents at the end of the reporting period			
Cash and bank balances	36	424,200	769,939

Notes to the Financial Statements

For the year ended 31st December 2017

1. GENERAL

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

The principal activities of the Group are investment, production and distribution of films and television drama series, provision of artist management services and properties development and investment.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2017

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January 2017. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle relating to amendments to HKFRS 12 *Disclosure of Interests in Other Entities*

HKAS 7 (Amendments) Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 55 to the financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 55 to the financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except as described above, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and financial positions for the current and prior years and/or on the disclosures set out in these financial statements.

(b) New and revised HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[2]
HKAS 40 (Amendments)	Transfer of Investment Property[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle except HKFRS 12 (Amendments)[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1st January 2018, with earlier application permitted.

2 Effective for annual periods beginning on or after 1st January 2019, with earlier application permitted.

3 Effective for annual periods beginning on or after 1st January 2021, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies at 31st December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt security classified as available-for-sale financial assets carried at cost less impairment as disclosed in note 21 to the financial statements: this security qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating this security to be measured at FVTOCI and will measure this security at fair value with subsequent fair value gains or losses to be recognised in profit or loss.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company also anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact to the opening accumulated losses at 1st January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31st December 2017, the Group has non-cancellable operating lease commitments of HK$20,280,000 as disclosed in note 48 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$1,428,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations 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 (the "Listing Rule") on the Stock Exchange and by the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

(c) Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

(d) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

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

- 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* are measured in accordance with that standard.

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

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

(e) Acquisition of subsidiaries not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to stock of properties and financial assets at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

(g) Interest in a joint venture

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

The results and assets and liabilities of joint venture are incorporated in these financial statements using the equity method of accounting. The financial statements of joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an interest in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's financial statements only to the extent of interests in the joint venture that are not related to the Group.

(h) 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 asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

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

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, net of value-added tax, gaming tax, returns, rebates and discounts.

- Artist management service income is recognised when the services are rendered.

- Consultancy service income is recognised when the services are rendered.

- Distribution fee income from the licensing of the distribution rights of films and television drama series is recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon the master materials have been delivered or the sharing of the relevant revenue have been reliably ascertained.

- Dividend income is recognised when the shareholder's right to received payment is established.

- Income from investment in film is recognised when the Group's entitlement to such payment has been established, which is subject to the terms of the relevant agreements.

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

- Management fee income is recognised when the services are rendered.

- Receive profit streams from the gaming promotion business is recognised when the right to receive profit is established.

- Rental income, net of any incentives given to the lessee, is recognised over the periods of the respective leases on a straight-line basis.

- Revenue from hotel accommodation, food and beverage sales and other ancillary hotel services are recognised when the relevant services have been rendered.

- Revenue from sales of health products are recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the products are delivered to customers and title is passed.

- Service income from mass marketing, table gaming operations, VIP rooms table gaming operations and slot machines operations are recognised over the periods for which right to occupy and use spaces are established according to the license and site agreements and are based on certain percentage of monthly gross gaming wins in the mass market, VIP table gaming and slot machines in the casino.

(j) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the consolidated income statement when the asset is derecognised.

(k) Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The principal annual rates are as follows:

Buildings	2%–5%
Leasehold improvements	20%–33%
Furnitures, fixtures and equipment	10%–50%
Motor vehicles	15%–20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statements.

(l) Interests in leasehold land

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "interests in leasehold land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

(m) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement for the period in which they arise.

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

(n) Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

(o) Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

Current and deferred tax for the year

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

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statements in the period in which they are incurred.

(q) Stock of properties

Stock of properties, which are held for trading, are stated at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

Properties under development held for sale

The costs of properties under development held for sale comprises specifically identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is determined by reference to the sale proceeds of properties sold in ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out or weighted average method as appropriate. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales or administrative expenses as appropriate in the period the write-down or loss occurs as appropriate. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

(s) Film rights

Film rights represent films and television drama series produced by the Group or acquired by the Group. Film rights are stated at cost less accumulated amortisation and accumulated impairment losses. The Group begins amortisation of the capitalised costs of film rights when a film is released and it begins to recognise revenue from that film.

The Group reviews and revises estimates of total projected revenue and total production costs of film rights at the end of each reporting period. If estimates are revised, the Group adjusts the amount of total projected revenue from the period when such changes in estimates take place and re-calculated the ratio for amortisation of film rights. The effect from changes in estimates is recognised on a prospective basis.

Amortisation expense is charged to the consolidated 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 carrying amount is written down to its estimated recoverable amount.

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

(t) Films in progress

Films in progress represents films and televisions drama series under production and is stated at cost at the date incurred, less any identified impairment losses. Cost includes all costs associated with the production of films including remuneration for the film director, casts and production crew, costumes, insurance, makeup and hairdressing as well as rental of camera and lighting equipment. Films in progress is transferred to film rights when the film is released.

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

(u) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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 at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other revenue and other income.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- 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
- 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 at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in the consolidated income statements excludes any dividend or interest earned on the financial assets and is included in the other revenue line item. Fair value is determined in the manner described in note 5 to the financial statement.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at FVTPL.

AFS debt security that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit paid for investment, investment in film, trade receivables, deposits paid, other receivables, loan receivables, time deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

In respect of AFS debt security, impairment losses are subsequently reversed through profit or loss 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.

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including bank borrowings, promissory note, obligations under finance leases, trade payables, deposits received, accruals and other payables (excluding receipt in advance) and amounts due to non-controlling interests) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(w) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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 retranslation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(x) Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statements on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position under the heading of "obligations under finance leases".

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in the consolidated income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

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

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

(y) Employee benefits

Annual leave

Employee entitlement to annual leave is recognised when it accrues to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees during the year. Employee entitlements to maternity leave and sick leave are not recognised until the time of leave.

Bonuses

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

Retirement benefit obligations

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme"), pension fund schemes and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group operates a 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$30,000. 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.

The Group's subsidiaries operate a defined contribution scheme for eligible employees in Macau. The defined contribution scheme is established and managed by an independent management company. Both the Group and the employees make equal share of monthly contributions to the scheme.

The employees employed by the Group's subsidiaries in the People's Republic of China (the "PRC") are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the government of the PRC is to make the specified contributions under the schemes.

Social security fund

Full-time employees of the Group are covered by a government-mandated defined contribution plan pursuant to which a fixed amount of retirement benefit would be determined and paid by the Macau government. Contributions are generally made by both employees and employers by paying a fixed amount on a monthly basis to the Social Security Fund Contribution managed by the Macau government. The Group funds the entire contribution and has no further commitments beyond its monthly contributions.

Share-based payment expenses

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity under the heading of share-based payment reserve. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statements such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to the consolidated income statement.

When 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 accumulated losses.

(z) Share-based payment expenses granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

(aa) Provisions

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

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ac) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. When inflow is virtually certain, an asset is recognised.

(ad) Related party transactions

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

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

(ae) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of consolidated income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

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 to the financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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 on-going 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 judgements in applying accounting policies

The followings are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Deferred tax on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment properties portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred tax on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred tax on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Classification of Sparkle Star Entertainment Limited ("Sparkle Star") as a joint venture

Sparkle Star is a limited liability company whose legal form confers separation between the parties to the joint arrangements and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangements have rights to the assets and obligations for the liabilities of the joint arrangements. Accordingly, Sparkle Star is classified as a joint venture of the Group.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Trade receivables

The aging 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 aging 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 consolidated income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

Assessment of economic useful lives of fixed assets

Fixed assets are depreciated or amortised over their economic useful lives. The assessment of estimated useful lives is a matter of judgement based on the experience of the Group, taking into account factors such as technological progress, changes in market demand, expected usage and physical wear and tear. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying amounts.

Impairment of films in progress

The directors of the Company review films in progress at the end of each reporting period, and identify the slow-moving films in progress that is no longer suitable for use in production. The directors of the Company estimate the net realisable value for such films in progress primarily based on the latest available market prices and current market conditions. In addition, the Group carries out review on each film at the end of each reporting period and makes allowance for any films in progress which no longer proceeds.

Impairment of film rights

Impairment assessments on film rights are performed at the end of each reporting period with reference to both internal and external market information, for example, sales forecast based on expected popularity of the respective titles, the expected production, sales and distribution costs to be reviewed to conclude the sales, and the general economic condition of the relevant markets. Changes in assumptions used in this assessment, including the forecasted revenue, may result in additional provision being made in the financial statements.

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Estimated net realisable value on properties under development classified as stock of properties

In determining whether allowances should be made for the Group's properties under development, the Group considers the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs of selling expenses) less estimated costs to completion of the properties. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value on properties under development is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, may result in material provision for impairment loss.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2017	**2016**
	HK$'000	*HK$'000*
Financial assets		
AFS financial assets	173	–
Financial assets at FVTPL	725,816	286,933
Loans and receivables (including cash and bank balances)	1,206,274	2,367,779
Financial liabilities		
Amortised cost	997,592	986,321

(b) Financial risk management objectives and policies

The Group's major financial instruments from continuing operations include AFS financial assets, financial assets at FVTPL, loan to a director, deposit paid for investment, investment in film, trade receivables, deposits paid, other receivables, loan receivables, time deposits, cash and bank balances, bank borrowings, promissory note, obligations under finance leases, trade payables, deposits received, accruals and other payables (excluding receipt in advance) and amounts due to non-controlling interests. Details of the financial instruments for the Group are disclosed in respective notes to the financial statements.

The risks associated with these financial instruments include market risk (foreign exchange risk, equity price risk and interest rate risk), credit risk and liquidity risk. 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.

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

Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, Macau, Netherlands and PRC and majority of transactions are denominated in HK$, US dollar ("US$"), Macau Pataca ("MOP"), Euro ("EUR") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group.

The Group is not exposed to material foreign exchange risk exposure in respect of HK$ against US$ and MOP as long as these currencies are pegged. Therefore US$ and MOP are excluded from the analysis below.

The transactions and monetary assets denominated in EUR and RMB is minimal, the Group considers there has no material foreign exchange risk exposure in respect of EUR and RMB. Therefore EUR and RMB are excluded from the analysis below.

The Group currently does not have a foreign currency hedging policy in respect of assets and liabilities denominated in foreign currency. The management will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Equity price risk

The Group is exposed to equity price risk through its equity investments classified as held for trading investments in financial assets at FVTPL which are measured at fair value at the end of each reporting period. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities operating in acquisition, exploration and development of iron ore in Australia and the PRC, provision of securities brokerage, underwriting and placements, margin and initial public offering financing, corporate finance advisory services, futures brokerage and asset management services and provision of gaming and hospitality services in Macau, provision of aviation and logistics services and provision of online financial market information. In addition, the Group will monitor the equity price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 5% higher/lower, the Group's pre-tax profit for the year ended 31st December 2017 would increase/decrease by approximately HK$25,412,000 (2016: pre-tax loss decrease/increase by approximately HK$14,347,000). This is mainly due to the changes in fair value of financial assets at FVTPL that trades in the Stock Exchange.

(iii) Interest rate risk

At 31st December 2017, the Group has no material variable rate interest-bearing borrowings. Therefore, the Company is not exposed to significant interest rate risk exposure.

At 31st December 2016, the Group was exposed to interest rate risk related primarily to variable rate borrowings (note 39 to the financial statements for the details of bank borrowings). The Group's income and operating cash flows were 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. At 31st December 2016, 50 basis points increase or decrease are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss for the year ended 31st December 2016 would decrease/increase by approximately HK$4,018,000. This is mainly attributable to the Group's exposure to interest rates on its variable rate of borrowings.

Credit risk

The Group's credit risk is primarily attributable to trade receivables, loan to a director, loan receivables, time deposits and cash and bank balances. At 31st December 2017, 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 arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

At 31st December 2017, the Group has certain concentration of credit risk as 99% (2016: 97%) of the trade receivables of the Group were due from 2 customers (2016: 3 customers). Management of the Company considered the credit risk is limited since the Group only trade with customers with an appropriate credit history and good reputation. The management monitored the financial background and creditability of those debtors on an ongoing basis.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtor and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31st December 2017, the Group had advanced a loan to a director. The directors of the Company considered the credit risk is limited since the Group only provides loan to director who has an appropriate credit history and good reputation. The directors of the Company monitored the financial background and creditability of borrow on an ongoing basis.

The Group deposited time deposits and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to time deposits and bank balances held to be delayed or limited. The directors of the Company monitor the credit rating of these banks on an ongoing basis, and consider that the Group's exposure to credit risk at 31st December 2017 and 31st December 2016 were minimal.

The Group does not have any other 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 cash and cash equivalents, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

The liquidity risk is under continuous monitoring by the 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 following table shows details of the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity dates for non-derivative financial liabilities are prepared based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

	Effective interest rate	On demand or within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2017						
Non-derivative financial liabilities						
Promissory note	17.49%	–	212,500	–	212,500	173,817
Trade payables	–	26,589	–	–	26,589	26,589
Deposits received, accruals and other payables	–	294,070	–	–	294,070	294,070
Amounts due to non-controlling interests	–	503,116	–	–	503,116	503,116
Total		823,775	212,500	–	1,036,275	997,592

	Effective interest rate	On demand or within 1 year	Within 2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2016						
Non-derivative financial liabilities						
Bank borrowings	2.65%–3.50%	138,082	372,600	320,850	831,532	803,513
Obligations under finance leases	5.00%–7.52%	244	373	–	617	584
Trade payables	–	43,820	–	–	43,820	43,820
Deposits received, accruals and other payables	–	138,194	–	–	138,194	138,194
Amounts due to non-controlling interests	–	210	–	–	210	210
Total		320,550	372,973	320,850	1,014,373	986,321

(c) Fair value of financial instruments

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

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair values of derivative instruments are calculated using quoted prices. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values:

	At 31st December 2017		At 31st December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loan to a director	293,371	294,636	–	–
Promissory note	173,817	184,059	–	–

The fair values of loan to a director and promissory note are classified as level 3 category in fair value hierarchy which have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the return required by the holder for investing in similar financial instrument.

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are input for which market data are not available; and

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2017				
Fair value on a recurring basis				
Financial assets at FVTPL				
– Equity securities listed in Hong Kong	508,237	–	3,635	511,872
– Call option embedded in loan to a director	–	–	213,944	213,944
	508,237	–	217,579	725,816

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2016				
Fair value on a recurring basis				
Financial assets at FVTPL				
– Equity securities listed in Hong Kong	286,933	–	–	286,933

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the date of the events or change in circumstances that caused the transfer.

On 27th November 2017, one of the Group's equity securities listed in Hong Kong classified as financial assets at FVTPL was suspended trading, therefore, no unadjusted quoted price in an active market is available. The Group measured fair value of suspended trading security by reference to the valuation carried out by Graval Consulting Limited in which fair value was measured by using significant unobservable inputs, thus, the fair value of suspended trading security was reclassified from level 1 to level 3 valuations.

During the year ended 31st December 2017, there were no transfers between level 1 to level 2 and level 2 to level 3.

During the year ended 31st December 2016, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

The following table presents the changes in financial assets at FVTPL which are classified as level 3 category for the year ended 31st December 2017:

	HK$'000
At 1st January 2017	–
Call option arising on advance from loan to a director	228,092
Transfer from level 1	34,500
Loss arising on change in fair value of financial assets at FVTPL	(45,013)
At 31st December 2017	217,579

Information about level 3 fair value measurements

	Valuation techniques	**Significant unobservable input**	**Relation of significant unobservable inputs to fair value**
Call option embedded in loan to a director	Binomial option pricing model	Underlying assets value	The underlying assets value is positively correlated to the fair value measurement of the call option
		Expected volatility	The expected volatility is positively correlated to the fair value measurement of the call option
Suspended trading security listed in Hong Kong	Market approach	Holding return basis of negative 21.65%	The holding return basis is positively correlated to the fair value measurement of the suspended trading security listed in Hong Kong
		Price-to-earning basis of 51.47%	The price-to-earning basis is positively correlated to the fair value measurement of the suspended trading security listed in Hong Kong
		Discount rate of negative 84.61%	The discount rate is negatively correlated to the fair value measurement of the suspended trading security listed in Hong Kong

In estimating the fair value of an asset, the management work closely with Graval Consulting Limited to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the directors of the Company at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

Information about the valuation techniques and inputs used in determining the fair value of the call option embedded in loan to a director and the suspended trading security listed in Hong Kong are disclosed above.

Binomial option pricing model is used for valuation for the call option component. The inputs into the model at 31st December 2017, being the subscription date are as follows:

	At 31st December 2017	At 31st December 2016
Underlying assets value (HK$'000)	384,000	N/A
Exercise price (HK$'000)	500,000	N/A
Expected volatility (%)	38.59	N/A
Dividend yield (HK$)	N/A	N/A
Option life (years)	4.27	N/A
Risk free rate (%)	1.58	N/A

(d) 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 net debts (which includes bank borrowings, promissory note, obligations under finance leases and amounts due to non-controlling interests) and equity attributable to owners of the Company (comprising share capital and reserves).

The Group is not subject to any external imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure on annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends, issue of new shares or repurchase of existing shares as well as issue of new debts or redemption of existing debts.

The Group aimed at maintaining a gearing ratio of not more than 50%. The gearing ratio at the end of the reporting period was as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Total debts *(note)*	844,170	804,097
Less: Time deposits and cash and bank balances	(424,355)	(769,939)
Net debt	419,815	34,158
Equity attributable to owners of the Company	3,281,574	3,208,362
Net debt to equity ratio	13%	1%
Total debt to equity ratio	26%	25%

Note: Total debts comprises bank borrowings, promissory note and obligations under finance leases as detailed in notes 39, 40 and 41 to the financial statements respectively.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision maker (the "CODM"), for the purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has five reportable segments – hotel and gaming service operations, film related business operations, property development operations, Nam Pei Hong operations and gaming promotion operations. The segmentations are based on the information about the operations of the Group that management uses to make decisions.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

Particulars of the Group's reportable segments for continuing and discontinued operations are summarised as follows:

Continuing operations

Film related business operations	–	Investment, production, distribution and licensing of films and television drama series and provision of other film related services including artist management services
Property development operations	–	Investment and development of properties located in Hong Kong and Macau

Discontinued operations

Hotel and gaming service operations	–	Provision of hotel services, food and beverage operation services, provision of right to occupy site and marketing services for gaming operation in Hotel Lan Kwai Fong Macau
Nam Pei Hong operations	–	Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services
Gaming promotion operations	–	Investing in operations which receive profit streams from the gaming promotion business

The segment information reported below does not include any amounts for the discontinued operations, which are disclosed more detail in note 13 to the financial statements.

Continuing operations

Segment information about these operations is presented as below:

(a) An analysis of the Group's revenue and results by operating segments

	Segment revenue		Segment results	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Film related business operations	9,264	266,240	3,817	(257,264)
Property development operations	8	180	3,935	(35,840)
	9,272	266,420	7,752	(293,104)
Reconciliation from segment results to profit/(loss) before tax				
Unallocated corporate income			75,147	100,868
Gain/(loss) arising on change in fair value of financial assets at FVTPL			210,791	(18,879)
Share of result of a joint venture			223	(90)
Unallocated corporate expenses			(183,877)	(80,723)
Profit/(loss) before tax			110,036	(291,928)

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

Segment results represent the profit earned/(loss suffered) by each segment without allocation of central administrative expenses, partial finance costs, and partial other operating expenses under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", gain/(loss) arising on change in fair value of financial assets at FVTPL and share of result of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

(b) An analysis of the Group's financial position by operating segments

	2017	**2016**
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
– Film related business operations	296,211	355,941
– Property development operations	2,216,602	672,984
Total segment assets	2,512,813	1,028,925
Assets relating to discontinued operations	725,635	1,045,835
Unallocated assets	1,861,355	2,202,444
	5,099,803	4,277,204

	2017	**2016**
	HK$'000	*HK$'000*
LIABILITIES		
Segment liabilities		
– Film related business operations	76,967	74,315
– Property development operations	528,303	3,174
Total segment liabilities	605,270	77,489
Liabilities relating to discontinued operations	820,751	103,406
Unallocated liabilities	392,322	888,382
	1,818,343	1,069,277

For the purposes of resource allocation and performance assessment between segments:

- all assets are allocated to reportable segments, other than AFS financial assets, loan to a director, interest in a joint venture, partial deposits, prepayment and other receivables, financial assets at FVTPL, loan receivables, partial cash and bank balances, partial property, plant and equipment and interests in leasehold land for central administrative purposes; and

- all liabilities are allocated to reportable segments, other than partial bank borrowings, promissory note, partial deposits received, accruals and other payables, deferred tax liabilities and partial amounts due to non-controlling interests.

(c) Other segment information

	Film related business operations		Property development operations		Unallocated		Consolidated	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment results or segment assets:								
Amortisation of film rights	8,373	487,578	–	–	–	–	8,373	487,578
Amortisation of interests in leasehold land	–	–	–	–	1,873	1,873	1,873	1,873
Depreciation of property, plant and equipment	146	–	112	250	2,839	2,818	3,097	3,068
Impairment loss recognised in respect of amount due from a joint venture	–	–	–	–	–	12	–	12
Impairment loss recognised in respect of deposits, prepayment, and other receivables	–	3,900	–	–	–	–	–	3,900
Impairment loss recognised in respect of film rights	1,024	4,877	–	–	–	–	1,024	4,877
Impairment loss recognised in respect of films in progress	–	422	–	–	–	–	–	422
Impairment loss recognised in respect of trade receivables	–	1,132	–	–	–	–	–	1,132
Reversal of impairment loss recognised in respect of trade receivables	135	–	–	–	–	–	135	–
Reversal of impairment loss recognised in respect of deposits paid and other receivables	3,152	–	–	–	–	–	3,152	–
(Gain)/loss on disposal of property, plant and equipment	–	–	–	1,794	(225)	(33)	(225)	1,761
(Gain)/loss on fair value change of investment properties	–	–	(4,120)	33,440	–	–	(4,120)	33,440
Additions to property, plant and equipment	960	–	163	–	2,021	1,129	3,144	1,129
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:								
Interest in a joint venture	–	–	–	–	384	161	384	161
Interest income	47	1,139	10	6	72,187	98,097	72,244	99,242
Finance costs	–	–	–	–	63,896	30,220	63,896	30,220
Share of profit/(loss) of a joint venture	–	–	–	–	223	(90)	223	(90)

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2017	2016
	HK$'000	*HK$'000*
Film related business operations		
Customer A *(note (i))*	N/A	185,931
Customer B *(note (ii))*	4,446	N/A
Customer C *(note (ii))*	1,664	N/A

No other customers contributed 10% or more to the Group's revenue for both years.

Notes:

(i) Revenue derived from Customer A did not contribute over 10% of revenue of the Group during the year ended 31st December 2017.

(ii) Revenue derived from Customer B and Customer C did not contribute over 10% of revenue of the Group during the year ended 31st December 2016.

(e) Geographical information

The following table sets out information about geographical location of (i) revenue from external customers and (ii) non-current assets (excluded financial instruments). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets is based on the physical location of the assets.

	Revenue from external customers		Non-current assets (excluded financial instruments)	
	2017	2016	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	768	4,448	148,809	161,877
Macau	–	–	141	685,640
The PRC	2,260	252,252	6	–
Southeast Asia (including Taiwan)	1,723	9,409	–	–
Others	4,521	311	–	–
	9,272	266,420	148,956	847,517

7. REVENUE

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Distribution fee income	6,559	264,334
Artist management service income	2,392	1,906
Income from investment in film	313	–
Gross rental income	8	180
	9,272	266,420

8. OTHER REVENUE AND OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Consultancy service income	959	972
Dividend income	1,722	1,679
Gain on disposal of property, plant and equipment	225	–
Gain on disposal of a subsidiary	1,150	–
Interest income	72,244	99,242
Management fee income	340	734
Net foreign exchange gain	16,237	–
Reversal of impairment loss recognised in respect of trade receivables	135	–
Reversal of impairment loss recognised in respect of deposits paid and other receivables	3,152	–
Sundry income	221	306
	96,385	102,933

9. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Interests on bank borrowings	25,933	30,220
Interest on promissory note	37,963	–
	63,896	30,220

10. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting):

	2017 *HK$'000*	2016 *HK$'000*
Continuing operations		
Amortisation of interests in leasehold land	1,873	1,873
Amortisation of film rights (included in cost of sales)	8,373	487,578
Auditors' remuneration and other services:		
– audit services	1,002	1,012
– non-audit services	1,207	557
	2,209	1,569
Depreciation of property, plant and equipment	3,097	3,068
Employee benefit expenses *(note 15)*	40,789	37,125
Impairment loss recognised in respect of amount due from a joint venture (included in other operating expenses)	–	12
Impairment loss recognised in respect of deposits, prepayment and other receivables (included in other operating expenses)	–	3,900
Impairment loss recognised in respect of film rights (included in other operating expenses)	1,024	4,877
Impairment loss recognised in respect of films in progress (include in other operating expenses)	–	422
Impairment loss recognised in respect of trade receivables (included in other operating expenses)	–	1,132
(Gain)/loss on disposal of property, plant and equipment	(225)	1,761
Loss on early redemption of promissory note (included in other operating expenses)	66,110	–
(Gain)/loss on fair value change of investment properties (included in other operating expenses)	(4,120)	33,440
(Gain)/loss arising on change in fair value of financial assets at FVTPL	(210,791)	18,879
Net foreign exchange (gain)/loss	(16,237)	15,989
Operating lease rental in respect of premises	4,823	3,360
Write-down of obsolete inventories	–	14
Gross rental income from investment properties	(8)	(180)
Less: Direct operating expenses incurred for investment properties during the year	127	167
	119	(13)

11. INCOME TAX EXPENSE

The income tax expense is as follow:

	2017	**2016**
	HK$'000	*HK$'000*
Continuing operations		
Current tax:		
PRC Enterprise Income Tax	5	–

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for both years. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit for both years. Netherland subsidiary is subject to the corporate tax at 20% of the taxable income up to and including EUR200,000, above which the rate is 25%.

No provision for Hong Kong Profits Tax has been made for both years as the Group has no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

No provision for Macau Complementary Tax and Netherland corporate tax has been made for both years as the Group has no assessable profit arising in Macau and Netherland.

No provision for the PRC Enterprise Income Tax has been made for the year ended 31st December 2016 as the Group has no assessable profits arising in the PRC.

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

	2017	**2016**
	HK$'000	*HK$'000*
Continuing operations		
Profit/(loss) before tax	110,036	(291,928)
Tax at domestic income tax rate	19,104	(47,343)
Tax effect of:		
Share of result of a joint venture	(37)	15
Income not taxable for tax purpose	(60,846)	(11,672)
Expenses not deductible for tax purpose	29,665	18,191
Estimated tax losses not recognised	12,161	41,362
Utilisation of tax losses previously not recognised	(52)	(553)
Income tax expense for the year	(5)	–

12. DIVIDEND

No final dividend was paid or proposed during the year, nor any dividend has been proposed by the board of directors subsequent to the end of the reporting period (2016: nil).

13. DISCONTINUED OPERATIONS

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Ace Season Holdings Limited ("Ace Season"), a wholly-owned subsidiary of the Company, and its subsidiaries which carried out the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK$85,000,000. The disposal of Nam Pei Hong operations was consistent with the Group's long-term policy to focus its activities on the Group's other business. The disposal was completed on 30th June 2017, on which date the control of Nam Pei Hong operations ceased. Details of the assets and liabilities disposed of and the calculation of the loss on disposal, are disclosed in note 47 to the financial statements.

On 10th October 2017, the Group entered into a conditional sale and purchase agreement, in which the Group agreed to sell and the purchaser agreed to buy the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries (collectively referred to as the "Disposal Group"), and sale loans due by the Disposal Group at total consideration of HK$2,000,000,000 (subject to adjustment of actual working capital) (the "LKF Disposal"). The Disposal Group is engaged in hotel and gaming service operations in Macau. The LKF Disposal has been completed on 3rd January 2018 and the financial results for the hotel and gaming service operations have been classified as discontinued operation. The assets and liabilities attributable to the Disposal Group have been classified as assets held for sale and are presented separately in the consolidated statement of financial position.

On 25th October 2016, the Group entered into a termination agreement pursuant to which the Group agreed to terminate the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau and received an amount of HK$10,000,000. The termination of gaming promotion operation was consistent with the Group's long-term policy to focus its activities on the Group's other business. The termination was completed on 30th October 2016, on which date the rights in sharing of profit streams ceased and the intangible assets associated with this gaming promotion operation no longer existed.

The comparative figure for the consolidated income statement and related notes have been re-presented as if the operations of hotel and gaming service operations and Nam Pei Hong operations discontinued during the year had been discontinued at the beginning of the comparative period.

Loss for the year from the discontinued operations are analysed as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Loss for the year from hotel and gaming service operations	(36,965)	(44,958)
Profit/(loss) for the year from Nam Pei Hong operations	869	(1,255)
Loss on disposal of Nam Pei Hong operations	(599)	–
Profit for the year from gaming promotion operations	–	2,410
Gain on derecognition of intangible assets	–	120
Loss for the year from discontinued operations	(36,695)	(43,683)

The result of the discontinued operations for the year, which have been included in the consolidated income statement, were as follows:

	2017	2016
	HK$'000	*HK$'000*
Revenue	715,494	839,918
Cost of sales	(403,056)	(498,949)
Gross profit	312,438	340,969
Other revenue and other income	17,393	20,796
Administrative expenses	(308,445)	(319,307)
Marketing, selling and distribution expenses	(57,405)	(85,478)
Other operating expenses	–	(460)
Loss from operations	(36,019)	(43,480)
Finance costs	(65)	(323)
Loss before tax	(36,084)	(43,803)
Income tax expense	(12)	–
	(36,096)	(43,803)
Loss on disposal of Nam Pei Hong operations	(599)	–
Gain on derecognition of intangible assets	–	120
Loss for the year from discontinued operations	(36,695)	(43,683)
(Loss)/profit for the year from discontinued operations attributable to:		
Owners of the Company	(36,701)	(43,681)
Non-controlling interests	6	(2)
	(36,695)	(43,683)

Loss for the year from discontinued operations has been arrived at after charging/(crediting):

	2017	2016
	HK$'000	*HK$'000*
Discontinued operations		
Amortisation of interests in leasehold land	19,776	21,285
Auditors' remuneration and other services:		
– audit services	292	527
– non-audit services	–	–
	292	527
Cost of inventories sold (included in cost of sales)	65,397	106,495
Depreciation of property, plant and equipment	56,717	67,042
Employee benefit expenses	140,596	149,152
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	–	449
Impairment loss recognised in respect of trade receivables (included in other operating expenses)	–	11
Gain on disposal of property, plant and equipment	(507)	(875)
Net foreign exchange (gain)/loss	(1,132)	747
Operating lease rental in respect of premises	10,191	18,302
Write-down of obsolete inventories	30	44

Cash flows of the discontinued operations for the year were as follows:

	2017	2016
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	(320,158)	151,894
Net cash inflow/(outflow) from investing activities	392,972	(4,466)
Net cash outflow from financing activities	(159,880)	(152,327)
Net cash outflow	(87,066)	(4,899)

14. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	2017	**2016**
	HK$'000	*HK$'000*
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	73,312	(335,609)

	2017	**2016**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	904,764	780,910

Pursuant to the deed poll of the Bonus CBs, the Bonus CBs conferred the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (2016: 1,060,317) fully paid ordinary shares of HK$0.01 each which shall be convertible from an aggregated amount of approximately HK$265,000 (2016: HK$265,000) outstanding Bonus CBs are included in the weighted average number of ordinary shares for calculating the basic earnings/(loss) per share.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings/(loss) per share calculation, the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings/(loss) per share for both years.

From continuing operations

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

	2017	**2016**
	HK$'000	*HK$'000*
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year from continuing operations attributable to owners of the Company)	110,013	(291,928)

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted earnings/(loss) per share from continuing and discontinued operations respectively.

From discontinued operations

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

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the year from discontinued operations attributable to owners of the Company)	(36,701)	(43,681)

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted earnings/(loss) per share from continuing and discontinued operations respectively.

15. EMPLOYEE BENEFIT EXPENSES

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Directors' remuneration		
– directors' fee	360	360
– salaries and other allowances	10,891	10,850
– retirement benefits scheme contributions	36	36
	11,287	11,246
Salaries and other allowances	28,621	25,117
Retirement benefits scheme contributions (excluding directors' retirement benefits scheme contributions)	735	639
Staff welfare expenses	146	123
	40,789	37,125

(a) Directors' emoluments

The Company's board of directors is currently composed of three (2016: three) independent non-executive directors and three (2016: three) executive directors.

Continuing operations

	Fees		Salaries and other allowances		Retirement benefits scheme contributions		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Name of director	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors								
Mr. Heung Wah Keung	–	–	4,940	4,940	–	–	4,940	4,940
Ms. Chen Ming Yin, Tiffany ("Ms. Chen")	–	–	4,680	4,680	18	18	4,698	4,698
Ms. Li Yuk Sheung	–	–	1,271	1,230	18	18	1,289	1,248
Independent non-executive directors								
Mr. Hung Cho Sing	120	120	–	–	–	–	120	120
Mr. Ho Wai Chi, Paul	120	120	–	–	–	–	120	120
Mr. Tang Chak Lam, Gilbert	120	120	–	–	–	–	120	120
	360	360	10,891	10,850	36	36	11,287	11,246

Discontinued operations

	Fees		Salaries and other allowances		Retirement benefits scheme contributions		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Name of director	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors								
Mr. Heung Wah Keung	–	–	960	960	–	–	960	960
Ms. Chen	–	–	960	960	–	–	960	960
Ms. Li Yuk Sheung	–	–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Hung Cho Sing	–	–	–	–	–	–	–	–
Mr. Ho Wai Chi, Paul	–	–	–	–	–	–	–	–
Mr. Tang Chak Lam, Gilbert	–	–	–	–	–	–	–	–
	–	–	1,920	1,920	–	–	1,920	1,920

During the year ended 31st December 2017 and 2016, 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 waived or agreed to waive any emoluments in both years.

Except for those disclosed in material related party transactions in note 52 to the financial statements, no other transactions, arrangements and contracts in relation to the Group's business to which the Company or any subsidiaries of the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2016: two) directors whose emoluments are reflected in (a) above and amounted to HK$11,558,000 (2016: HK$11,558,000), including those from continuing operations and discontinued operations. The emoluments payable to the remaining three (2016: three) individuals during the year which are employees of the continuing operations were as follows:

Continuing operations

	2017	**2016**
	HK$'000	*HK$'000*
Salaries and other allowances	8,344	8,190
Retirement benefits scheme contributions	54	54
	8,398	8,244

The three (2016: three) individuals include one (2016: none) senior management as disclosed in the section "Biographical Details of Directors and Senior Management".

The aggregated emoluments of each of the remaining three (2016: three) highest paid individuals fell within the following bands:

	Number of individuals	
	2017	**2016**
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	1
HK$4,000,001 to HK$4,500,000	1	1
	3	3

16. RETIREMENT BENEFITS SCHEMES

(a) The Group operates the MPF Scheme under rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All 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$30,000. The contributions are charged to the consolidated income statements as incurred. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund.

(b) The Group's subsidiaries operate a defined contribution scheme for eligible employees in Macau. The defined contribution scheme is established and managed by an independent management company. Both the Group and the employees make equal share of monthly contributions to the scheme. The contributions are charged to the consolidated income statement as incurred.

(c) The employees of the Group's subsidiary in the PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the government of the PRC is made the specified contributions under the schemes. The contributions are charged to the consolidated income statement as incurred.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1st January 2016	306,572	315,231	339,337	15,864	977,004
Additions	–	3,247	7,297	3,211	13,755
Disposals	(8,702)	(1,250)	(12,307)	(1,294)	(23,553)
At 31st December 2016 and at 1st January 2017	297,870	317,228	334,327	17,781	967,206
Additions	–	1,368	8,466	1,505	11,339
Disposals	–	(56)	(5,096)	(2,244)	(7,396)
Disposal of subsidiaries *(note 47)*	–	(3,693)	(2,486)	–	(6,179)
Reclassified to assets classified as held for sale *(note 37)*	(285,590)	(308,374)	(326,357)	(3,977)	(924,298)
At 31st December 2017	12,280	6,473	8,854	13,065	40,672
Accumulated depreciation					
At 1st January 2016	73,020	252,962	215,738	8,651	550,371
Charge for the year	11,608	37,602	18,094	2,806	70,110
Eliminated on disposals	(522)	(1,116)	(12,200)	(1,294)	(15,132)
At 31st December 2016 and at 1st January 2017	84,106	289,448	221,632	10,163	605,349
Charge for the year	5,897	27,334	23,877	2,706	59,814
Eliminated on disposals	–	(56)	(5,076)	(1,907)	(7,039)
Eliminated upon disposal of subsidiaries *(note 47)*	–	(3,090)	(1,380)	–	(4,470)
Reclassified to assets classified as held for sale *(note 37)*	(83,165)	(308,013)	(231,361)	(2,633)	(625,172)
At 31st December 2017	6,838	5,623	7,692	8,329	28,482
Carrying amounts					
At 31st December 2017	5,442	850	1,162	4,736	12,190
At 31st December 2016	213,764	27,780	112,695	7,618	361,857

At 31st December 2017, buildings with carrying amounts of approximately HK$202,425,000 (2016: HK$207,896,000) have been pledged to secure general banking facilities granted to the discontinued operations which was reclassified to assets classified as held for sale at 31st December 2017.

At 31st December 2017, the carrying amount of furniture, fixtures and equipment includes an amount of approximately HK$353,000 (2016: HK$584,000) in respect of assets held under finance leases which was reclassified to assets classified as held for sale at 31st December 2017.

The carrying amounts of buildings shown above comprise:

	2017	**2016**
	HK$'000	*HK$'000*
Buildings located in Hong Kong:		
– Medium-term lease	5,442	5,868
Buildings located in Macau:		
– Medium-term lease	–	207,896
	5,442	213,764

18. INTERESTS IN LEASEHOLD LAND

	2017	**2016**
	HK$'000	*HK$'000*
Cost		
At 1st January	590,385	590,385
Reclassified to assets classified as held for sale *(note 37)*	(520,725)	–
At 31st December	69,660	590,385
Accumulated amortisation		
At 1st January	195,088	171,930
Amortisation provided for the year	21,649	23,158
Reclassified to assets classified as held for sale *(note 37)*	(202,359)	–
At 31st December	14,378	195,088
Carrying amounts		
At 31st December	55,282	395,297

The carrying amounts of interests in leasehold land shown above comprise:

	2017	**2016**
	HK$'000	*HK$'000*
Leasehold land located in Hong Kong, held on medium-term lease	55,282	57,155
Leasehold land located in Macau, held on medium-term lease	–	338,142
	55,282	395,297

At 31st December 2017, interests in leasehold land with carrying amounts of approximately HK$318,366,000 (2016: HK$338,142,000) have been pledged to secure general banking facilities granted to the discontinued operations which was reclassified to assets classified as held for sale at 31st December 2017.

19. INVESTMENT PROPERTIES

	2017	2016
	HK$'000	*HK$'000*
At 1st January	82,620	116,060
Disposal of subsidiaries *(note 47)*	(5,640)	–
Gain/(loss) arising on change in fair value	4,120	(33,440)
At 31st December	81,100	82,620

	2017	2016
	HK$'000	*HK$'000*
Unrealised gain/(loss) on fair value change of investment properties included in the consolidated income statement (included in other operating expenses)	4,120	(33,440)

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

The carrying amounts of investment properties shown above comprises:

	2017	2016
	HK$'000	*HK$'000*
Investment properties located in Hong Kong held on long-term lease	81,100	82,620

20. FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

(a) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2017				
Fair value on a recurring basis				
Investment properties located in Hong Kong	–	81,100	–	81,100

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2016				
Fair value on a recurring basis				
Investment properties located in Hong Kong	–	82,620	–	82,620

The Group's policy is to reorganise transfers between levels of fair value hierarchy as at the end of the date of the events or change in circumstances that caused the transfer. During the year ended 31st December 2017 and 31st December 2016, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

The Group's investment properties were revalued at the end of each reporting period by an independent firm of surveyors, JP Assets Consultancy Limited, who have among their staff member of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management of the Company have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

In estimating the fair value of the properties, the highest and best use of the properties are their current use.

(b) Valuation techniques and inputs used in level 2 fair value measurements

The fair value of investment properties are determined using the market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	**2016**
	HK$'000	*HK$'000*
Unlisted debt security		
Club debenture	173	–

The unlisted debt security measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

At 31st December 2017, the directors of the Company had referenced to comparable sales evidence as available in the relevant market and considered that the cost of investment are still considered to be recoverable, thus no impairment loss was made during the year ended 31st December 2017.

22. GOODWILL

	2017	2016
	HK$'000	*HK$'000*
Cost		
At 1st January	109,614	118,589
Reclassified to assets classified as held for sale *(note 37)*	(911)	–
Derecognised during the year	–	(8,975)
At 31st December	108,703	109,614
Accumulated impairment losses		
At 1st January	109,614	118,589
Reclassified to assets classified as held for sale *(note 37)*	(911)	–
Derecognised during the year	–	(8,975)
At 31st December	108,703	109,614
Carrying amounts		
At 31st December	–	–

Goodwill generated from hotel and gaming service operations has reclassified to assets classified as held for sale at 31st December 2017.

Goodwill generated from gaming promotion operations were derecognised on termination of the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau on 30th October 2016.

Impairment testing of goodwill

Before recognition of impairment losses, the carrying amounts of goodwill were allocated to groups of CGUs as follows:

	2017	2016
	HK$'000	*HK$'000*
Film related business operations	108,703	108,703
Hotel and gaming service operations	–	911
	108,703	109,614

23. INTANGIBLE ASSETS

	Rights in sharing of profit streams	Trademark	Exclusive distribution right	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st January 2016	989,205	12,483	2,021	1,003,709
Derecognised during the year	(989,205)	–	–	(989,205)
At 31st December 2016 and at 1st January 2017	–	12,483	2,021	14,504
Disposal of subsidiaries *(note 47)*	–	(12,483)	(2,021)	(14,504)
At 31st December 2017	–	–	–	–
Accumulated amortisation and impairment losses				
At 1st January 2016	978,876	4,901	2,021	985,798
Derecognised during the year	(979,325)	–	–	(979,325)
Impairment loss recognised	449	–	–	449
At 31st December 2016 and at 1st January 2017	–	4,901	2,021	6,922
Eliminated upon disposal of subsidiaries *(note 47)*	–	(4,901)	(2,021)	(6,922)
At 31st December 2017	–	–	–	–
Carrying amounts				
At 31st December 2017	–	–	–	–
At 31st December 2016	–	7,582	–	7,582

The following useful lives are used in the calculation of amortisation:

Rights in sharing of profit streams	Indefinite
Trademark	Indefinite
Exclusive distribution right	3.5 years

On 30th June 2017, the Group had disposed the entire equity interest in Ace Season, which carried out the Group's Nam Pei Hong operations.

On 30th October 2016, the Group terminated the rights in sharing of profit streams which carried out the Group's gaming promotion operations and received the amount of HK$10,000,000. A gain on derecognition of intangible asset with the amount of approximately HK$120,000 was recognised and included in loss for the year from the discontinued operations for the year ended 31st December 2016.

Impairment testing of intangible assets with indefinite useful lives

For the purpose of impairment testing, the trademark and rights in sharing of profit streams are allocated at acquisition to the CGU that are expected to benefit from such intangible asset.

The intangible assets with indefinite useful lives are considered by the directors of the Company as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The intangible assets with indefinite useful lives will not be amortised until its useful life are determined to be finite. Instead they will be tested for impairment annually and whenever there are indications that they may be impaired.

At 31st December 2016, the directors of the Company assessed the recoverable amount of the trademark with reference to the valuation performed by JP Assets Consultancy Limited, a firm of independent qualified professional valuers, which valued the trademark by using the discounted cash flow method and determined that no impairment loss should be recognised against the trademark. The recoverable amount of the CGU of the trademark from Nam Pei Hong operations was determined based on value in use calculation, which used cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 20% per annum and cash flows beyond the five-year period were extrapolated using a 3% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which included gross margin, growth and discount rate, such estimation was based on past experience and management's expectations for the market development.

The directors of the Company believe that any reasonably possible change in any of these assumptions on which the recoverable amount is based would not cause the carrying amount of the trademark exceeds the recoverable amount.

The intangible assets associated with the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau for an indefinite period of time.

The junket licences associated with the rights in sharing of the profit streams was renewable annually by the Macau government. The directors of the Company are of the opinion that the Group would renew the junket licences continuously and had the ability to do so. Therefore, the directors of the Company considered that the junket licences associated will the rights in sharing of the profit streams had an indefinite useful life because it was expected to contribute to net cash inflow indefinitely.

At 30th June 2016, the directors of the Company assessed the recoverable amount of rights in sharing of profits streams with reference to the valuation performed by JP Assets Consultancy Limited, a firm of independent qualified professional valuers, which valued the rights in sharing of profit streams pursuant to the respective junket representative agreement using the discounted cash flow method and determined that intangible asset associated with it was impaired by approximately HK$449,000. The recoverable amount of the CGU of the rights in sharing of profit streams from gaming promotion operation was determined based on value in use calculation, which used cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 19% per annum and cash flows beyond the five-year period were extrapolated using a zero growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which included gross margin, growth and discount rate, such estimation was based on past experience and management's expectations for the market development. Accordingly, the intangible assets associated with rights in sharing of profit streams was impaired by HK$449,000 during the year ended 31st December 2016.

24. LOAN TO A DIRECTOR

	2017	2016
	HK$'000	*HK$'000*
At 1st January	–	–
Loan portion advanced at initial recognition	271,908	–
Imputed interest income	39,955	–
Interest received and receivables	(18,492)	–
At 31st December	293,371	–

On 29th November 2016, Best Combo Limited ("Best Combo"), a wholly-owned subsidiary of the Company, as a lender, and Ms. Chen, as a borrower, entered into a loan agreement (the "Loan Agreement") pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan (the "Loan") in the principal amount of HK$500,000,000 (subject to the loan amount adjustment). The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the drawdown date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base Holdings Limited ("Reform Base"), a company incorporated in the British Virgin Islands (the "BVI") and wholly owned by Ms. Chen.

Ms. Chen may prepay the Loan (together with accrued interest) in full after the date of drawdown without penalty provided not less than ten business days' prior written notice has been given to Best Combo.

During the year ended 31st December 2017, the maximum amount outstanding to the Group is HK$500,000,000.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the call option (the "Call Option") to Best Combo which allows Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base at HK$500,000,000 (subject to the loan amount adjustment) during the exercise period falling on the expiry of 60 months from the drawdown date of the Loan.

On 6th April 2017, the drawdown date of the Loan, the directors of the Company has recognised the amounts of approximately HK$271,908,000 and HK$228,092,000 for the loan portion and the call option portion respectively by reference to the fair value arrived on the basis of valuation carried out by Graval Consulting Limited, a firm of independent qualified professional valuers. The effective interest rate of loan to a director on initial recognition is 20.76%.

25. INTEREST IN A JOINT VENTURE

	2017	2016
	HK$'000	*HK$'000*
Cost of investment in a joint venture, unlisted in Hong Kong	–	–
Share of post-acquisition profit and other comprehensive income in a joint venture, net of dividend received	384	161
	384	161

The Group's joint venture is unlisted corporate entities which quoted market prices are not available.

Details of the Group's joint venture at the end of the reporting period are set out below:

Name of joint venture	Form of business structure	Place of incorporation	Class of shares held	Proportion of ownership interest and voting power held by the Group 2017 %	2016 %	Principal activities
Sparkle Star Entertainment Limited	Incorporated	Hong Kong	Ordinary	50	50	Provision of artist management services and production of television drama series

The joint venture is accounted for using the equity method in these financial statements.

Aggregate information of a joint venture that is not individually material

	2017 *HK$'000*	**2016** *HK$'000*
The Group's share of profit/(loss) and total comprehensive income/(loss) for the year	223	(90)
Carrying amount of the Group's interest in a joint venture	384	161

26. INVENTORIES

	2017 *HK$'000*	**2016** *HK$'000*
Food materials and supplies	–	7,002
Finished goods	–	59,004
	–	66,006

Inventories are expected to be recovered within one year.

During the year ended 31st December 2016, certain inventories were obsolete that could not generate future economic benefits and a write-down of obsolete inventories of approximately HK$58,000 was recognised in the consolidated income statement.

27. STOCK OF PROPERTIES

	2017 *HK$'000*	**2016** *HK$'000*
Properties under development held for sales		
At 1st January	583,240	567,973
Additions	136,051	15,267
Acquisition of assets through acquisition of subsidiaries *(note 46)*	1,388,085	–
At 31st December	2,107,376	583,240

The stock of properties is located in Macau and held under medium-term leases.

Properties under development held for sales are expected to be recovered after more than one year.

In September 2013, the government of Macau Special Administrative Region (the "Macau Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau Government in granting the requisite approvals and permits for the development of the property located in Lot B in Quarteirão 6 at Zona de Aterros do Porto Exterior (ZAPE) ("Lot 6B") , Lot 6B could not commence development and the Macau Government has started the administrative work to reclaim it. Lot 6B is one of the four lots of land in a project held under development and is intended to be developed as recreational area. The Group has filed an appeal to the president of the Macau Second Instance Court on 30th December 2016 and the Second Instance Court has not ruled on this matter yet.

Based on a legal opinion obtained by the Group, the Group has sufficient grounds to apply to the courts of the Macau for remedies in all aspects. A few legal actions have been initiated by the legal representatives of the Group and are now in progress. Based on the opinion of the legal expert, the court will consider and judge on the essential points regarding the delays caused by the Macau Government and the right of the Group to claim for compensation of loss.

As the outcome of the appeal is still uncertain, the directors of the Company have taken into account all available evidence, including the opinion of legal experts and believe that the Group has strong legal grounds to obtain a favourable judgement and seek for legal compensation. No impairment loss should be recognised in respect of stock of properties was considered necessary at 31st December 2017 and at 31st December 2016.

28. FILM RIGHTS

	2017	**2016**
	HK$'000	*HK$'000*
Cost		
At 1st January	758,178	266,383
Transfer from films in progress	–	501,356
Expired	–	(9,561)
At 31st December	758,178	758,178
Accumulated amortisation and impairment losses		
At 1st January	736,732	253,838
Amortisation provided for the year	8,373	487,578
Expired	–	(9,561)
Impairment loss recognised	1,024	4,877
At 31st December	746,129	736,732
Carrying amount		
At 31st December	12,049	21,446

Impairment testing of film rights

For the purpose of impairment testing, film rights have been allocated to the CGU of film related business operations.

At 31st December 2017, the directors of the Company assessed the recoverable amount of the CGU of film rights with reference to the valuation performed by JP Assets Consultancy Limited, a firm of independent qualified professional valuers, and determined that film rights was impaired by approximately HK$1,024,000 (2016: HK$4,877,000).

The recoverable amount of the CGU of film rights has been determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 17% per annum (2016: 18% per annum) and cash flows beyond the five-year period are extrapolated using zero growth rate for both years. This growth rate does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, growth rate and discount rate, such estimation is based on past experience and management's expectations of the market development.

The impairment loss recognised during the year solely relates to the Group's film related business operations. As the CGU has been reduced to its recoverable amount of approximately HK$12,049,000 (2016: HK$21,446,000), any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

29. FILMS IN PROGRESS

	2017	**2016**
	HK$'000	*HK$'000*
At 1st January	81,461	380,606
Additions	87,531	202,633
Transfer to film rights	–	(501,356)
Impairment loss recognised	–	(422)
At 31st December	168,992	81,461

The films in progress were measured at cost less accumulated impairment losses, if any.

The Group performed impairment tests at the end of each reporting period by comparing the attributable carrying amounts of the films in progress with the recoverable amounts.

In light of the stage of film production, the Group regularly reviewed the progress of film production of each film. During the year ended 31st December 2016, the directors of the Company decided to suspense the production of certain films in different stage of production due to the prevail market circumstances, and determined that amount of approximately HK$422,000 was impaired and recognised in the consolidated income statement.

30. INVESTMENT IN FILM

	2017	**2016**
	HK$'000	*HK$'000*
Investment in production of film measured at amortised cost	–	11,325

The amount represents investment in production of film which is co-financing with other production companies.

The investment is governed by the relevant agreement entered into between the Group and the production company whereby the Group is entitled to benefits generated from the distribution of the related film production.

During the year ended 31st December 2017, an investment cost with the amount of approximately HK$11,325,000 and an investment income with the amount of approximately HK$313,000 was received by the Group.

Since the initial investment is expected to be recovered within one year the amount is classified as current assets.

31. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	4,435	233,214
Less: Allowance for doubtful debts	(1,336)	(1,437)
	3,099	231,777

The following is an aging analysis of trade receivables, presented based on the invoice dates, which approximates the respective revenue recognition dates and net of allowance for doubtful debts:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	2,758	181,366
31 to 60 days	–	3,978
61 to 90 days	–	538
Over 90 days	341	45,895
	3,099	231,777

The average credit period granted to customers ranges from 30 to 90 days.

At 31st December 2017, trade receivables with the amounts of approximately HK$3,068,000 (2016: HK$224,903,000) is due from the Group's top two (2016: three) customers.

The movement in the allowance for doubtful debts during the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1st January	1,437	305
Impairment loss recognised	–	1,143
Reversal of impairment	(135)	–
Disposal of subsidiaries *(note 47)*	(11)	–
Foreign exchange translation loss/(gain)	45	(11)
At 31st December	1,336	1,437

At 31st December 2016, included in the allowance for doubtful debts are individually impaired trade receivables with a balance of approximately HK$1,143,000 which are past due at the end of the reporting period. The allowance for doubtful debts recognised because there has been a significant change in credit quality and the amounts are considered irrecoverable.

Trade receivables disclosed above include amounts (see below for aging analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2017	2016
	HK$'000	*HK$'000*
Over 90 days	341	45,895

In determining the recoverability of a trade receivable, the directors of the Company consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

32. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Deposits paid	6,183	11,867
Deposit paid for investment	–	400,000
Prepayment	4,532	22,822
Other receivables	279,266	117,871
	289,981	552,560
Less: Deposits, prepayment and other receivables classified as current portion	(289,981)	(152,560)
Deposit paid classified as non-current portion	–	400,000

During the year ended 31st December 2016, the Group's deposits, prepayment and other receivables are impaired with amounts of approximately HK$3,900,000 due to change in credit quality and the directors of the Company considered irrecoverable.

At 31st December 2016, deposit paid for investment with amount of HK$400,000,000 represented cash deposit paid by the Group in respect of acquisition of the entire equity interest of Modern Vision (Asia) Limited ("Modern Vision") and its subsidiaries ("Modern Vision Group") pursuant to a conditional sale and purchase agreement dated 29th November 2016. The acquisition was completed on 6th April 2017.

33. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong	511,872	286,933
Derivative financial instruments:		
– Call Option embedded in loan to a director	213,944	–
	725,816	286,933

At the end of the reporting period, all financial assets at FVTPL are stated at fair value. Fair values of listed securities classified as held for trading investments (other than suspended trading security listed in Hong Kong) are determined with reference to quoted market closing price.

At 31st December 2017, the fair value of suspended trading security listed in Hong Kong with the amount of approximately HK$3,635,000 was reference to the valuation carried out by Graval Consulting Limited, a firm of independent qualified professional valuers. The fair value of suspended trading security listed in Hong Kong was valued by using the market approach with a discount rate of negative 84.61% at 31st December 2017. The discount rate is used to reflect the risk of exposure to corporate governance, illiquidity and financial distress etc perceived by market participants who hold the suspended shares with remote likelihood of trade resumption.

At 31st December 2017, the fair value of the Call Option with the amount of approximately HK$213,944,000 was arrived by reference to valuation carried out by Graval Consulting Limited, a firm of independent qualified professional valuers. The fair value of the Call Option was valued by using the binomial option pricing model with discount rate of 21.26% at 31st December 2017. A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of other available alternative investments that are comparable in terms of risk and other investment characteristics.

The fair value of the Group's equity securities listed in Hong Kong (excluding suspended trading security at 31st December 2017) at the date of approval of these financial statements were approximately HK$257,938,000 (2016: HK$236,094,000).

34. LOAN RECEIVABLES

	2017	**2016**
	HK$'000	*HK$'000*
Fixed-rate loan receivables	200,000	825,000

Loan receivables are interest bearing of 3% per annum (2016: 3% to 12% per annum) and repayable on the date falling 24 months from the first drawdown date. Loan receivables contain a clause of repayable on demand and thus classified as current assets.

At 31st December 2016, loan receivables with amounts HK$150,000,000 are secured by the personal guarantees of the sole beneficial owner and the director of respective borrowers.

35. TIME DEPOSITS

	2017	**2016**
	HK$'000	*HK$'000*
Time deposits held at bank	155	–

The time deposits are interest bearing at 0.225% per annum and mature within 92 days.

Time deposits with amount of approximately HK$136,000 are pledged for guaranteed to Macau Government for development of stock of properties located in Macau.

Time deposits held at bank is denominated in MOP.

36. CASH AND BANK BALANCES

Bank balances carry interest at floating rates and placed with creditworthy banks with no recent history of default. Short-term time deposits are made for varying periods of between one week to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates ranged from 0.13% to 1.3% per annum (2016: 0.06% to 2.80% per annum).

For the purpose of the consolidated statement of cash flows, cash and bank balances include cash on hand and cash at banks and short-term time deposits. Cash and bank balances at 31st December 2017 and 31st December 2016 as shown in the consolidated statement of cash flows can be reconciled to the related items as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Cash on hand and cash at banks	43,755	426,509
Short-term time deposits	380,445	343,430
	424,200	769,939

At 31st December 2017, the Group's cash and bank balances denominated in US$, MOP, EUR and RMB are approximately HK$574,000 (2016: HK$1,860,000), HK$825,000 (2016: HK$24,905,000), HK$752,000 (2016: HK$374,000) and HK$34,218,000 (2016: HK$15,128,000) respectively.

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the foreign exchange control promulgated imposed by the government of the PRC. The Group's cash and bank balances denominated in RMB which located in Hong Kong and Macau are not subject to the foreign exchange control.

37. ASSETS CLASSIFIED AS HELD FOR SALE

In the LKF Disposal, the Disposal Group are engaged in hotel and gaming service operations in Macau. The assets and liabilities attributable to the Disposal Group, which the disposal of the Disposal Group has been completed on 3rd January 2018, have been classified as held for sale and are presented separately in the consolidated statement of financial position.

The major classes of assets and liabilities of the Disposal Group classified as held for sale are as follows:

	2017
	HK$'000
Assets of the Disposal Group classified as held for sale at 31st December 2017	
Property, plant and equipment *(note 17)*	299,126
Interests in leasehold land *(note 18)*	318,366
Inventories	3,616
Trade receivables	49,487
Deposits, prepayment and other receivables	13,690
Cash and bank balances	41,350
	725,635
Liabilities of the Disposal Group classified as held for sale at 31st December 2017	
Trade payables	34,233
Deposits received, accruals and other payables	35,277
Bank borrowings *(note 39)*	670,000
Obligations under finance leases *(note 41)*	353
Deferred tax liabilities *(note 42)*	80,888
	820,751
Net liabilities of the Disposal Group at 31st December 2017	(95,116)

38. SHARE CAPITAL

	Number of shares		Amount	
	2017	**2016**	**2017**	**2016**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At 1st January and 31st December	50,000,000	50,000,000	500,000	500,000
Issued and fully paid:				
At 1st January	903,704	753,104	9,037	7,531
Placement of new shares *(note)*	–	150,600	–	1,506
At 31st December	903,704	903,704	9,037	9,037

Note: On 28th October 2016, the Company allotted and issued an aggregate 150,600,000 new shares of HK$0.01 each at a price of HK$0.53 per share. The net proceeds of approximately HK$77,767,000 were intended to be used for film production.

39. BANK BORROWINGS

	2017	**2016**
	HK$'000	*HK$'000*
Bank borrowings:		
– Secured	–	790,000
– Unsecured	–	13,513
	–	803,513
Carrying amounts repayable:		
Within one year	–	133,513
More than one year, but not exceeding two years	–	120,000
More than two years, but not more than five years	–	360,000
Over five years	–	190,000
	–	803,513
Less: Amounts shown under current liabilities	–	(133,513)
Amounts shown under non-current liabilities	–	670,000

At 31st December 2017, the Group had secured bank borrowing with remaining balance of HK$670,000,000 (2016: HK$790,000,000) which is secured by the Group's buildings and interests in leasehold land with carrying amounts of approximately HK$202,425,000 (2016: HK$207,896,000) and HK$318,366,000 (2016: HK$338,142,000) respectively, quota capital of Hotel Lan Kwai Fong (Macau) Limited and Classic Management & Services Company Limited ("Classic Management"). The secured bank borrowing is also guaranteed by the Company and Classic Management. The secured bank borrowing is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable by remaining of 20 equal consecutive quarterly instalments of HK$30,000,000 per quarter and a final repayment of HK$70,000,000 at the maturity date of the secured bank borrowing. The secured bank borrowing of HK$670,000,000 was reclassified to liabilities associated with assets classified as held for sale at 31st December 2017.

At 31st December 2016, the Group had unsecured import trade loans of approximately HK$13,513,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH Holdings Limited, interest bearing at 2% per annum over one month Hong Kong Inter-bank Offer Rate and repayable on demand. The import trade loans had been fully repaid during the year ended 31st December 2017.

All interest-bearing bank borrowings are denominated in HK$.

40. PROMISSORY NOTE

	2017	**2016**
	HK$'000	*HK$'000*
At 1st January	–	–
Issue of promissory note *(note (i))*	483,913	–
Imputed interest on promissory note	37,963	–
Interest paid and payable	(14,169)	–
Repayment of promissory note *(note (ii))*	(400,000)	–
Loss on early redemption on promissory note *(note (ii))*	66,110	–
At 31st December	173,817	–

Notes:

(i) On 6th April 2017, the Company acquired the entire equity interest in Modern Vision and the sale loan due by Modern Vision with total consideration of HK$1,000,000,000, in which HK$600,000,000 was settled by issue of promissory note to Ms. Chen by the Company. The promissory note was unsecured, interest bearing at 5% per annum calculated on the basis of 365-day year and payable semi-annually in arrears and mature 24 months from the date of issuance of the promissory note. The Company can give a notice to Ms. Chen not less than ten business days' prior notice in writing of its intention to repay any part of the outstanding principal amount of the promissory note. The early repayment option is closely related to the host contract. The fair value of promissory note with the amount of approximately HK$483,913,000 at the issue date have been arrived by reference to the valuation carried out by Graval Consulting Limited, a firm of independent qualified professional valuers. The effective interest rate of the promissory note at the issue date is 17.49%.

(ii) During the year ended 31st December 2017, the Company has partially redeemed promissory note with principal amount of HK$400,000,000 to Ms. Chen. Loss on early redemption on promissory note with the amount of approximately HK$66,110,000 was recognised in the consolidated income statement by the Company.

41. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its equipment under finance leases. The average lease term is 5 years for both years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.00% to 7.52% (2016: 5.00% to 7.52%) per annum. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	–	266	–	231
In the second to fifth year	–	407	–	353
	–	673	–	584
Less: Future finance charges	–	(89)	–	–
Present value of lease obligations	–	584	–	584
Less: Amounts due for settlement within 12 months (show under current liabilities)			–	(231)
Amounts due for settlement after 12 months (show under non-current liabilities)			–	353

At 31st December 2017, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets with the carrying amounts of approximately HK$353,000 (2016: HK$584,000).

Obligations under finance leases of HK$353,000 (2016: HK$584,000) was reclassified to liabilities associated with assets classified as held for sale at 31st December 2017.

All obligations under finance leases are denominated in HK$.

42. DEFERRED TAX LIABILITIES

The following is the major deferred tax balances recognised by the Group and movements thereon:

	Fair value adjustment on acquisition of subsidiaries
	HK$'000
At 1st January 2016, at 31st December 2016 and at 1st January 2017	82,948
Disposal of subsidiaries *(note 47)*	(2,060)
Reclassified to liabilities associated with assets classified as held for sale *(note 37)*	(80,888)
At 31st December 2017	–

With regard to the Group's investment properties, as none of the investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, the Group has not recognised any deferred tax on change in fair value of the investment properties as the Group is not subject to any income tax on disposal of its investment properties.

At the end of the reporting period, the Group had unused estimated tax losses of approximately HK$555,719,000 (2016: HK$814,421,000) available for offset against future profits. No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams and unrecognised tax losses could be carried forward indefinitely.

43. TRADE PAYABLES

The following is an aging analysis of trade payables, based on the invoice dates:

	2017	**2016**
	HK$'000	*HK$'000*
0 to 30 days	23,328	19,659
31 to 60 days	211	6,611
61 to 90 days	–	92
Over 90 days	3,050	17,458
	26,589	43,820

The average credit period granted by suppliers ranges from 30 to 90 days.

44. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	2017	**2016**
	HK$'000	*HK$'000*
Deposits received *(note i)*	82,693	81,187
Deposits received associated with the discontinued operation *(note ii)*	200,000	–
Accruals	9,344	51,039
Receipt in advance	–	8
Other payables	2,033	5,968
	294,070	138,202

Notes:

(i) Deposits received mainly represented deposits received from distributors prior to the theatrical release and delivery of master materials of film.

(ii) At 31st December 2017, deposit received associated with the discontinued operation represented the deposit received in relation to the LKF Disposal.

45. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

46. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Modern Vision

On 29th November 2016, Best Combo as purchaser and Ms. Chen as vendor, entered into a conditional sale and purchase agreement in relating to the acquisition of entire equity interest in Modern Vision and a sale loan due by Modern Vision at total consideration of HK$1,000,000,000 (subject to purchase price adjustment), in which HK$400,000,000 as a deposit was settled by cash and HK$600,000,000 was settled by issue of a promissory note. Modern Vision is an investment holding company and the principal activities of Modern Vision Group is property investment and development and its major asset consist of stock of properties located in Macau. The acquisition was completed on 6th April 2017. The acquisition, being not constituted as business combination, has been accounted for using the acquisition method.

Modern Vision was acquired for expanding the Group's property investment business in Macau.

Consideration transferred:

	Face value	Fair value of the consideration
	HK$'000	*HK$'000*
Cash deposit paid for investment *(note 32)*	400,000	400,000
Issue of promissory note *(note 40)*	600,000	483,913
Total consideration	1,000,000	883,913

The acquisition has been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

	HK$'000
Stock of properties *(note 27)*	1,388,085
Accruals	(1,126)
Amounts due to non-controlling interests	(503,116)
Net assets	883,843
Non-controlling interests	70
Net assets acquired of	883,913

Net cash outflow arising on acquisition of Modern Vision:

	HK$'000
Net cash outflow	400,000

According to the deed of assignment of loan, the sale loan amounted to approximately HK$499,909,000 was acquired by the Group upon completion of the acquisition.

(b) Acquisition of Riche Video Limited ("Riche Video")

On 17th February 2017, the Group completed the acquisition of the entire equity interest in Riche Video and a sale loan due by Riche Video at total consideration of HK$173,000. The principal activity of Riche Video is distribution of films and television drama series. The acquisition, being not constituted as business combination, has been accounted for using the acquisition method.

Consideration transferred:

	HK$'000
Cash consideration	173

The acquisition has been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

	HK$'000
AFS financial assets	173
Cash and bank balances	1
Accruals	(1)
Net assets acquired of	173

Net cash outflow arising on acquisition of Riche Video:

	HK$'000
Cash consideration paid	173
Less: Cash and cash equivalents acquired of	(1)
Net cash outflow	172

According to the deed of assignment of loan, the sale loan amounted to approximately HK$39,851,000 was acquired by the Group upon completion of the acquisition.

47. **DISPOSAL OF SUBSIDIARIES**

(a) **Disposal of Ace Season**

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Ace Season, which principally engaged in the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK$85,000,000. The disposal was completed on 30th June 2017.

Consideration transferred:

	HK$'000
Cash consideration	85,000

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment *(note 17)*	1,709
Intangible assets *(note 23)*	7,582
Inventories	52,185
Trade receivables	3,841
Deposits, prepayment and other receivables	7,213
Amount due from non-controlling interests	371
Cash and cash equivalents	19,502
Trade payables	(1,837)
Accruals and other payables	(3,274)
Amount due to immediate holding company	(92,724)
Deferred tax liabilities *(note 42)*	(2,060)
Net liabilities disposed of	(7,492)

Loss on disposal of Ace Season:

	HK$'000
Cash consideration received	85,000
Net liabilities disposed of	7,492
Amount due to immediate holding company assigned to the purchaser	(92,724)
Non-controlling interests	(425)
Release of exchange reserve upon disposal of subsidiaries	58
Loss on disposal of Ace Season	(599)

Net cash inflow arising on disposal of Ace Season:

	HK$'000
Cash consideration received	85,000
Less: cash and cash equivalents disposed of	(19,502)
Net cash inflow	65,498

(b) Disposal of Rainbow Profit Limited ("Rainbow Profit")

On 9th May 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Rainbow Profit, a wholly-owned subsidiary of the Company, and a sale loan due by Rainbow Profit at total consideration of HK$6,800,000. Rainbow Profit is engaged in property investment operations in Hong Kong. The disposal was completed on 18th July 2017.

Consideration transferred:

	HK$'000
Cash consideration	6,800

Analysis of assets and liabilities over which control was lost:

	HK$'000
Investment property *(note 19)*	5,640
Deposits and prepayment	10
Amount due to immediate holding company	(7,086)
Net liabilities disposed of	(1,436)

Gain on disposal of Rainbow Profit:

	HK$'000
Cash consideration received	6,800
Amount due to immediate holding company assigned to the purchaser	(7,086)
Net liabilities disposed of	1,436
Gain on disposal of Rainbow Profit	1,150

Net cash inflow arising on disposal of Rainbow Profit:

	HK$'000
Net cash inflow	6,800

48. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017	**2016**
	HK$'000	*HK$'000*
Within one year	4,786	15,003
In the second to fifth year inclusive	15,494	10,656
	20,280	25,659

Operating lease payments represented rentals payable by the Group for its premises. Leases are mainly negotiated for an average term of 5 years (2016: 1 to 5 years). The Group does not have an option to purchase the leased premises at the expiry of the lease period.

At 31st December 2016, the operating lease rentals for certain premises were based on the higher of a fixed rental and a contingent rent depending on the sales in these premises pursuant to the terms and conditions set out in the respective rental agreements. As the future sales in these premises could not be reliably determined, the relevant contingent rent had not been included above and only the minimum lease payments had been included in the above commitments.

The Group as lessor

Property rental income earned during the year was HK$8,000 (2016: HK$180,000). All of the Group's investment properties are held for rental purposes. At 31st December 2016, the property expected to generate rental yields of 0.22% on an ongoing basis.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	**2016**
	HK$'000	*HK$'000*
Within one year	–	8

49. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (note 39 to the financial statements) of the Group which was reclassified to assets classified as held for sale at 31st December 2017:

	2017	**2016**
	HK$'000	*HK$'000*
Buildings	202,425	207,896
Interest in leasehold land	318,366	338,142
	520,791	546,038

In addition, the Group's obligations under finance leases (note 41 to the financial statements) are secured by the lessors' title to the leased assets, which have carrying amounts of HK$353,000 (2016: HK$584,000) which was reclassified to assets classified as held for sale at 31st December 2017.

The Group's time deposits (note 35 to the financial statements) with the amount of approximately HK$136,000 are pledged for guaranteed to Macau Government for development of stock of properties located in Macau.

50. COMMITMENTS

The Group had the following outstanding commitments at the end of the reporting period:

	2017	**2016**
	HK$'000	*HK$'000*
Authorised and contracted, but not provided for:		
– Development expenditure for stock of properties in Macau	1,218,512	38,690
– Film rights, films in progress and film deposits	43,133	6,118
– Purchases and renovation expenses for property, plant and equipment	–	698
	1,261,645	45,506

51. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed at a special general meeting of the Company held on 28th June 2012, a new share option scheme (the "New Option Scheme") was adopted by the Company.

The previous share option scheme of the Company (the "Old Option Scheme") was expired on 26th May 2012, no further options can be granted under the Old Option Scheme thereafter. However, all outstanding share option granted under the Old Option Scheme prior to the said expiry shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

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

(i) The purpose is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group or any invested entity in which the Group held an equity interest (the "Invested Entity").

(ii) The eligible participants include full time or part time employees of the Group or any Invested Entity (including any directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary or any Invested Entity); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any Invested Entity or any person who, in the sole discretion of the board of directors, has contributed or may contribute to the Group or any Invested Entity.

(iii) The maximum number of shares in respect of which share options may be granted under the New Option Scheme together with options which may be granted under any other share option scheme for the time being of the Company 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 (including the Old Option Scheme) must not exceed 30% of the shares in issue from time to time.

(iv) The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including exercised, cancelled and outstanding share options) in any 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 total number of shares issued and to be issued upon exercise of the share options granted to each substantial shareholder (as defined in the Listing Rules) of the Company or any of its respective associates or an independent non-executive director or any of his associates (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1 per cent. of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, unless the same is approved by the shareholders.

(vi) 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.

(vii) 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.

(viii) 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.

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

a. the closing price of a share of the Company on the Stock Exchange on the date of offer;

b. the average closing price of a share of the Company from the 5 business days (has the meaning stated in the Listing Rules) immediately preceding the date of offer; and

c. the nominal value of a share of the Company on the date of offer.

(x) The New Option Scheme is effective for 10 years from the date of adoption.

At the end of the reporting period, the number of shares in respect of which may be issued upon exercise of share options granted and remain outstanding under the New Option Scheme and the Old Option Scheme was 53,916,714 (2016: 58,014,574), representing 5.97% (2016: 6.42%) of the shares of the Company in issue at that date.

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

Category of participants	Name of scheme	Exercisable period#	Exercise price per share *HK$*	Number of share options: Outstanding at 01.01.2016	Expired during 2016	Outstanding at 31.12.2016 and at 01.01.2017	Expired during 2017	Lapsed during 2017	Outstanding at 31.12.2017
Employees of the Group	Old Option Scheme	21.11.2006-20.11.2016	511.925	8,116	(8,116)	–	–	–	–
		25.05.2007-24.05.2017	776.575	20,329	–	20,329	(20,329)	–	–
		27.06.2007-26.06.2017	772.675	13,359	–	13,359	(13,359)	–	–
		23.10.2007-22.10.2017	367.050	46,675	–	46,675	(24,546)	(22,129)	–
		21.08.2008-20.08.2018	47.350	174,585	–	174,585	–	–	174,585
	New Option Scheme	14.01.2013-13.01.2016	4.175	4,878,788	(4,878,788)	–	–	–	–
		04.05.2015-03.05.2018	3.150	41,000,000	–	41,000,000	–	(4,000,000)	37,000,000
				46,141,852	(4,886,904)	41,254,948	(58,234)	(4,022,129)	37,174,585
Other participants	Old Option Scheme	21.11.2006-20.11.2016	511.925	3,246	(3,246)	–	–	–	–
		25.05.2007-24.05.2017	776.575	8,002	–	8,002	(8,002)	–	–
		23.10.2007-22.10.2017	367.050	9,495	–	9,495	(9,495)	–	–
		21.08.2008-20.08.2018	47.350	22,129	–	22,129	–	–	22,129
	New Option Scheme	14.01.2013-13.01.2016	4.175	3,044,363	(3,044,363)	–	–	–	–
		04.05.2015-03.05.2018	3.150	16,720,000	–	16,720,000	–	–	16,720,000
				19,807,235	(3,047,609)	16,759,626	(17,497)	–	16,742,129
				65,949,087	(7,934,513)	58,014,574	(75,731)	(4,022,129)	53,916,714
Weighted average exercise price (HK$)				4.291	4.902	4.207	591.806	5.152	3.311

\# The exercisable period commenced on the date of grant of the relevant share options.

Δ No share option was granted, exercised or cancelled for the year ended 31st December 2017. No share option was granted, exercised, lapsed or cancelled for the year ended 31st December 2016.

52. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group entered into the following material transactions with related parties:

(a) On 6th April 2017, Best Combo had completed the acquisition of the entire issued share capital of Modern Vision from Ms. Chen, and a sale loan due by Modern Vision with the amount of approximately HK$499,909,000 (the "Acquisition") at an aggregate consideration of HK$1,000,000,000 (subject to purchase price adjustment). The consideration was satisfied by (i) the payment of HK$400,000,000 as a deposit to Ms. Chen upon the signing of the sale and purchase agreement; and (ii) the issue of the promissory note with a principal amount of HK$600,000,000 by the Company to Ms. Chen upon completion of the Acquisition. The promissory note is interest bearing at 5% per annum and will be matured after 24 months from the date of issuance of the promissory note. The Acquisition was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.

(b) On 6th April 2017, Best Combo had granted the Loan in the principal amount of HK$500,000,000 to Ms. Chen. The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the drawdown date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base, a company incorporated in BVI and wholly owned by Ms. Chen. Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo require Ms. Chen to sell the entire issued share capital of Reform Base at HK$500,000,000 (subject to the loan amount adjustment). The Loan was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.

(c) During the year, the Group entered into the following transactions with its related parties:

	2017	**2016**
	HK$'000	*HK$'000*
Nature of transactions		
Income received from family member of the substantial shareholders and the directors of the Company:		
Rental income	8	180
Income received from a joint venture:		
Management fee income	340	734
Income received and receivable from substantial shareholder and the director of the Company:		
Loan interest income	39,955	–
Expense paid and payable to substantial shareholder and the director of the Company:		
Interest on promissory note	37,963	–

(d) Details of the balances with related parties at the end of the reporting period are set out in notes 24 and 45 to the financial statements respectively.

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

Continuing operations

	2017	**2016**
	HK$'000	*HK$'000*
Salaries and other allowances	14,242	14,155
Retirement benefits scheme contributions	108	108
	14,350	14,263

Discontinued operations

	2017	**2016**
	HK$'000	*HK$'000*
Salaries and other allowances	3,407	5,111
Retirement benefits scheme contributions	12	35
	3,419	5,146

The remuneration of the directors of the Company and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

53. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company are listed as follows:

Name of subsidiary	Country/place of incorporation/ formation/operation	Class of shares held	Proportion of ownership interest and voting power held by the Company 2017 %	2016 %	Issued and fully paid share capital/ registered capital	Principal activities
Ace Season Holdings Limited	BVI	Ordinary	–	100	US$1,000	Investment holding
Art Lord Limited	Hong Kong	Ordinary	100	100	HK$1	Art Piece investment and rental
Asiatop Data Limited	Hong Kong	Ordinary	100	100	HK$10	Provision of nominee services
Best Combo Limited	BVI	Ordinary	100	100	US$1	Investment holding
Best Joyful Limited	Hong Kong	Ordinary	100	100	HK$1	Investment holding
Best Mind International Inc. *(note b)*	BVI	Ordinary	100	100	US$100	Investment
Bestjump Holdings Limited	BVI	Ordinary	–	100	US$1	Investment holding
Big Century Limited	Hong Kong	Ordinary	100	100	HK$1	Holding of property for rental purpose
Business First Limited	BVI	Ordinary	100	100	US$1	Holding of cable right
Charm Faith Holdings Limited	BVI	Ordinary	100	100	US$100	Investment holding
Charming Era Investment Limited	BVI	Ordinary	100	100	US$1	Investment holding
China Star Artist Management Limited	Hong Kong	Ordinary	100	100	HK$1	Artist management
China Star Creative Development Limited *(note b)*	Macau	Quota capital	100	100	MOP100,000	Immovable property development and investment
China Star Entertainment (BVI) Limited ("CSBVI")	BVI	Ordinary	100	100	US$200	Investment holding
China Star Entertainment Holding Company Limited	Hong Kong	Ordinary/ Non-voting deferred	100	100	HK$2 for ordinary shares and HK$1,000,000 for non-voting deferred shares *(note d)*	Investment holding

Name of subsidiary	Country/place of incorporation/ formation/operation	Class of shares held	Proportion of ownership interest and voting power held by the Company 2017 %	2016 %	Issued and fully paid share capital/ registered capital	Principal activities
China Star HK Distribution Limited	Hong Kong	Ordinary	100	100	HK$100,000	Distribution of films and television drama series
China Star HK Entertainment Company Limited	Hong Kong	Ordinary	100	100	HK$1,000,000	Distribution of video rights and Investment holding
China Star i-Content Limited	Hong Kong	Ordinary	100	100	HK$2	Provision of film production controller, director and producer services
China Star International Distribution Limited *(note a)*	BVI	Ordinary	100	100	US$8,001	Distribution of films and television drama series
China Star International Movie Limited *(note b)*	BVI	Ordinary	100	100	US$1	Film production
China Star Laser Disc Company Limited	Hong Kong	Ordinary	100	100	HK$1,500,000	Provision of management services and investment holding
China Star Management Company Limited *(note b)*	Macau	Quota capital	100	100	MOP100,000	Property project management and construction project management
China Star Management Limited	Hong Kong	Ordinary	100	100	HK$1	Investment holding
China Star Movie Limited	Hong Kong	Ordinary	100	100	HK$2	Film production and distribution
China Star Movie (Macau) Limited *(note b)*	Macau	Quota Capital	100	100	MOP25,000	Film production and distribution
China Star Pictures Limited	Hong Kong	Ordinary	100	100	HK$2	Holding of film rights
China Star Publishing Limited	Hong Kong	Ordinary	100	100	HK$2	Holding and licensing of song rights
China Star Trademark Limited	BVI	Ordinary	100	100	US$1	Holding of trademark and copyrights
China Star Worldwide Distribution B.V. *(note a)*	Netherlands	Ordinary	100	100	EUR18,151	Distribution of films and television drama series

Name of subsidiary	Country/place of incorporation/ formation/operation	Class of shares held	Proportion of ownership interest and voting power held by the Company 2017 %	2016 %	Issued and fully paid share capital/ registered capital	Principal activities
Classic Champion Holdings Limited *(note b)*	BVI	Ordinary	100	100	US$1	Investment holding
Classic Management & Services Company Limited *(note b)*	Macau	Quota Capital	100	100	MOP100,000	Provision of casino management service
Crown Gem Investments Limited	BVI	Ordinary	50	–	HK$1	Investment holding
Empowered Century Limited	BVI	Ordinary	100	100	US$1	Investment holding
Exceptional Gain Profits Limited	BVI	Ordinary	100	100	US$1	Investment holding
First-Up Investments Limited	BVI	Ordinary	100	100	US$1	Artist management and provision of agency services
Geumsamwon (Korea) Company Limited	Hong Kong	Ordinary	–	100	HK$1	Trading
Gold Choice International Limited	Hong Kong	Ordinary	100	100	HK$1	Film production
Hercules-Holding Company Limited *(note (b))*	Macau	Quota capital	50	–	MOP25,000	Investment holding
Hero Star Entertainment Limited (formerly known as Well Star Investment Limited)	Hong Kong	Ordinary	100	100	HK$1	Television drama series production and distribution (2016: Property holding)
High Productive Trading Limited	BVI	Ordinary	100	100	US$1	Investment holding
Hotel Lan Kwai Fong (Macau) Limited *(note b)*	Macau	Quota capital	100	100	MOP500,000	Provision of hotel services in Macau and Investment holding
Intrinsic Value Limited	BVI	Ordinary	100	100	US$1	Investment holding
Merit Noble Company Limited *(note b)*	Macau	Quota capital	100	100	MOP30,000	Provision of catering services
Modern Vision (Asia) Limited	BVI	Ordinary	100	–	US$1	Investment holding
Most Famous Enterprises Limited	BVI	Ordinary	100	100	US$2	Investment holding
Most Trade Enterprises Limited *(note (c))*	Hong Kong	Ordinary	–	70	HK$20,000	Trading of ginseng and dried seafood products
Nam Pei Hong Sum Yung Drugs Company Limited	Hong Kong	Ordinary	–	100	HK$1,200,000	Ginseng & dried seafood trading and retail

Name of subsidiary	Country/place of incorporation/ formation/operation	Class of shares held	Proportion of ownership interest and voting power held by the Company 2017 %	2016 %	Issued and fully paid share capital/ registered capital	Principal activities
Newrich (H.K.) Limited	Hong Kong	Ordinary	100	100	HK$2	Property holding
Noble Million Limited	Hong Kong	Ordinary	100	100	HK$100	Investment holding
NPH Holdings Limited	BVI	Ordinary	–	100	US$50,000	Investment holding
N P H Sino-Meditech Limited	Hong Kong	Ordinary	–	100	HK$2	Investment holding
One Hundred Years of Film Company Limited	Hong Kong	Ordinary	100	100	HK$3,000,000	Film production
Over Profit International Limited ("Over Profit")	BVI	Ordinary	50	–	US$100	Investment holding
Poo Yuk Loong Limited	Hong Kong	Ordinary	–	100	HK$350,000	Provision of administration service
Poo Yuk Loong Food (Shenzhen) Company Limited *(notes c and e)*	The PRC	Registered Capital	–	100	RMB3,000,000	Ginseng & dried seafood food trading and retail
Rainbow Profit Limited	Hong Kong	Ordinary	–	100	HK$1	Property holding
Riche Video Limited	Hong Kong	Ordinary/ Non-voting deferred	100	–	HK$1,001,000 for ordinary shares and HK$2,000,000 for non-voting deferred shares *(note d)*	Film distribution
S & W Entertainment Limited	Hong Kong	Ordinary	100	100	HK$2	Production of motion pictures and television drama series
Smart Value Developments Limited	BVI	Ordinary	100	100	US$1	Investment holding
Splendid Construction and Investment Company Limited *(note b)*	Macau	Quoted Capital	50	–	MOP100,000	Immovable property development and investment
Star Choice Investments Limited	Hong Kong	Ordinary	100	100	HK$1	Investment holding
Summer Sound Investments Limited	BVI	Ordinary	50	–	US$100	Investment holding
Stronghold-Holding Company Limited *(note b)*	Macau	Quota capital	50	–	MOP25,000	Investment holding
Star Joy International Limited	Hong Kong	Ordinary	100	100	HK$1	Investment holding
Superb Glory Investments Limited	BVI	Ordinary	100	100	US$1	Investment holding

Name of subsidiary	Country/place of incorporation/ formation/operation	Class of shares held	Proportion of ownership interest and voting power held by the Company 2017 %	2016 %	Issued and fully paid share capital/ registered capital	Principal activities
Triumph Top Limited	BVI	Ordinary	100	100	US$1	Investment holding
Turbo International Company Limited ("Turbo International")	BVI	Ordinary	100	60	US$50,000	Holding TV drama series licensing right
星傳動文化產業(北京)有限公司 *(notes c and e)*	The PRC	Registered capital	100	–	RMB10,000,000	Distribution of PRC film, corporate planning, props and equipment rental and dramatic creation

Notes:

(a) Operating internationally.

(b) Operating in Macau.

(c) Operating in the PRC.

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

(e) Wholly foreign owned enterprises.

Best Combo, Best Mind International Inc., CSBVI, China Star Worldwide Distribution B.V., Classic Champion Holdings Limited and Turbo International 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 in Hong Kong.

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

The directors of the Company consider that the Group's non-controlling interests were insignificant to the Group and thus are not separately presented in these financial statements for both years. In addition, no separate financial information of these non-wholly owned subsidiaries is required to be presented.

54. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVE OF THE COMPANY

(a) Statement of financial position of the Company

	2017	2016
	HK$'000	*HK$'000*
Non-current asset		
Interests in subsidiaries	1,142,386	1,823,177
Current assets		
Amounts due from subsidiaries	2,078,864	1,206,063
Deposits, prepayment and other receivables	270	687
Cash and bank balances	76,546	328,647
	2,155,680	1,535,397
Total assets	3,298,066	3,358,574
Capital and reserves		
Share capital	9,037	9,037
Reserves	2,407,022	2,521,346
Total equity	2,416,059	2,530,383
Non-current liabilities		
Promissory note	173,817	–
Amounts due to subsidiaries	691,247	809,502
	865,064	809,502
Current liabilities		
Amounts due to subsidiaries	–	5,306
Deposits received, accruals and other payables	16,943	13,383
	16,943	18,689
Total liabilities	882,007	828,191
Total equity and liabilities	3,298,066	3,358,574
Net current assets	2,138,737	1,516,708
Total assets less current liabilities	3,281,123	3,339,885

Signed on behalf of the board of directors by:

Heung Wah Keung
Director

Chen Ming Yin, Tiffany
Director

(b) Movement of reserve of the Company

	Share premium HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Share-based payment reserve HK$'000 (note c)	Bonus convertible bonds reserve HK$'000 (note d)	Capital reduction reserve HK$'000 (note e)	Accumulated losses HK$'000	Total HK$'000
At 1st January 2016	1,411,925	1,946,363	88,834	1,132	316,008	(1,011,632)	2,752,630
Loss and total comprehensive loss for the year	–	–	–	–	–	(307,545)	(307,545)
Expiry of share options	–	–	(12,690)	–	–	12,690	–
Placement of new shares	78,312	–	–	–	–	–	78,312
Share issuing expenses	(2,051)	–	–	–	–	–	(2,051)
At 31st December 2016 and at 1st January 2017	1,488,186	1,946,363	76,144	1,132	316,008	(1,306,487)	2,521,346
Loss and total comprehensive loss for the year	–	–	–	–	–	(114,324)	(114,324)
Lapsed of share options	–	–	(6,284)	–	–	6,284	–
Expiry of share options	–	–	(14,195)	–	–	14,195	–
At 31st December 2017	1,488,186	1,946,363	55,665	1,132	316,008	(1,400,332)	2,407,022

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 shareholders of the company as fully paid bonus shares.

(b) The contributed surplus of the Company brought forward represents the balance transferred from the capital account due to the capital reduction effective on 10th September 2002 and various capital reduction subsequently.

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) Share-based payment reserve represents the fair value of services estimated to be received in exchange for the grant of the relevant share 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 share 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.

(d) Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 25th October 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive Bonus CBs in lieu of bonus shares), Bonus CBs convertible into ordinary shares at initial conversion price of HK$0.01 per share were issued by the Company. The Bonus CBs are recognised as equity and are presented in "bonus convertible bonds reserve". The Bonus CBs are unlisted and irredeemable but have conversion rights entitling the bondholders to convert into an equivalent number of shares as the number of bonus shares which the bondholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the Bonus CBs. The Bonus CBs do not carry voting rights at any general meeting of shareholders of the Company. The bondholders can exercise the conversion rights at any time after the issue of Bonus CBs, subject to the terms and conditions of the applicable deed poll constituting the Bonus CBs.

(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.

55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities (including liabilities associated with assets classified as held for sale), including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings	**Obligations under finance leases**	**Promissory note**	**Interest payables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2017	803,513	584	–	909	805,006
Financing cash flows	(133,513)	(231)	(400,000)	(37,860)	(571,604)
Non-cash changes					
Issue of promissory note *(note 40)*	–	–	483,913	–	483,913
Loss on early redemption on promissory note	–	–	66,110	–	66,110
Interest expenses recognised	–	–	23,794	40,167	63,961
At 31st December 2017	670,000	353	173,817	3,216	847,386

56. TRANSACTION WITH NON-CONTROLLING INTERESTS

Acquisition of 40% equity interests in Turbo International

On 23rd May 2017, the Group further acquired 40% equity interest in Turbo International at total consideration of HK$156,000. As a result of the acquisition, the Group's shareholding in Turbo International increased from 60% to 100%. The Group recognised a decrease in non-controlling interests of approximately HK$58,000 and a decrease in equity attributable to owners of the Company of approximately HK$98,000.

57. MAJOR NON-CASH TRANSACTION

The Group entered into the followings major non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

(a) On 6th April 2017, Best Combo had acquired the entire equity interest in Modern Vision with an aggregate consideration of HK$1,000,000,000 (subject to purchase price adjustment), in which amount of HK$400,000,000 and HK$600,000,000 was settled by cash deposit paid in 2016 and the issue of the promissory note to Ms. Chen upon completion respectively.

(b) On 23rd May 2017, the Group further acquired 40% equity interest in Turbo International at total consideration of HK$156,000 in which the consideration was settled by other receivables which was fully impaired in previous years.

58. EVENTS AFTER THE REPORTING PERIOD

(a) On 3rd January 2018, the Company had completed to dispose the entire equity interest in the Disposal Group and sale loans due by the Disposal Group at the total consideration of HK$2,000,000,000 (subject to adjustment of actual working capital).

As per the condition of completion of the LKF Disposal, the outstanding bank borrowings owing by the Disposal Group should be repaid prior to or as at the date of completion. The consideration received by the Company had been used to repay the outstanding bank borrowings as at 3rd January 2018.

Under the sale and purchase agreement, if the actual working capital (the "Actual Working Capital") represents a net assets amount of the Disposal Group equal to or more than HK$500,000, the buyer shall pay to CSBVI such net assets amount; or if the Actual Working Capital represents a net liabilities amount of the Disposal Group equal to or more than HK$500,000, CSBVI shall pay such net liabilities amount to the buyer.

The Actual Working Capital means (A) the total current assets of the Disposal Group minus (B) all borrowings, accruals and actual liabilities and indebtedness owed by the Disposal Group to any bank, lending institution or other third party of any nature at completion, but (for the purpose of (B)) excluding (1) accrued unpaid staff bonuses or commissions, accrued unpaid leaves, contribution to retirement benefit schemes, long service or severance payments calculated under rules and regulations of relevant governing jurisdictions for employees of any member of the Disposal Group, (2) the sale loans due to CSBVI, (3) any liabilities owing among the members of the Disposal Group at completion, and (4) deferred tax assets or liabilities.

On 3rd January 2018, the Actual Working Capital of the Disposal Group was recognised a net asset amount of approximately HK$34.4 million, which means the buyer shall pay such amount to CSBVI. Details are set out in the Company's announcement dated 15th March 2018.

(b) On 18th January 2018, the Company had early redeemed the remaining outstanding promissory note with the principal amount of HK$200,000,000 to Ms. Chen.

59. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the disclosure requirements in respect of the discontinued operations set out in note 13 to the financial statements.

60. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26th March 2018.

4. INDEBTEDNESS STATEMENT

At the close of business on 30 April 2018, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases, hire purchases commitments (whether guaranteed, unguaranteed, secured or unsecured), guarantees or other material contingent liabilities.

There had been no material change in indebtedness or contingent liabilities of the Group since 30 April 2018 and up to the Latest Practicable Date.

5. MATERIAL ADVERSE CHANGE

The Board confirms that there is no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date, after taking into account, among other things, the decrease in the fair value of the held-for-trading securities (from approximately HK$512 million as at 31 December 2017 according to the 2017 Annual Report to approximately HK$286 million as at 30 April 2018 based on the management account as at 30 April 2018) as a result of the decrease in the market value of listed securities investment held by the Group. The Board is of the view that such decrease in the fair value of the held-for-trading securities is not a material adverse change in the financial or trading position of the Group since 31 December 2017, given that (i) it has been disclosed in the 2017 Annual Report that the fair value of the held-for-trading securities decreased from approximately HK$512 million as at 31 December 2017 to approximately HK$262 million as at 26 March 2018 (i.e. the date of the 2017 Annual Report); and (ii) it is the investment strategy with a focus on long term investment returns adopted by the Company that such short-term decrease in the market value of the listed securities will not adversely affect the financial position of the Company.

6. MATERIAL CHANGE

The Directors confirm that, save as below, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made, up to and including the Latest Practicable Date:

(i) the completion of the disposal of entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their respective subsidiaries on 3 January 2018 at a total consideration of HK$2,034.4 million (after adjustment). Details of which are set out in the announcements of the Company dated 16 October 2017, 17 November 2017, 11 December 2017, 3 January 2018 and 15 March 2018 respectively and the circular of the Company dated 21 November 2017;

(ii) the increase in cash as a result of the completion of the disposal in point (i) above;

(iii) based on the management account as at 30 April 2018, the fair value of the held-for-trading securities decreased by approximately 44% from approximately HK$512 million as at 31 December 2017 to approximately HK$286 million as at 30 April 2018 as a result of the decrease in the market value of listed securities investment held by the Group; and

(iv) the redemption of the promissory note with the principal amount of HK$200,000,000 by the Company on 18 January 2018.

7. WORKING CAPITAL

Taking into account the net proceeds from the Rights Issue, its presently available financial resources, including internally generated funds from operations and available financial facilities of the Group, the Directors after due and careful enquiry are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

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8. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Following the completion of the disposal of the entire issued share capital of each of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their subsidiaries, the Group has finished its recent restructuring and repositioning of business and now focuses its resources to the remaining businesses, including the property development and investment operations and the film related business operations.

The development of the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the "**Combined Site**") and "Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho (the "**Property C7**") is the Group's major future investment in Macau. After the construction work of the Combined Site has started in June 2017, the Group has concentrated its resources to complete the project of the Combined Site in year 2019. Property C7 is in the process of preparing the development plan and will submit to The Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") for approval once ready. In recent years, the residential property market of Macau shows a general growth trend. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue. In regard to these development and investment, the Group is expected that substantial cash resources are required to invest in this business operation in the next few years. Besides, the Group will continue to source and invest in properties if proper opportunity arises.

The culture and entertainment industry of the People's Republic of China's has entered into an unprecedented "golden age". Driven by policy, internet, and capital, "new giants" are emerging, in particular, internet companies have used resource advantages to gradually penetrate the entertainment industry and build an ecosystem. In respond to this golden age, the Group will continue its furtherance and development of its already well established film production business. The Group has also formed its television drama series department in the beginning of year 2017 and has invited experienced staffs to join for the production and distribution of television drama series. Given our experience in production of film/television drama series and the distribution network in the film/television drama series industry, the Group is confident in capture this golden opportunities in the film/television drama series industry and maximizing our value and return.

Looking forward, the Group will continue to strive to achieve healthy and stable growth by enhancing profitability, maximize its investment return and position to appropriate business opportunity.

9. PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE

The valuation of property interests of the Group as at 30 April 2018 has been conducted by JP Assets Consultancy Limited, the independent professional valuer appointed by the Company. The market value of the aforesaid property interests in existing state as at 30 April 2018 was approximately HK$4,563,120,000 in respect of the following categories of property interests:

	HK$'000
Property interests held for owner occupation by the Group in Hong Kong	148,200
Property interests held for investment by the Group in Hong Kong	82,400
Property interests held under development by the Group in Macau	4,332,520
	4,563,120

Further details of the aforementioned property interests and the corresponding valuation report prepared by JP Assets Consultancy Limited are set out in "Appendix III – Property valuation report" to this circular (the "**Valuation Report**").

By taking into account (i) the effect of fair value gain arising from the valuation of all the above property interests attributable to the Group; and (ii) the effect of the LKF Disposal (as defined below), set out below is the calculation of the adjusted net assets value (the "**Adjusted NAV**") of the Group:

	HK$' million
Audited consolidated net asset value attributable to owners of the Company as at 31 December 2017 *(Note 1)*	3,282
Adjustments:	
– Fair value gain on the property interests attributable to owners of the Company as at 30 April 2018 based on the Valuation Report *(Note 2)*	1,213
– Estimated gain on the LKF Disposal (as defined below) *(Note 3)*	1,465
Adjusted NAV	**5,960**
Adjusted NAV per Share *(Note 4)*	**HK$6.60**

Notes:

1. The amount is extracted from the audited consolidated statement of financial position as at 31 December 2017 set out in the section headed ''3. Audited financial statements'' as set out in this appendix.

2. The fair value gain represents the excess of market value of the property interests held by the Group as valued by JP Assets Consultancy Limited as at 30 April 2018 over their corresponding carrying amounts as at 30 April 2018 (representing the book values as at 31 December 2017 plus construction cost incurred during the period from January 2018 to April 2018 less depreciation/amortization for the period from January 2018 to April 2018, if applicable), after adjusting for relevant interests not attributable to the Group. The Group owns 50% interests in the Property C7 and hence 50% of the property interest in the Property C7 is accounted for as the property interests attributable to the Group.

3. On 10 October 2017, China Star Entertainment (BVI) Limited ("**CSBVI**") (a wholly owned subsidiary of the Company) and Mr. Chan Meng Kam (the "**Buyer**") entered into a conditional sale and purchase agreement (the "**SP Agreement**") pursuant to which CSBVI has agreed to sell and the Buyer has agreed to buy the entire issued share capital of each of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their subsidiaries (the "**Disposal Group**") and the related loans outstanding and owing to CSBVI as at completion at sale price of HK$2,000 million (subject to adjustment in accordance with the terms of the SP Agreement) (the "**LKF Disposal**"). The LKF Disposal had been completed on 3 January 2018. After the relevant adjustment, the adjusted sale price in accordance with the SP Agreement is approximately HK$2,034.4 million. The estimated gain on the LKF Disposal is arrived at on the basis of the adjusted net sale price, the net liabilities of the Disposal Group and related loans outstanding and owing to CSBVI as at completion.

4. The Adjusted NAV per Share is arrived at on the basis of 903,703,493 Shares in issue as at the Latest Practicable Date.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The unaudited pro forma statement of adjusted consolidated net tangible assets of China Star Entertainment Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**") as at 31 December 2017 has been prepared by the directors of the Company (the "**Directors**") in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") to illustrate the effect of the proposed rights issue on the basis of two rights shares for every one existing share held on the record date at HK$0.25 per rights share (the "**Rights Issue**") on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 December 2017.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company derived from the consolidated statement of financial position of the Group as at 31 December 2017 as extracted from the published annual report of the Company for the year ended 31 December 2017, after incorporating the adjustments described in the accompanying notes.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017	**Add: Estimated net proceeds from the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 upon completion of the Rights Issue**
	(Note 1)		
	HK$'000	*HK$'000*	*HK$'000*
Based on 1,807,406,986 rights shares at subscription price of HK$0.25 per rights share to be issued	3,281,574	448,852	3,730,426
		(Note 2)	
Based on 1,809,921,048 rights shares at subscription price of HK$0.25 per rights share to be issued	3,281,574	458,794	3,740,368
		(Note 3)	

Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue based on 2,711,110,479 shares *(Note 4)*	HK$1.376 per share
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue based on 2,714,881,572 shares *(Note 5)*	HK$1.378 per share

Notes

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 was approximately HK$3,281,574,000, which is the same as net assets of the Group attributable to owners of the Company as at 31 December 2017, given that the Group did not have any intangible assets and the carrying amounts of goodwill is zero, as extracted by the Directors from the published annual report of the Company for the year ended 31 December 2017.

2. The estimated net proceeds from the Rights Issue of approximately HK$448,852,000 are based on 1,807,406,986 rights shares to be issued at HK$0.25 per rights share and after deduction of estimated related expenses of approximately HK$3,000,000 and assumed that no outstanding share options being exercised and bonus convertible bonds ("**Bonus CBs**") being converted, and that there is no change in the number of issued shares from the date of this Circular up to the record date.

3. The estimated net proceeds from the Rights Issue of approximately HK$458,794,000 are based on 1,809,921,048 rights shares to be issued at HK$0.25 per rights share, proceeds of approximately HK$9,314,000 for exercised of all outstanding share options as at date of this circular and after deduction of estimated related expenses of approximately HK$3,000,000 and assumed that all outstanding share options as at date of this circular being exercised and Bonus CBs being converted in full, and that there is no other change in the number of issued shares from the date of this Circular up to the record date.

4. The calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue are calculated based on 2,711,110,479 shares, comprising 903,703,493 shares in issue as at 31 December 2017 and 1,807,406,986 rights shares to be issued as described in note 2.

5. The calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue are calculated based on 2,714,881,572 shares, comprising 903,703,493 shares in issue as at 31 December 2017 and 1,809,921,048 rights shares to be issued and assumed that 196,714 outstanding share option as at date of this circular granted by the Company exercised into 196,714 shares and all outstanding Bonus CBs had been converted into 1,060,317 shares as described in note 3.

6. On 3 January 2018, the Group had completed to dispose of the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries (collectively referred to as the "**Disposal Group**"), and sale loans due by the Disposal Group at sale price of approximately HK$2,034.4 million (after adjustment). This subsequent event has not reflected in the Unaudited Pro Forma Financial Information of the Group.

7. On 18 January 2018, the Group had early redeemed the remaining outstanding promissory note with the principal amount of HK$200,000,000 to Ms. Chen Min Ying, Tiffany, the Director. This subsequent event has not reflected in the Unaudited Pro Forma Financial Information of the Group.

8. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this circular.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 June 2018

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information ("**Unaudited Pro Forma Financial Information**") of China Star Entertainment Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 and related notes as set out in Part A of Appendix II to the circular dated 7 June 2018 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of two rights shares for every one existing share held on the record date at HK$0.25 per rights share (the "**Rights Issue**") on the Group's consolidated net tangible assets attributable to owners of the Company as at 31 December 2017 as if the Rights Issue had taken place as at 31 December 2017. As part of this process, information about the Group's consolidated net tangible assets attributable to owners of the Company as at 31 December 2017 has been extracted by the Directors from the audited financial statements of the Group for year ended 31 December 2017, on which annual report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling 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" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express 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 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.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

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

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

Yours faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hon Koon Fai, Alex
Practicing Certificate Number: P05029
Hong Kong

The following is the text of a report prepared for the purpose of incorporation in this circular received from JP Assets Consultancy Limited, an independent property valuer, in connection with their opinion of the value of the Property as at 30 April 2018.

JP ASSETS CONSULTANCY LIMITED

Unit 3B, 3/F., Block A, Hong Kong Industrial Centre,
488-491 Castle Peak Road, Lai Chi Kok, Kowloon

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

7 June 2018

Dear Sirs/Madam,

1. INSTRUCTIONS

In accordance with your instructions to value the property interests held by China Star Entertainment Limited ("the Company") and/or its subsidiaries (together referred as "the Group") in Hong Kong and Macau, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 30 April 2018 (the "Valuation Date").

This letter which forms part of our property valuation report explains the basis and methodology of valuation, clarifying assumption and limiting conditions of this valuation.

2. BASIS OF VALUATION

In valuing the property interests, we have complied with all requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; Rule 11 of the Code on Takeovers and Mergers and Share Buy-backs issued by Securities and Futures Commission and the HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors.

The valuation is our opinion of the market value ("Market Value") which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value is understood as the value of an asset or liability should exchange is an estimated amount rather than a predetermined amount or actual sale price without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

Market Value is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

3. VALUATION METHODOLOGY

We have valued the property interests in Group I and II by market comparison method assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In valuing the property interests in Group III which were under development as at the valuation date, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have adopted market comparison method by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development.

Market comparison method is based on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

4. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangements which could serve to affect the value of the property interests.

As advised by the Company, the likelihood of the potential tax liability, mainly include 12% complementary tax and 12% profit tax, being crystallized is considered remote as the Group has no intention to sell the property interests within a short period of time. In the course of our valuation, we have neither verified nor taken into account such tax liability.

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

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, and particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

5. TITLE INVESTIGATION

We have carried out title search for the properties. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. In the course of our valuation, we have relied upon the advice and information given by the Group regarding the title of the property. All documents have been used for reference only.

6. LIMITING CONDITIONS

The site inspection of the properties was carried out in the period from February to April 2018 by Ms. Peggy Lai. We have inspected the exterior and, where possible, the interior of the property. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot infestation or any other defects. No tests were carried out on any of the services.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters, in particular, but not limited to, the tenure, statutory notices, easements, particulars of occupancy, floor areas and all other relevant matters in the identification of the property.

We have had no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or any expenses and taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

7. REMARKS

We have valued the property interests in Hong Kong Dollars (HK$).

We enclose herewith the summary of valuations and the valuation reports.

Yours faithfully,
For and on behalf of
JP Assets Consultancy Limited

Peggy Y.Y. Lai
MHKIS, MRICS, RPS(GP), BSc
Director

Ms. Peggy Y.Y Lai is a Registered Professional Surveyor (GP) with over 20 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lai is a member of The Royal Institution of Chartered Surveyors and member of The Hong Kong Institute of Surveyors.

SUMMARY OF VALUATIONS

No.	Property		Market Value in existing state as at 30 April 2018 *HK$*
	Group I – Property interests held for owner occupation by the Group in Hong Kong		
1.	Units 9 and 10 on 6th Floor, Leader Industrial Centre, Nos. 57-59 Au Pui Wan Street, Shatin, New Territories, Hong Kong		5,600,000
2.	Unit D on 11th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Shatin, New Territories, Hong Kong		23,900,000
3.	Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement, No.160 Waterloo Road, Kowloon Tong, Kowloon, Hong Kong		118,700,000
		Sub-total	148,200,000
	Group II – Property interests held for investment by the Group in Hong Kong		
4.	Ground Floor and its Cockloft, Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong		82,400,000
		Sub-total	82,400,000
	Group III – Property interests held under development by the Group in Macau		
5.	The site at Lot 6B at Zona de Aterros do Porto Exterior, Macau		No Commercial Value
6.	The combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the "Combined Site")		2,288,320,000
7.	"Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho (the "Property C7")		2,044,200,000
		Sub-total	4,332,520,000
		Grand total	4,563,120,000

VALUATION REPORT

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

Property 1	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
Units 9 and 10 on 6th Floor, Leader Industrial Centre, Nos. 57-59 Au Pui Wan Street, Shatin, New Territories, Hong Kong 6/1,637th equal and undivided shares of and in Sha Tin Town Lot No.175	The property comprises two adjoining workshops on the 6th Floor of a 16-storey industrial building completed in about 1987. The property has a total saleable floor area of approximately 1,060 sq.ft. The property is held under the New Grant No. 11782 for a term of 99 years commencing from 1 July 1898 and statutorily extended to 30th June, 2047. The Government rent payable for Sha Tin Town Lot No. 175 is $300 per annum.	The property was occupied by the Company for storage use as at the Valuation Date.	5,600,000 (HONG KONG DOLLARS FIVE MILLION AND SIX HUNDRED THOUSAND)

Notes:

i) According to the Land Registry, the registered owner of the property is China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No.05080402100022 dated 7 July 2005.

VALUATION REPORT

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

Property 2	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
Unit D on 11th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Shatin, New Territories, Hong Kong 14/920th equal and undivided shares of and in Sha Tin Town Lot No.67	The property comprises an industrial unit on the 11th Floor of a 17-storey industrial building completed in about 1982. The property has a total saleable floor area of approximately 5,122 sq.ft. The property is held under the New Grant No. 11250 for a term of 99 years commencing from 1 July 1898 and statutorily extended to 30 June 2047. The Government rent payable for Sha Tin Town Lot No. 67 is $300 per annum.	The property was occupied by the Company for storage use as at the Valuation Date.	23,900,000 (HONG KONG DOLLARS TWENTY THREE MILLION AND NINE HUNDRED THOUSAND)

Notes:

i) According to the Land Registry, the registered owner of the property is Star Laser Disc Limited (former name of China Star Laser Disc Company Limited), a wholly-owned subsidiary of the Company, registered vide Memorial No.ST689895 dated 15 March 1993.

VALUATION REPORT

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

Property 3	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
Flat B on the Second and Third Floors together with the Roof over Flat B and all that lift exclusively serving the Flat B and portions of the Basement, No.160 Waterloo Road, Kowloon Tong, Kowloon, Hong Kong 1/4th equal and undivided shares of and in New Kowloon Inland Lot No.4093	The property comprises a duplex residential flat on the second and third floors, the roof over it and a portion including two car-parking spaces on the basement level of a 3-storey (plus a car parking basement level) residential building completed in about 1998. The property has a total saleable floor area of approximately 3,900 sq.ft. (excluding of the flat roof with a saleable area of approximately 1,500 sq.ft. and car parking spaces) The property is held under the government lease for a term a 75 years renewable for 24 years commencing from 1 July 1898 and statutorily extended to 30th June, 2047. The Government rent payable for New Kowloon Inland Lot No. 4093 is $2,520 per annum.	The property was occupied by the Company as dormitory and car parking spaces as at the Valuation Date.	118,700,000 (HONG KONG DOLLARS ONE HUNDRED EIGHTEEN MILLION AND SEVEN HUNDRED THOUSAND)

Notes:

i) According to the Land Registry, the registered owner of the property is Newrich (H.K.) Limited, a wholly-owned subsidiary of the Company, registered vide Memorial No.UB8575284 dated 17 December 2001.

VALUATION REPORT

Group II – Property interests held for investment by the Group in Hong Kong

Property 4	**Description and tenure**	**Particulars of occupancy**	**Market Value in existing state as at 30 April 2018** *HK$*
Ground Floor and its Cockloft, Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong 2/7th shares of and in Section B of Inland Lot Nos. 871 and 872, the Remaining Portion of Inland Lot Nos. 871 and 872, Section C of Inland Lot Nos. 871 and 872	The property comprises a retail shop unit on the ground floor together with its cockloft of a commercial building completed in 1981. The saleable area of the property is approximately 934 sq.ft. for the ground floor plus approximately 57 sq.ft. for its yard and approximately 763 sq. ft. for the cockloft floor. The property is held under government lease for a term of 999 years commencing from 26 June 1843.	The property is vacant.	82,400,000 (HONG KONG DOLLARS EIGHTY TWO MILLION AND FOUR HUNDRED THOUSAND)

Note:

i. According to the Land Registry, the registered owner of the property is Big Century Limited, a wholly-owned subsidiary of the Company, vide Memorial No. 13101100580017 dated 30 September 2013.

ii. The property is subject to Order No. UBR/RB02-02/0004/11 by the Building Authority under Section 24(1) of the Buildings Ordinance vide Memorial No. 14021300800036 dated 15 March 2013.

iii. The property is subject to Order No. INR/RB02-02/0001/11 by the Building Authority under Section 26A(1) of the Buildings Ordinance vide Memorial No. 14021300800040 dated 15 March 2013.
(Remarks: Re: For exterior and common areas of the building only)

VALUATION REPORT

Group III – Property interests held under development by the Group in Macau

Property 5	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
The site at Lot 6B at Zona de Aterros do Porto Exterior, Macau	The property comprises a parcel of land with a site area of approximately 1,420 sq.m. in trapezium shape. Multi-storey office/commercial development with carparking provisions are allowed to be erected thereon. In accordance with the Property Registration Proof (物業登記証明), the maximum permissible gross floor areas of the development on the property are approximately as follows: Approximate gross floor area *(sq.m.)* Office 14,994 Commercial 1,996 Carparking 4,320 **Total 21,310** The property is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing from 26 December 1989. The Government rent of the property is MOP 298,050 per annum.	The property was a clear site as at the Valuation Date.	No Commercial Value

Notes:

i) According to the land search at Conservaória do Registo Predial, the registered owner of the property with a site area of approximately 1,420 sq.m. is Sociedade de Turismo e Diversões de Macau, SARL ("STDM"), an independent third party of the Company. As advised by the Company, STDM entered into an agreement, a power of attorney and the declaration of undertaking with China Star Creative Development Limited, a wholly-owned subsidiary of the Company. We have reviewed the relevant documents. And we are further advised that the Company had on various occasions sought advice from its Macau legal advisers, including but not limited to the proposed acquisition of the property leasehold right of the property in the circular dated 20 May 2011, who have advised the Company that these contractual arrangements entitled the Company to the beneficial interest of the property leasehold right of the property which represented the set of rights and obligations under leasehold granted by the Macau Government and control of the development right of the property and its future economic benefits.

ii) According to the land search at Conservaória do Registo Predial, the expiry of the land lease grant was published in the Macau Official Gazette, No. 47, II, by means of the Dispatch of The Land, Public Works and Transport Bureau of Macau ("DSSOPT") No. 50/2016 dated 23 November 2016. The Macau SAR Government will reclaim the land without any compensation to the property owner.

iii) In the course of our valuation, we have taken into consideration of the conditions mention in note ii, no commercial value is attributed to the property for doubtful of legal transfer.

VALUATION REPORT

Group III – Property interests held under development by the Group in Macau

Property 6	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
The combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the "Combined Site")	The Combined Site comprises 3 parcel of land. Each with a site area of approximately 1,292 sq.m. in rectangular shape. The total site area is 3,876 sq.m. As informed, the proposed development will be twin residential towers erected on a commercial podium. The distribution is breakdown as follows:	The Combined Site has just completed foundation and basement structure works and started the reinforced concrete framed structure works as at the Valuation Date.	2,288,320,000 (HONG KONG DOLLARS TWENTY TWO HUNDRED EIGHTY EIGHT MILLION AND THREE HUNDRED TWENTY THOUSAND)

	Approximate gross floor area *(sq.m.)*
Residential	28,422
Clubhouse	1,927
Commercial	4,132
Carparking	11,508
Total	**45,989**

The Combined Site is a Rústico (農用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing on 21 December 1994. The Government rent of the Combined Site is MOP 605,400 per annum.

Notes:

i) According to the land search at Conservaória do Registo Predial, the registered owner of the Combined Site with a site area of approximately 3,896sq.m. is Sociedade de Turismo e Diversões de Macau, SARL ("STDM"), an independent third party of the Company. As advised by the Company, STDM entered into an agreement, a power of attorney and the declaration of undertaking with China Star Creative Development Limited, a wholly-owned subsidiary of the Company. We have reviewed the relevant documents. And we are further advised that the Company had on various occasions sought advice from its Macau legal advisers, including but not limited to the proposed acquisition of the property leasehold right of the property in the circular dated 20 May 2011, who have advised the Company that these contractual arrangements entitled the Company to the beneficial interest of the property leasehold right of the property which represented the set of rights and obligations under leasehold granted by the Macau Government and control of the development right of the property and its future economic benefits.

ii) According to the land search at Conservaória do Registo Predial, the registered owner is subject to a fine for non-compliance of development within the designated period as at 2 December 2015.

iii) The market value of the Combined Site as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be HK$4,192 million.

iv) It is expected that the reinforced concrete framed structure works will complete by around October 2018, the architectural works, mechanical, electrical and plumbing (MEP) services installation and fitting-out works will complete by around August 2019, the whole Combined Site will complete by around September 2019, and occupation permit from the DSSOPT will be obtained by around October 2019.

v) The total construction cost of the Combined Site was estimated to be approximately HK$1,600 million. As the Group had invested approximately HK$212 million in the construction of the Combined Site up to 31 March 2018, the expected remaining fund required to be invested in the construction of the Combined Site would be approximately HK$1,388 million.

VALUATION REPORT

Group III – Property interests held under development by the Group in Macau

Property 7	Description and Tenure	Particular of occupancy	Market Value in existing state as at 30 April 2018 *HK$*
"Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho (the "Property C7")	Property C7 comprises a parcel of land with a site area of approximately 4,669 sq.m.. As advised, the site is planned to be developed into a multi-storey residential development with car parking provisions with the total gross floor area of approximately 31,247 sq.m., scheduled to be completed in February 2023. Details of which are as follows:	The Property C7 was a clear site as at the Valuation Date.	2,044,200,000 (HONG KONG DOLLARS TWENTY HUNDRED FORTY FOUR MILLION AND TWO HUNDRED THOUSAND)

	GFA *(sq.m.)*
Residential	26,047
Car Park	5,200
	31,247

According to the Urbanistic Conditions Plan ("UCP") of the Property C7 issued by the DSSOPT on 15 September 2016, the Property C7 shall be developed for residential and parking purposes, with the maximum allowed building height of 34.5 meters above sea level and maximum utilization rate of 5.58 (car parking excluded).

In accordance with the Property Registration Proof (物業登記証明), the maximum permissible gross floor areas of the development on the Property C7 are approximately as follows:

	GFA *(sq.m.)*
Residential	25,832
Commercial	215
Carparking	3,930
Total	**29,977**

Notes:

i) According to the land search at Conservaória do Registo Predial, the registered owner of Property C7 with a site area of approximately 4,669 sq.m. is Splendid- Construção E Investimento Imobiliário, Limitada. (澳豪建築置業投資有限公司) ("Splendid", an indirect 50% owned subsidiary of the Company).

ii) The Property C7 is a Urbano (都市用地) granted by Concessão Por Arrendamento (政府租賃批地) for a term of 25 years commencing from 22 August 2001 and renewable up to 19 December 2049 in accordance with the legislation in force in Macau. The development period is 60 months from 22 August 2001. The Government rent of the Property C7 is MOP 140,040 per annum. After completion of the construction, the Government rent would be MOP 10 per sq.m. of GFA for residential and car park; and MOP 15 per sq.m. of GFA for commercial use.

iii) As the proposed development plan given by the Company is different as granted in terms of gross floor areas and purposes, and the development period of 60 months has been expired, a new amendment to the Land Grant in respect of the development plan and an application for extending the development period or obtaining a new development period of the period is required to be submitted to the DSSOPT for approval. An architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to DSSOPT for approval.

iv) In the course of our valuation, we have assumed:

a. Splendid has the legal rights to develop the site in accordance with the provisions of the Land Grant, and to dispose of the individual units upon completion of the development;

b. The non-development of the site in the contracted period may be regarded as a default of Splendid under the provisions of the Land Grant and a revocation of the Land Grant can be declared by the Macau SAR Government. In the event that Splendid timely submits an application to the DSSOPT and is willing to pay the penalty, there should be no legal impediment for Splendid to obtain the approval for the extension or a new development period;

c. Subject to the extension or a new development period is granted by the Macau SAR Government, there should be no legal impediment for Splendid to proceed the amendment and revision to the Land Grant based on the new development plan is accepted by DSSOPT; and

v) The land acquisition cost is about HK$473 million.

vi) The market value of the Property C7 as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be HK$3,571 million.

vii) The estimated construction cost of Property C7 was estimated to be approximately HK$800 million. At this early stage for the development of the Property C7, it is estimated that the cost of architectural design and documentation work for construction amounts to not less than approximately HK$30 million.

1. RESPONSIBILITY STATEMENT

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

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

2. SHARE CAPITAL

(I) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date, and upon completion of the Rights Issue and assuming no new Shares being issued or repurchased by the Company on or before the Record Date, are set out as follows:

A. as at the Latest Practicable Date

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid up:		
903,703,493	Shares	9,037,034.93

B. assuming no outstanding Share Options being exercised and Bonus Convertible Bonds being converted on or before the Record Date and upon completion of the Rights Issue

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid up:		*HK$*
903,703,493	Shares	9,037,034.93
1,807,406,986	Rights Shares	18,074,069.86
2,711,110,479	Shares	27,111,104.79

C. assuming all the outstanding Share Options being exercised and Bonus Convertible Bonds being converted in full on or before the Record Date and upon completion of the Rights Issue

Authorised share capital:		*HK$*
50,000,000,000	Shares	500,000,000.00
Issued and fully paid up:		*HK$*
903,703,493	Shares	9,037,034.93
196,714	Shares issued upon exercise of Share Options	1,967.14
1,060,317	Shares issued upon conversion of the Bonus Convertible Bonds	10,603.17
1,809,921,048	Rights Shares	18,099,210.48
2,714,881,572	Shares	27,148,815.72

No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

The Rights Shares, when allotted and fully paid, will rank pari passu in all respects, including the rights to dividends, voting and return of capitals with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

No Shares have been issued since 31 December 2017, being the date on which the latest audited financial statements of the Group were made up.

(II) Share Options

As at the Latest Practicable Date, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option, other than the 196,714 Share Options under the Share Option Scheme, which are outstanding and entitling the holders of Share Options to convert into 196,714 Shares as at the Latest Practicable Date.

Holders of the Share Options	Date of grant of Share Options	Exercise price per Share	Exercisable period	Number of Share Options held (i.e. number of underlying shares of the Company)	Approximate percentage of the existing issued share capital of the Company
Employees of the Group	21 August 2008	HK$47.35	21 August 2008 to 20 August 2018	174,585	0.02
Other participants	21 August 2008	HK$47.35	21 August 2008 to 20 August 2018	22,129	0.00
				196,714	**0.02**

(III) Bonus Convertible Bonds

As at the Latest Practicable Date, the Company has outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company.

Bonus Convertible Bonds	Prevailing conversion price	Conversion period	Number of Shares issuable upon full conversion	Approximate percentage of the issued share capital of the Company
Bonus convertible bond(s) constituted by the deed poll executed by the Company on 9 January 2013	HK$0.25 per conversion Share	no maturity date	758,697	0.08
Bonus convertible bond(s) constituted by the deed poll executed by the Company on 22 January 2014	HK$0.25 per conversion Share	no maturity date	301,620	0.03
			1,060,317	0.11

Except for the Rights Shares and save as disclosed above, as at the Latest Practicable Date, no Shares, options, warrants, conversion rights or any equity or debt securities of the Company was outstanding or was proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

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

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors, supervisors and chief executive of the Company

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

Name of Director	Capacity/Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Heung	Interests of controlled corporations	1,996,369,194 (L) *(Note 2)*	220.91
Ms. Chen	Interests of controlled corporations	1,996,369,194 (L) *(Note 2)*	220.91

Notes:

(1) The letters "L" denote long position in the Shares.

(2) The Shares comprise (i) 186,446,502 Shares held by the Underwriter (which is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and 1,644 Shares held by Dorest (which is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung) as at the Latest Practicable Date; (ii) 372,893,004 Rights Shares undertaken to be taken up by the Underwriter pursuant to the Irrevocable Undertaking; and (iii) a maximum of 1,437,028,044 Rights Shares agreed to be underwritten by the Underwriter pursuant to the Underwriting Agreement.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, other than the interests disclosed above in respect of certain directors and chief executive of the Company, the interests and short positions of persons in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group:

Name	Capacity/Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
HWKFE *(Note 2)*	Beneficial owner	559,339,506 (L)	61.89
	The Underwriter	1,437,028,044 (L)	159.02

Notes:

(1) The letters "L" denote long position in the Shares.

(2) HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

Save as disclosed above and the Underwriter's interest in the Underwritten Shares, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which:

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

(ii) are continuous contracts with a notice period of twelve months or more; or

(iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

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

5. DIRECTOR'S INTEREST IN CONTRACTS AND ASSETS

None of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published annual report for the audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, other than the Loan Agreement (as defined herein), there was no contract or arrangement in which any Director was materially interested and which is significant in relation to the business of the Group.

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of the Announcement and ending on the Latest Practicable Date, and are or may be material:

(i) the placing agreement dated 18 October 2016 and entered into between the Company as issuer and VMS Securities Limited as placing agent, in relation to the placing of 150,600,000 Shares to not fewer than six placees at a price of HK$0.53 per Share;

(ii) the conditional sale and purchase agreement dated 29 November 2016 and entered into between Best Combo Limited ("**Best Combo**") as purchaser and Ms. Chen as vendor in relation to the disposal of the entire issued share capital of Modern Vision (Asia) Limited ("**Modern Vision**") and the total obligations, liabilities and debts owing or incurred by Modern Vision to Ms. Chen at completion of the disposal at an aggregate consideration of HK$1,000 million, as supplemented by a supplemental agreement dated 8 March 2017 entered into between the same parties in relation to the time frame in respect of the adjustment of consideration;

(iii) the loan agreement dated 29 November 2016 (the "**Loan Agreement**") and entered into between Ms. Chen and Best Combo and as supplemented by a deed of variation dated 5 December 2016 between the same parties regarding the granting of a loan in the principal sum of HK$500 million which is interest bearing at 5% per annum and repayable on the date following 60 months from drawdown date;

(iv) the conditional sale and purchase agreement dated 29 March 2017 and entered into between China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company as vendor and China Healthwise Holdings Limited as purchaser for the sale and purchase of the issued share capital of Ace Season Holdings Limited and its shareholder's loan at an aggregate consideration of HK$85 million;

(v) the conditional sale and purchase agreement dated 10 October 2017 and entered into between China Star Entertainment (BVI) Limited (as vendor), a direct wholly-owned subsidiary of the Company and Mr. Chan Meng Kam (as purchaser), an individual who is an independent third party (as defined in the Listing Rules), in relation to the disposal of the entire issued share capital of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited (which are indirect wholly-owned subsidiaries of the Company) at an aggregate consideration of approximately HK$2,034.4 million (after adjustment); and

(vi) the Underwriting Agreement.

7. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK$3 million, which are payable by the Company.

8. LITIGATION

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

Owing to the delay by the government of Macau Special Administrative Region (the "**Macau Government**") in granting the proposed development of the Combined Site, the land concession of Lot B in Quarteirão 6 at Zona de Aterros do Porto Exterior (ZAPE) ("**Lot 6B**") has expired on 25th December 2014. The Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23rd November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25th December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30th December 2016 and the Macau Second Instance Court has not ruled on this matter as at the Latest Practicable Date. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Macau Second Instance Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, if the Group fails in its appeal and Lot 6B is reclaimed by the Macau Government, the Group will seek compensation for damages from the Macau Government, whereas if the Group succeeds in the appeal, Lot 6B will not be reclaimed by the Macau Government and will remain the asset of the Group.

Lot 6B is planned to be developed into a recreational area besides the Combined Site and Lot 6B is one of the properties announced by DSSOPT in year 2011 and classified as those of 65 properties which non-development are not the responsibility of the land concessioner. The Board is of the view that the action by the Macau Government will have minimal effect on the development value of the Combined Site (as the existing development value of the Combined Site had excluded Lot 6B) and it is now uncertain that what ruling will be obtained from the Macau Government on Lot 6B.

9. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the months during the Relevant Period, (ii) 13 April 2018, being the Last Trading Day, and (iii) 5 June 2018, the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
31 October 2017	0.630
30 November 2017	0.570
29 December 2017	0.495
31 January 2018	0.560
28 February 2018	0.510
29 March 2018	0.470
13 April 2018, the Last Trading Day	0.395
30 April 2018	0.330
31 May 2018	0.325
5 June 2018, the Latest Practicable Date	0.325

The highest and lowest closing price per Share as quoted on the Stock Exchange during the Relevant Period was HK$0.74 per Share on 20 October 2017, and HK$0.320 per Share on 29 May 2018 and 1 June 2018, respectively.

10. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who had given opinions, letters or advices contained in this circular:

Name	**Qualification**
Shinco Capital Limited	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants, Hong Kong
JP Assets Consultancy Limited	Independent property valuer

Each of the above mentioned experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or opinion, as the case may be, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above mentioned experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and did not have any interest, either direct or indirect, in any assets which had been since 31 December 2017 (being the date to which the latest published consolidated audited financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

11. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

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
Authorised representatives	Ms. Wong Shuk Han, Dorothy Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong Ms. Li Yuk Sheung Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Company secretary	Ms. Wong Shuk Han, Dorothy Associate member of the Hong Kong Institute of Certified Public Accountants
Auditor and reporting accountant	HLB Hodgson Impey Cheng Limited Certified Public Accountants 31/F Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong

Underwriter	Heung Wah Keung Family Endowment Limited Portcullis Trustnet Chambers P. O. Box 3444 Road Town Tortola, British Virgin Islands
Joint financial advisers to the Company	Kingston Corporate Finance Limited 2801 One International Finance Centre 1 Harbour View Street Central, Hong Kong China AF Corporate Finance Limited Units 2303-2306, 23/F Great Eagle Centre 23 Harbour Road Wan Chai, Hong Kong
Legal adviser to the Company	*As to Hong Kong law:* Robertsons 57th Floor The Center 99 Queen's Road Central Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Shinco Capital Limited Room 1106, 11/F Office Plus@Sheung Wan No.93-103, Wing Lok Street Sheung Wan, Hong Kong
Principal bankers	Industrial and Commercial Bank of China (Macau) Limited ICBC Tower, Macau Landmark 555 Avenida da Amizade Macau The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

Bermuda principal share registrar and transfer office:	MUFG Fund Services (Bermuda) Limited 26 Burnaby Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

12. PARTICULARS OF THE DIRECTORS

(i) Name and address

Name	Business address
Executive Directors	
Mr. Heung Wah Keung *(Chairman)*	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Ms. Li Yuk Sheung	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Independent non-executive Directors	
Mr. Hung Cho Sing	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong

Mr. Ho Wai Chi, Paul	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Mr. Tang Chak Lam, Gilbert	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong

(ii) Qualification and position held

Executive Directors

Mr. Heung Wah Keung, aged 69, is the Chairman and executive Director. He is the husband of Ms. Chen. He has over 30 years of experience in the entertainment and multimedia industries. He was the founder of Win's Entertainment Limited ("Win's") and One Hundred Years of Film Company Limited ("One Hundred Years"), which produces films recommended by audiences and distributors around the world. He is also the honorable chairman and director of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive Director in 1996.

Ms. Chen Ming Yin, Tiffany, aged 61, is the Vice Chairman and executive Director and the wife of Mr. Heung. She has over 25 years of experience in the entertainment and multimedia industries and over 10 years of experience in property development. Ms. Chen has produced a number of blockbuster films for Win's and One Hundred Years. In 2003, she was selected as one of 2003 Women in Entertainment – International Power by The Hollywood Reporter. For the years from 2006 to 2010, Ms. Chen was involved in the planning, monitoring and management of the renovation and operation of "Beijing Jianguo Apartment" into serviced apartment by Beijing Shama Real Estate Development Co. Ltd. Ms. Chen was responsible for all planning and monitoring of the purchase of Macau Kingsway Hotel in 2007 and then renovated and designed it into two years later's Hotel Lan Kwai Fong Macau that launched in August 2009. Hotel Lan Kwai Fong Macau has been awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 TripAdvisor Travelers' Choice 2012 Winner – Trendiest". In respect of promoting the notion of environmental protection, Hotel Lan Kwai Fong Macau has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macao Green Hotel Award 2010 – Bronze Award". The result has been obvious and encouraging. Other than the duties and responsibilities of the Vice Chairman, Ms. Chen is also responsible for implementation, monitoring and management of the approval, planning and development of the property development projects of the Group. Ms. Chen was appointed as an executive Director in 1996.

Ms. Li Yuk Sheung, aged 50, is an executive Director. She has more than 20 years experience of management in the entertainment and multimedia industries. She is responsible for the overall operations, and is familiar with the Group's system. Ms. Li Yuk Sheung was appointed as an executive Director in 2001.

Independent non-executive Directors

Mr. Hung Cho Sing, aged 77, is an independent non-executive Director. He has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. He has been the chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association from 1992 to 1995. He was also appointed as a consultant of the China Film Association. Mr. Hung Cho Sing is also a member of the 1,200-member-HKSAR Election Committee and a vice-chairman of the Cultural Profession Committee of the Guangdong, Hong Kong and Macau Cooperation Promotion Council (廣東省粵港澳合作促進會文化專業委員會副主任委員), and was elected the vice-chairman of Film Association of Guangdong, China for the period from November 2016 to November 2021. Mr. Hung Cho Sing was awarded the Bronze Bauhinia Star (BBS) by the HKSAR Government in 2005 in recognition of his contribution to the Hong Kong film industry. Mr. Hung Cho Sing was appointed by the HKSAR as a member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission on an ad personam basis for a term of two years on 17th January 2013, and renewal for a term of two years twice on 2015 and 2017 respectively. Mr. Hung Cho Sing was an independent non-executive director of Hengten Networks Group Limited (formerly known as Mascotte Holdings Limited) and Freeman FinTech Corporation Limited (formerly known as Freeman Financial Corporation Limited), all companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), during the period from 9th January 2013 to 26th October 2015 and 22nd January 2013 to 25th January 2017 respectively. He was appointed as an independent non-executive director of Unity Investments Holdings Limited and Miko International Holdings Limited since 10th October 2014 and 14th April 2016 respectively, and was appointed as an executive director of Universe International Financial Holdings Limited (formerly known as Universe International Holdings Limited) since 16th October 2013. All these companies are listed on the Main Board of the Stock Exchange. Mr. Hung Cho Sing was also appointed as an independent non-executive director of Koala Financial Group Limited (formerly known as Sunrise (China) Technology Group Limited), and an executive director of Eje (Hong Kong) Holdings Limited (formerly known as Jia Meng Holdings Limited) since 15th May 2015 and 23rd May 2016 respectively. Mr. Hung Cho Sing was also the chairman of the board of Eje (Hong Kong) Holdings Limited during the period from 23rd May 2016 to 20th November 2017. Both companies are listed on the GEM Board of the Stock Exchange. Mr. Hung Cho Sing was appointed as a non-executive Director in 1996.

Mr. Ho Wai Chi, Paul, aged 66, is an independent non-executive Director. He is the managing partner of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of Bel Global Resources Holdings Limited and Ngai Hing Hong Company Limited, both companies are listed on the Main Board of the Stock Exchange. Mr. Ho Wai Chi was appointed as a non-executive Director in 1996.

Mr. Tang Chak Lam, Gilbert, aged 67, is an independent non-executive Director. He is a practising solicitor in Hong Kong since 1987 and is a senior partner of Messrs. Gilbert Tang & Co.. He was a director of Pok Oi Hospital in 1993 and a member of the Kowloon West Advisory Committee of Hong Kong Bank Foundation District Community Programme between July 1991 and November 1995. Mr. Tang Chak Lam holds a Bachelor of Law Degree from the University of Buckingham in the United Kingdom, and a Diploma in Chinese Law from the University of East Asia in Macau. Mr. Tang Chak Lam was appointed as an independent non-executive Director in 2011.

13. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date,

(a) the Group did not have any beneficial interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Underwriter;

(b) save for the Underwriting Agreement, the Irrevocable Undertaking by the Underwriter, there was no agreement, arrangement or understanding between the Underwriter and other persons in relation to the transfer, charge or pledge of the Shares that will be issued and allotted to the Underwriter pursuant to the fulfillment of its obligations under the Underwriting Agreement;

(c) save as disclosed in the section headed "Effects on the shareholding structure of the Company" in the letter from the Board of this circular, none of the parties to the Underwriting Agreement or any parties acting in concert with any of it held, owned or controlled any other Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company. In addition, none of the parties to the Underwriting Agreement and parties acting in concert with any of it had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;

(d) save as disclosed in the paragraph headed "3. Disclosure of interests" in this appendix, the directors of the Underwriter were not interested in any other Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, the directors of the Underwriter had not dealt in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;

(e) no person had irrevocably committed themselves to vote for or against the resolution(s) to be proposed at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver;

(f) save for the Underwriting Agreement, the Underwriter did not have other arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons;

(g) the Underwriter had not borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;

(h) save as disclosed in the paragraph headed "3. Disclosure of interests" in this appendix, none of the Directors was interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, none of the Directors had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;

(i) save as disclosed in the paragraph headed "3. Disclosure of interests" in this appendix, none of the Company and the Directors held any shares, convertible securities, warrants, options or derivatives of the Underwriter or similar rights which are convertible or exchangeable into shares of the Underwriter. In addition, none of them had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Underwriter during the Relevant Period;

(j) save for Kingston Securities Limited, an affiliated company of Kingston Corporate Finance Limited, being one of the joint financial advisers to the Company in respect of the Rights Issue interest in 4 Shares, none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (other than persons enjoying exempt principal trader status under the Takeovers Code), had any interest in the Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company and none of them had dealt for value in any securities of the Company during the Relevant Period;

(k) save for the Underwriting Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code and none of them had dealt for value in any securities of the Company during the Relevant Period;

(l) save for the Underwriting Agreement and the Irrevocable Undertaking, no material contracts had been entered into by the Underwriter in which any Directors had any a material personal interest;

(m) no Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and none of them had dealt for value in any securities of the Company during the Relevant Period;

(n) none of the Company nor any Directors had borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;

(o) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Rights Issue, the Underwriting Agreement and the Whitewash Waiver;

(p) there was no agreement, arrangement or understanding (including any compensation arrangement) (i) between the Underwriter and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; and (ii) between any Directors and any other persons having any connection with or dependence upon the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; and

(q) except for the interests of Mr. Heung and Ms. Chen who are beneficially interested in the Shares held by HWKFE as disclosed under the paragraph headed "3. Disclosure of interests" in this appendix, none of the Directors were interested in any Shares, and hence no Director would be entitled to vote for or against any of the resolutions to be proposed at the SGM. The Underwriter and parties acting in concert with it will abstain from voting on the resolutions set out in the notice of the SGM at the SGM.

14. MISCELLANEOUS

(i) The company secretary of the Company is Ms. Wong Shuk Han, Dorothy, who is a member of the Hong Kong Institute of Certified Public Accountants.

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

(iii) The registered office of the Underwriter is at Portcullis Trustnet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The Underwriter is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors are Mr. Heung and Ms. Chen.

(iv) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) at Unit 3409, Shun Tak Centre West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours from 10 a.m. to 6 p.m. on any Business Day from the date of this circular up to and including the date of the SGM; and (ii) on the websites of the Company (www.chinastar.com.hk) and the Securities and Futures Commission (www.sfc.hk) from the date of this circular up to and including the date of the SGM:

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

(b) the memorandum and articles of association of the Underwriter;

(c) the annual reports of the Company for the two financial years ended 31 December 2016 and 2017;

(d) the Irrevocable Undertaking by the Underwriter;

(e) the letter from the Board as set out in this circular;

(f) the letter from the Independent Board Committee as set out in this circular;

(g) the letter from the Independent Financial Adviser as set out in this circular;

(h) the report from HLB Hodgson Impey Cheng Limited on the unaudited pro forma financial information of the Group as set out in Appendix II to this circular;

(i) the valuation report relating to the property interests of the Group from JP Assets Consultancy Limited as set out in Appendix III to this circular;

(j) the material contracts referred to in the paragraph headed "6. Material contracts" in this appendix;

(k) the written consents referred to in the paragraph headed "10. Experts and consents" in this appendix; and

(l) this circular.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of China Star Entertainment Limited (the "**Company**") will be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong, on Thursday, 28 June 2018 at 4:15 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the underwriting agreement (the "**Underwriting Agreement**") dated 13 April 2018 (as supplemented by a letter dated 3 May 2018) in respect of the Rights Issue (as defined below) and the transactions contemplated thereunder (including but not limited to the underwriting of the Rights Shares (as defined below) by Heung Wah Keung Family Endowment Limited (the "**Underwriter**")) entered into between the Company and the Underwriter (a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) be and are hereby approved, confirmed and ratified;

(b) the issue by way of rights (the "**Rights Issue**") of not less than 1,807,406,986 new Shares (the "**Rights Shares**") and not more than 1,809,921,048 Rights Shares at a subscription price of HK$0.25 per Rights Share to the shareholders of the Company (the "**Shareholders**") whose names shall appear on the register of members of the Company at the close of business on Wednesday, 11 July 2018 (the "**Qualifying Shareholders**"), or such other date as the Company and the Underwriter may agree as the record date for determination of the entitlements of the Shareholders to the Rights Issue (the "**Record Date**") (excluding those Shareholders (the "**Overseas Shareholders**") whose addresses on the register of members of the Company are outside Hong Kong on the Record Date in respect of whom the directors of the Company (the "**Directors**"), after making relevant enquiries, consider it necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s)), on the basis of two

(2) Rights Shares for every one (1) existing Share held on the Record Date and pursuant to the terms and conditions as set out in the Underwriting Agreement be and is hereby approved;

(c) subject to the obtaining of listing approval for the Rights Shares, any Director be and is hereby authorised to allot and issue the Rights Shares (in both nil-paid form and fully-paid form) pursuant to and in connection with the Rights Issue notwithstanding that (i) the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Director be and is hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Overseas Shareholders as he deems necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and (ii) the Rights Shares which would otherwise have been made available for application by the Qualifying Shareholders or the Overseas Shareholders (as the case may be) will be made available for subscription under forms of application for excess Rights Shares;

(d) any Director be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Director in his/her absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder; and

(e) subject to and conditional upon the passing of resolution numbered (a) and (d) above and the waiver of the Underwriter to make a mandatory general offer as a result of the underwriting of the Rights Issue (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission to the Underwriter, the Whitewash Waiver be and is hereby approved and any one Director be and is hereby authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the Whitewash Waiver."

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

Hong Kong, 7 June 2018

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

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

Notes:

1. A form of proxy for use at the SGM is enclosed with the circular to the Shareholders dated 7 June 2018.

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. All registered Shareholders recorded on Thursday, 28 June 2018 shall be entitled to attend and vote in person at the SGM or any adjournment thereof. The register of members of the Company will be closed from Friday, 22 June 2018 to Thursday, 28 June 2018, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the SGM or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 21 June 2018.

4. Any Shareholder entitled to attend and vote at the SGM 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. 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 the above address not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM 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 SGM, 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.