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



ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

**(I) VERY SUBSTANTIAL ACQUISITION –
CONVERSION OF BONUS CONVERTIBLE BONDS OF
CHINA STAR ENTERTAINMENT LIMITED
(II) VERY SUBSTANTIAL DISPOSAL –
POSSIBLE DISPOSAL OF EQUITY INTEREST IN
CHINA STAR ENTERTAINMENT LIMITED
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

A notice convening a special general meeting of Eternity Investment Limited to be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 June 2013 at 10:10 a.m. (or immediately after conclusion or adjournment of the annual general meeting of Eternity Investment Limited scheduled to be held at the same place and on the same date at 10:00 a.m.) is set out on pages 118 to 120 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

11 June 2013

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DEFINITIONS

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

“8% CBs”	the 8% convertible bonds in the aggregate principal amount of HK\$350.00 million issued by China Star to Eternity Finance on 7 July 2011 due on 5th anniversary of the date of its issue
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Bonus CBs”	the zero coupon convertible bonds carrying rights entitling the holders thereof to convert their principal amount into new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustments) issued by China Star to its shareholders pursuant to the China Star Bonus Issue
“Bonus Shares”	the new China Star Shares issued by China Star to its shareholders pursuant to the China Star Bonus Issue
“China Star”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued China Star Shares are listed on the Main Board of the Stock Exchange (stock code: 326)
“China Star Bonus Issue”	the issue of Bonus Shares by China Star on the basis of two (2) Bonus Shares for every one (1) existing China Star Share held by the then qualifying shareholders of China Star with the option to elect to receive the Bonus CBs in lieu of all or part of their entitlements to the Bonus Shares
“China Star Group”	China Star and its subsidiaries
“China Star Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of China Star
“Company”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability and the Shares are listed on the Main Board of the Stock Exchange (stock code: 764)

DEFINITIONS

“connected person”	has the meaning ascribed to it under the Listing Rules
“Conversion”	the exercise of the conversion rights attaching to the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76 by Simple View and Victory Peace to convert their principal amount into 607,980,676 new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustment)
“Director(s)”	the director(s) of the Company
“Disposal”	the possible disposal of up to 4,093,789,195 Disposable China Star Shares for a period of 12-month from the date on which the Disposal is approved by the Shareholders at the SGM
“Disposable China Star Shares”	up to 4,093,789,195 China Star Shares owned and to be owned by the Group
“EDS Wellness”	EDS Wellness Holdings Limited (formerly known as China AU Group Holdings Limited), a company incorporated in the Cayman Islands and the issued shares of which are listed on the Growth Enterprise Market operated by the Stock Exchange (stock code: 8176)
“Enlarged Group”	the Group immediately after Scenario I
“Eternity Finance”	Eternity Finance Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any person independent of the Company or China Star and its connected persons

DEFINITIONS

“Latest Practicable Date”	7 June 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange
“Mr. Lei”	Mr. Lei Hong Wai, the Chairman of the Board, an executive Director and a substantial Shareholder by virtue of his 50% shareholding interest in Twin Success International Limited
“Placing Agent”	reputable investment bank(s) or brokerage firm(s) licensed under the SFO to carry on the regulated activity of dealing in securities
“Remaining Group”	the Group immediately after Scenario II or Scenario III, as the case may be
“SFO”	The Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 June 2013 at 10:10 a.m. (or immediately after conclusion or adjournment of the annual general meeting of the Company scheduled to be held at the same place and on the same date at 10:00 a.m.) to consider and, if thought fit, approve the Conversion and the Disposal
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

DEFINITIONS

“Simple View”	Simple View Investment Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Trading Days”	a day on which the Stock Exchange is open for general trading of securities (and whether or not the China Star Shares are suspended from trading for all or part of such day)
“Victory Peace”	Victory Peace Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company
“%”	per cent

LETTER FROM THE BOARD



ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

Executive Directors:

Mr. Lei Hong Wai
(Chairman and Chief Executive Officer)
Mr. Cheung Kwok Wai, Elton
Mr. Chan Kin Wah, Billy

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Director:

Mr. Cheung Kwok Fan

*Head office and principal place of
business in Hong Kong:*

Unit 3811, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Independent non-executive Directors:

Mr. Wan Shing Chi
Mr. Ng Heung Yan
Mr. Wong Tak Chuen

11 June 2013

To the Shareholders

Dear Sir or Madam,

**(I) VERY SUBSTANTIAL ACQUISITION –
CONVERSION OF BONUS CONVERTIBLE BONDS OF
CHINA STAR ENTERTAINMENT LIMITED
(II) VERY SUBSTANTIAL DISPOSAL –
POSSIBLE DISPOSAL OF EQUITY INTEREST IN
CHINA STAR ENTERTAINMENT LIMITED
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 18 February 2013, the Company announced that the Board proposed to seek the Shareholders' approval for the Conversion, which involves the exercise of conversion rights attaching to the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76 by Simple View and Victory Peace to convert their principal amount into 607,980,676 new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustment).

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The Company also proposed to seek the Shareholders' approval for the possible disposal of up to 4,093,789,195 Disposable China Star Shares for a period of 12-month from the date on which the Disposal is approved by the Shareholders.

After the Company announced the proposal to seek approvals from the Shareholders for (i) the Conversion; and (ii) the Disposal on 18 February 2013, China Star made a special distribution out of its contributed surplus account of HK4 cents per China Star Share to its shareholders and the holders of Bonus CBs on 15 May 2013. Pursuant to the deed poll of the 8% CBs, the conversion price was adjusted from HK\$0.12 per new China Star Share to HK\$0.11 per new China Star Share (subject to further adjustment, if required) with effect from 7 May 2013. Accordingly, the number of new China Star Shares which may fall to be allotted and issued to the Group upon the exercise of the conversion rights attaching to the 8% CBs by the Group has been increased from 2,916,666,666 to 3,181,818,181 and the maximum number of Disposable China Star Shares has also been increased from 3,828,637,680 to 4,093,789,195.

The purposes of this circular is to provide you with further information on the Conversion and the Disposal, together with a notice of the SGM.

As at the Latest Practicable Date,

- (a) the Group is interested in 303,990,338 China Star Shares, representing 8.68% of the issued share capital of China Star;
- (b) the Group is interested in the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76 carrying rights entitling the holders thereof to convert their principal amount into 607,980,676 new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustment);
- (c) the Group is interested in the 8% CBs in the aggregate principal amount of HK\$350.00 million carrying rights entitling the holders thereof to convert their principal amount into 3,181,818,181 new China Star Shares at an adjusted conversion price of HK\$0.11 per China Star Share (subject to further adjustment, if required); and
- (d) the Company is interested in the unsecured convertible bonds in the aggregate principal amount of HK\$300.00 million to be issued by China Star to the Company, which is subject to the conditions precedent and yet to be completed.

On 4 June 2012, the board of directors of China Star proposed a conditional cash offer. Heung Wah Keung Family Endowment Limited (the controlling shareholder of China Star), the Company, Mr. Lei, Simple View, Victory Peace and Eternity Finance and their

LETTER FROM THE BOARD

respective associates are deemed parties acting in concert. As at the Latest Practicable Date, Mr. Lei is interested in 9,425,652 China Star Shares, representing 0.27% of the issued share capital of China Star, and the Bonus CBs in the aggregate principal amount of HK\$188,513.04 carrying rights entitling the holder thereof to convert his principal amount into 18,851,304 new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustment).

Save for disclosed above, to the best of the Directors' knowledge, information and belief, have made all reasonable enquiry, China Star is a third party independent of the Company and its connected persons.

CONVERSION OF BONUS CONVERTIBLE BONDS OF CHINA STAR ENTERTAINMENT LIMITED

Reference is made to the prospectus of China Star dated 12 December 2012 in relation to the bonus issue of the Bonus Shares and issue of the Bonus CBs on the basis of two Bonus Shares for every one existing China Star Share held by its shareholders with option to elect to receive the Bonus CBs in lieu of all or part of their entitlements to the Bonus Shares. Reference is also made to the announcement of China Star dated 3 January 2013 in relation to the results of the bonus issue of Bonus Shares and election for the Bonus CBs and fulfillment of public float requirement.

As at 6 December 2012, being the record date for the China Star Bonus Issue, Simple View and Victory Peace beneficially owned an aggregate of 303,990,338 China Star Shares and each of Simple View and Victory Peace elected to receive the Bonus CBs in lieu of its entitlements to the Bonus Shares. Upon completion of the China Star Bonus Issue, Simple View and Victory Peace received the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76.

Following the issue of the Bonus CBs to Simple View and Victory Peace on 9 January 2013, no Shareholders' approval has been obtained for exercising the conversion rights attaching to the Bonus CBs. The Company intends to seek the Shareholders' approval for the Conversion, which involves the exercise of conversion rights attaching to the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76 by Simple View and Victory Peace to convert their principal amount into 607,980,676 new China Star Shares at an initial conversion price of HK\$0.01 per China Star Share (subject to adjustment).

On the basis of Simple View and Victory Peace exercise the conversion rights attaching to the Bonus CBs in full, an aggregate of 607,980,676 new China Star Shares, representing 14.79% of the issued share capital of China Star of 4,110,868,691 China Star Shares as enlarged by the Conversion, will be allotted and issued to the Group and the shareholding

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of the Group in China Star will increase from 8.68% as at the Latest Practicable Date to 22.18% of the issued share capital of China Star as enlarged by the Conversion.

Pursuant to the deed poll of the Bonus CBs executed by China Star, the holders of the Bonus CBs shall have the right at any time after the issue of the Bonus CBs to convert the whole or part of the outstanding principal amount of the Bonus CBs PROVIDED THAT any conversion of the Bonus CBs (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the Bonus CBs which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) will not cause the public float of China Star unable to meet the requirement under Rule 8.08 of the Listing Rules. Accordingly, the Group shall strictly observe the terms and conditions of the Bonus CBs in exercising the conversion rights attaching to the Bonus CBs. The principal terms of the Bonus CBs are set out in the section headed “Principal terms of the Bonus CBs” below.

There will be no consideration for the Conversion to the Company.

Condition precedent

The Conversion shall be conditional upon the approved by the Shareholders at the SGM.

The Conversion is not conditional upon the Disposal.

Principal terms of the Bonus CBs

The table below summarises the principal terms of the Bonus CBs, which are extracted from the prospectus of China Star dated 12 December 2012.

Principal amount:	Up to an amount equal to the maximum number of Bonus Shares issuable under the China Star Bonus Issue, multiplied by the nominal value per Bonus Share, in the denomination of HK\$0.01 par value per unit of the Bonus CB.
Conversion price:	HK\$0.01 per China Star Share, subject to adjustment in accordance with the deed poll.
Mandatory conversion:	On voluntary dissolution, liquidation or winding up of the China Star, the Bonus CBs will be mandatory converted into China Star Shares at the then applicable conversion price.

LETTER FROM THE BOARD

- No redemption: The Bonus CBs will not be subject to redemption.
- Conversion period: At any time after the issue of the Bonus CBs, and the conversion date will be deemed to be the 30th Stock Exchange business day following the surrender of the Bonus CBs certificates by the holder(s) of Bonus CB(s) with a notice of conversion and the holder(s) of Bonus CB(s) will be deemed to be the holder(s) of the China Star Shares so converted with effect from the aforesaid conversion date.
- If and to the extent that the minimum public float requirements in respect of the China Star Shares under the Listing Rules could not be complied with immediately after the purported exercise of the conversion rights of any holder of Bonus CB, such holder shall not be entitled to exercise such conversion rights.
- Interest: Zero interest
- Distributions: The Bonus CBs will have no entitlement to interest but:
- (i) if and whenever China Star shall pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (other than distribution of China Star Shares, debentures or other securities) to its shareholders (the “**Distribution**”), China Star shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time pay or distribute to each holder of Bonus CB an amount of cash or other assets the subject matter of the Distribution which is equal to (a) the amount of cash or other assets the subject matter of the Distribution per China Star Share receivable by its shareholders under the Distribution, multiplied by (b) the number of China Star Shares which the holder of Bonus CB would have become a holder of, had such holder of Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Distribution; or

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- (ii) if and whenever China Star shall issue any China Star Shares, debentures or other securities, credited as fully-paid, out of or by way of capitalisation of its profits or reserves, and/or share premium account to its shareholders (the “**Capitalisation Issue**”), China Star shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, issue to each holder of Bonus CB either, at the option of China Star (a) such number of China Star Shares, debentures or securities which is equal to (1) the number of such China Star Shares, debentures or securities receivable by the shareholders of China Star in respect of each issued China Star Share held by them under the Capitalisation Issue, multiplied by (2) the number of China Star Shares which the holder of Bonus CB would have become a holder of, had the Bonus CBs of such holder of Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the holders of Bonus CB of such convertible bonds to such number of China Star Shares as is equal to (1) the number of China Star Shares receivable by its shareholders in respect of each issued China Star Share held by them under the Capitalisation Issue, multiplied by (2) the number of China Star Shares which the holder of Bonus CB would have become a holder of, had the Bonus CBs of such holder of Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue.

Transferability:

The holder(s) of Bonus CB(s) may only assign or transfer the Bonus CBs to the transferee subject to the consent of China Star.

China Star will promptly notify the Stock Exchange upon becoming aware of any dealings in the Bonus CBs by any connected person of China Star.

LETTER FROM THE BOARD

Other rights:

If and whenever China Star shall offer to issue China Star Shares or other securities by way of rights to its shareholders (the “**Rights Issue**”), China Star shall, subject to compliance with the relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time offer to each holder of Bonus CBs for subscription either, at the option of China Star (a) such number of China Star Shares or securities which is equal to (i) the number of such China Star Shares or securities offered by China Star to its shareholders in respect of each issued China Star Share held by them under the Rights Issue, multiplied by (ii) the number of China Star Shares which the holder of Bonus CB would have become a holder of, had the Bonus CBs of such holder of Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the holders of Bonus CBs of such convertible bonds to such number of China Star Shares as is equal to (i) the number of China Star Shares offered for subscription by the shareholders of China Star in respect of each issued China Star Share held by the shareholders of China Star under the Rights Issue, multiplied by (ii) the number of China Star Shares which the holders of Bonus CB would have become a holder of, had such Bonus CB holder’s Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue.

Financial effects of the Conversion

The Bonus CBs of HK\$6,079,806.76 held by the Group are currently recognised as available-for-sale financial assets in the consolidated financial statements of the Group in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*.

If the Disposal is not approved by the Shareholders at the SGM, the new China Star Shares to be allotted and issued to the Group upon the full conversion of the principal amount of the Bonus CBs together with the 303,990,338 China Star Shares that already held by the Group shall be accounted for in the Group’s consolidated financial statements using equity method in accordance with Hong Kong Accounting Standard 28 *Investments in Associates*.

If the Disposal is approved by the Shareholders at the SGM, the new China Star Shares to be allotted and issued to the Group upon the full conversion of the principal amount of the Bonus CBs shall be recognised as financial assets at fair value through profit or loss in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*.

LETTER FROM THE BOARD

Exercise of the subscription rights attaching to listed bonus warrants issued by China Star

On 26 November 2012 (after trading hours of the Stock Exchange), the Board resolved that Simple View be authorised to exercise the subscription rights attaching to the listed bonus warrants issued by China Star (warrant code: 1056) in the principal amount of HK\$7.45 million to subscribe for 35,990,338 new China Star Shares at an adjusted subscription price of HK\$0.207 per China Star Share (the “**Subscription**”).

The Subscription constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and was completed on 4 December 2012. Upon completion of the Subscription, the shareholding of the Group in China Star increased from 16.34% of the issued share capital of China Star as at 26 November 2012 to 18.14% of the issued share capital of China Star as enlarged by the Subscription. Details of the Subscription have been disclosed in the Company’s announcement dated 26 November 2012.

POSSIBLE DISPOSAL OF EQUITY INTEREST IN CHINA STAR ENTERTAINMENT LIMITED

The Company also intends to seek the Shareholders’ approval for the Disposal, which involves the possible disposal of up to 4,093,789,195 Disposable China Star Shares for a period of 12-month from the date on which the Disposal is approved by the Shareholders. The Disposal will be conducted (i) on open market transactions on the Stock Exchange; and/or (ii) by way of block trades by entering into placing agreement(s) with the Placing Agent(s) to be appointed by the Company prior to the placement of the Disposable China Star Shares. Given that the Disposal has recently been proposed by the Board and the Shareholders’ approval is required for the Disposal, no Placing Agent for block trades has been identified by the Company at the Latest Practicable Date.

In deciding to effect the Disposal, the Board will take into account the then market sentiment and the then market prices of the China Star Shares when the Disposal in effect. The Disposal will be effected on the following conditions:

- (a) the Disposal will be conducted on normal commercial terms and will be fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) the price of the Disposal will be settled in cash; and
- (c) the selling price of each Disposable China Star Share (the “**Minimum Price**”) will be not less than the higher of (i) 90% of the average closing price of China Star Shares for the 10 consecutive Trading Days (where the trading of the China Star

LETTER FROM THE BOARD

Shares is suspended on any Trading Day for the whole day, the closing price on the day immediately prior to such suspension shall be deemed as the closing price of China Star Shares on such Trading Day) immediately prior to the day on which the relevant Disposal is effected; and (ii) HK\$0.1559, being the effective acquisition cost of each of Disposable China Star Shares for the 3,485,808,519 Disposable China Star Shares, if the Conversion is not approved by the Shareholders or HK\$0.13275, being the effective acquisition cost of each of Disposable China Star Shares for the 4,093,789,195 Disposable China Star Shares, if the Conversion is approved by the Shareholders.

In case where the Disposal is effected on open market, the identity of the counterparty to the Disposal cannot be ascertained. In case where the Disposal is effected by way of block trades by entering into placing agreement with the Placing Agent(s) to be appointed by the Company, an announcement will be made by the Company to disclose the details of such Disposal.

To keep the Shareholders and the investing public informed on the progress of the Disposal and the conversion of the Bonus CBs and the 8% CBs held by the Group, the Company will publish an announcement at the end of each month, starting from the end of the month on which the Disposal is approved by the Shareholders until all of the Disposable China Star Shares have been disposed of or the last day of the 12-month period from the date on which the Disposal is approved by the Shareholders, whichever is earlier.

Pursuant to the deed poll of the 8% CBs executed by China Star, the holders of the 8% CBs shall have the right at any time after the issue of the 8% CBs to convert the whole or part of the outstanding principal amount of the 8% CBs PROVIDED THAT any conversion of the 8% CBs (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the 8% CBs which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) will not cause the public float of China Star unable to meet the requirement under Rule 8.08 of the Listing Rules. Accordingly, the Group shall strictly observe the terms and conditions of the 8% CBs in exercising the conversion rights attaching to the 8% CBs.

Principal terms of the 8% CBs

The table below summaries the principal terms of the 8% CBs.

Principal amount: HK\$350 million

Maturity: The fifth anniversary of the date of issue of the 8% CBs (i.e. 6 July 2016)

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Interest: The 8% CBs carry an interest to be accrued at 8% per annum on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of 16% per annum is payable on any overdue amount, whether principal or interest.

Interest on the 8% CBs shall be payable on the last day of each interest period, which is of six months intervals commencing from the date of issue of the 8% CBs.

Redemption: China Star may at any time upon the date of issue and before the maturity date of the 8% CBs, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the 8% CBs, redeem the 8% CBs at par.

Any amount of the 8% CBs which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion price: HK\$0.11 per new China Star Shares (subject to further adjustment). The adjustments are subject to review by China Star's auditors or an approved merchant bank. The adjustments for the conversion price of the 8% CBs include (i) an alternation of nominal amount of each China Star Share by reason of any consolidation or subdivision; (ii) an issue (other than in lieu of a cash dividend) by China Star of China Star Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund); (iii) a capital distribution (as defined in the instruments of the 8% CBs (the "**Instruments**")) being made by China Star, whether on a reduction of capital or otherwise, to holders of the China Star Shares in their capacity as such; (iv) an offer or grant being made by China Star to holders of China Star Shares by way of rights or of options or warrants to subscribe for new China Star Shares at a price which is less than 90% of the market price (calculation as provided in the Instruments); (v) an issue wholly for cash being made by China Star of securities convertible into or exchangeable for or carrying rights of subscription for new China Star Shares, if in any case the total effective consideration per China Star Share (as defined in the Instruments) initially receivable for such securities is less than 90% of the market price (calculation as provided in the

LETTER FROM THE BOARD

Instruments), or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per China Star Share initially receivable for such securities is less than 90% of the market price; (vi) an issue being made by China Star wholly for cash of China Star Shares at a price per China Star Share less than 90% of the market price (calculation as provided in the Instruments); and (vii) an issue being made by China Star of China Star Shares for acquisition of assets at a total effective consideration per China Star Share less than 90% of the market price (calculation as provided in the Instruments).

Conversion shares: Assuming the 8% CBs are converted into new China Star Shares in full at the conversion price of HK\$0.11 per new China Star Shares, China Star will allot and issue an aggregate of 3,181,818,181 new China Star Shares, representing approximately 47.60% of the issued share capital of China Star of 6,684,706,196 China Star Shares as enlarged by the allotment and issue of the 3,181,818,181 new China Star Shares.

Conversion: Provided that any conversion of the 8% CBs (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) which exercised the conversion rights attaching to the 8% CBs and its party(ies) acting in concert; and (ii) will not cause the public float of China Star unable to meet requirement under Rule 8.08 of the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the 8% CBs to convert the whole or part of the outstanding principal amount of the 8% CBs into the new China Star Shares at the conversion price attaching to the 8% CBs provided further that any conversion shall be made in amounts of not less than a whole multiples of HK\$1 million on each conversion save that if at any time the aggregate outstanding principal amount of the 8% CBs is less than HK\$1 million, the whole (but not part only) of the outstanding principal amount of the 8% CBs may be converted.

Transferability: The bondholder(s) may only assign or transfer the 8% CBs to the transferee subject to the consent of China Star.

LETTER FROM THE BOARD

China Star will promptly notify the Stock Exchange upon becoming aware of any dealings in the 8% CBs by any connected person.

Ranking: The new China Star Shares, when allotted and issued, will rank pari passu in all respects with all issued shares of China Star on the date of the allotment and issue of the new China Star Shares.

Status of the 8% CBs: The 8% CBs constitute direct, unconditional, unsubordinated and unsecured obligations of China Star and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of China Star.

Voting rights: The holders of the 8% CBs shall not be entitled to attend or vote at any general meetings of China Star.

The subscription and conversion of the 8% CBs have been approved by the Shareholders at the special general meeting of the Company held on 30 June 2011. Further details of the terms of the 8% CBs have been disclosed in the Company's circular dated 25 May 2011.

The Disposable China Star Shares

The Disposable China Star Shares represent:

- (a) the 303,990,338 China Star Shares already held by the Group;
- (b) the 3,181,818,181 new China Star Shares to be allotted and issued to the Group upon the exercise of the conversion rights attaching to the 8% CBs by the Group; and
- (c) the 607,980,676 new China Star Shares to be allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs by the Group, if the Conversion is approved by the Shareholders.

If the Conversion is not approved by the Shareholders at the SGM, the maximum number of the Disposable China Star Shares will be 3,485,808,519 (representing 303,990,338 China Star Shares and 3,181,818,181 new China Star Shares mentioned above in this section), which represents approximately 52.15% of the issued share capital of China Star of 6,684,706,196 China Star Shares as enlarged by the allotment and issue of the 3,181,818,181 new China Star Shares pursuant to the exercise of the conversion rights attaching to the 8% CBs by the Group.

LETTER FROM THE BOARD

Based on the current conversion price of the 8% CBs and the historical acquisition cost of the 303,990,338 China Star Shares already held by Simple View and Victory Peace, the effective acquisition cost for the maximum number of Disposable China Star Shares of 3,485,808,519 is HK\$543.45 million or HK\$0.1559 per Disposable China Star Share.

If the Conversion is approved by the Shareholders at the SGM, the maximum number of the Disposable China Star Shares will be 4,093,789,195 (representing 303,990,338 China Star Shares, 3,181,818,181 new China Star Shares and 607,980,676 new China Star Shares mentioned above in this section), which represents approximately 56.14% of the issued share capital of China Star of 7,292,686,872 China Star Shares as enlarged by the allotment and issue of the 3,181,818,181 new China Star Shares pursuant to the exercise of the conversion rights attaching to the 8% CBs by the Group and the allotment and issue of the 607,980,676 new China Star Shares pursuant to the Conversion.

As the Bonus CBs were issued to Simple View and Victory Peace pursuant to the China Star Bonus Issue, there is no acquisition cost for the Bonus CBs held by Simple View and Victory Peace. Accordingly, there is no acquisition cost of the 607,980,676 new China Star Shares which may fall to be allotted and issued to Simple View and Victory Peace upon the exercise of the conversion rights attaching to the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76. Based on the current conversion price of the 8% CBs and the acquisition costs of the 303,990,338 China Star Shares already held by Simple View and Victory Peace, the effective acquisition cost for the maximum number of Disposable China Star Shares of 4,093,789,195 is HK\$543.45 million or HK\$0.13275 per Disposable China Star Share.

Prior to any exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs, the Accounts Department of the Group prepares the conversion notes and updates the stock holding record on the number of China Star Shares and the underlying China Star Shares attaching to the Bonus CBs and the 8% CBs. After the updating of the stock holding record, the Accounts Department determines the Group's projected shareholding interests in China Star after conversion with reference to the updated stock holding record and the latest Monthly Return of China Star on Movements in Securities or the latest Next Day Disclosure Return – Change in Issued Share Capital of China Star, if any, in order to ensure the compliance with the conversion restrictions imposed on the Bonus CBs and the 8% CBs.

Assuming the Conversion is approved by the Shareholders and the maximum number of Disposable China Star Shares of 4,093,789,195 are fully disposed of, the Company will cease to have any shareholding interest in China Star, save for the unsecured convertible bonds in the aggregate principal amount of HK\$300.00 million to be issued to the Company by China Star.

LETTER FROM THE BOARD

If the Conversion is approved by the Shareholders at the SGM, the exercise of the conversion rights attaching to the Bonus CBs will take place before the exercise of the conversion rights attaching to the 8% CBs.

In the event that the Disposal is not approved by the Shareholders at the SGM or the Conversion and the Disposal are not approved by the Shareholders at the SGM, the Company is only able to dispose of such number of China Star Shares which constitutes a discloseable transaction of the Company under the Listing Rules.

Condition precedent

The Disposal shall be conditional upon the approval by the Shareholders at the SGM.

Financial effects of the Conversion and the Disposal

As the Conversion and the Disposal are two separate transactions and they are not inter-conditional, there is a chance that the Conversion is not approved by the Shareholders while the Disposal is approved by the Shareholders or vice versa. Accordingly, the following three scenarios for the financial effects of the Conversion and the Disposal on the Enlarged Group and the Remaining Group are presented:

- a. Scenario I: the Conversion is approved by the Shareholders, the Bonus CBs are fully converted into 607,980,676 new China Star Shares and no Disposable China Star Shares are disposed of (“**Scenario I**”);
- b. Scenario II: the Conversion is not approved by the Shareholders, the 8% CBs are fully converted into new China Star Shares and 3,485,808,519 Disposable China Star Shares, comprising 303,990,338 China Star Shares already held by the Group as at the Latest Practicable Date and 3,181,818,181 new China Star Shares to be allotted and issued to the Group upon the full conversion of the 8% CBs, are fully disposed of by a single transaction (“**Scenario II**”); and
- c. Scenario III: the Conversion is approved by the Shareholders, the Bonus CBs and the 8% CBs are fully converted into new China Star Shares and 4,093,789,195 Disposable China Star Shares, comprising 303,990,338 China Star Shares already held by the Group as at the Latest Practicable Date, 607,980,676 new China Star Shares to be allotted and issued to the Group upon the full conversion of the Bonus CBs and 3,181,818,181 new China Star Shares to be allotted and issued to the Group upon the full conversion of the 8% CBs, are fully disposed of by a single transaction (“**Scenario III**”).

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Shareholders and readers of this circular should note that the financial effects of Scenario II and Scenario III on the Remaining Group are for illustration purpose only as the Group is not able to dispose of the entire Disposable China Star Shares by a single transaction due to any conversion of the outstanding principal amount of the Bonus CBs or the 8% CBs shall not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the holder(s) of the Bonus CBs or the 8% CBs which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) cause the public float of China Star unable to meet the requirement under Rule 8.08 of the Listing Rules.

If the Disposal is approved by the Shareholders at the SGM, the new China Star Shares to be allotted and issued to the Group upon the conversion of the principal amount the 8% CBs together with the 303,990,338 China Star Shares that already held by the Group shall be recognised as financial assets at fair value through profit or loss in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurements*, instead of accounted for as an associate in accordance with Hong Kong Accounting Standard 28 *Investments in Associates*.

The financial effects of Scenario I, Scenario II and Scenario III on the Enlarged Group and the Remaining Group are as follows:

Assets

As at 31 December 2012, the audited consolidated total assets of the Group amounted to HK\$1,603.61 million.

(a) Scenario I

As set out in Appendix IV to this circular, assuming the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 31 December 2012 and no Disposable China Star Shares had been disposed of, the unaudited pro forma consolidated total assets of the Enlarged Group would have been increased to HK\$1,826.16 million as at 31 December 2012 under Scenario I.

(b) Scenario II

As set out in Appendix IV to this circular, assuming the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the unaudited pro forma consolidated total assets of the Remaining Group would have been increased to HK\$1,679.01 million as at 31 December 2012 under Scenario II.

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(c) Scenario III

As set out in Appendix IV to this circular, assuming the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the unaudited pro forma consolidated total assets of the Remaining Group would have been increased to HK\$1,678.70 million as at 31 December 2012 under Scenario III.

Liabilities

As at 31 December 2012, the audited consolidated total liabilities of the Group amounted to HK\$81.66 million.

(a) Scenario I

As set out in Appendix IV to this circular, assuming the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 31 December 2012 and no Disposable China Star Shares had been disposed of, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have been remained at HK\$81.66 million as at 31 December 2012 under Scenario I.

(b) Scenario II

As set out in Appendix IV to this circular, assuming the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the unaudited pro forma consolidated total liabilities of the Remaining Group would have been increased to HK\$94.40 million as at 31 December 2012 under Scenario II.

(c) Scenario III

As set out in Appendix IV to this circular, assuming the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the unaudited pro forma consolidated total liabilities of the Remaining Group would have been increased to HK\$94.40 million as at 31 December 2012 under Scenario III.

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Earnings

The Group recorded an audited consolidated profit of HK\$206.26 million for the year ended 31 December 2012.

(a) Scenario I

As set out in Appendix IV to this circular, assuming the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star Shares had been disposed of, the Enlarged Group would have recorded an unaudited consolidated profit of HK\$677.30 million for the year ended 31 December 2012 under Scenario I.

(b) Scenario II

As set out in Appendix IV to this circular, assuming the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, the Remaining Group would have recorded an unaudited consolidated profit of HK\$52.90 million for the year ended 31 December 2012 under Scenario II.

(c) Scenario III

As set out in Appendix IV to this circular, assuming the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, the Remaining Group would have recorded an unaudited consolidated profit of HK\$10.97 million for the year ended 31 December 2012 under Scenario III.

It should be noted that (i) the financial effects of Scenario II and Scenario III on the Remaining Group's earnings are prepared based on the assumption of the Conversion and the Disposal taking place on 1 January 2012; and (ii) the closing price of China Star Share increased by 93.72% from HK\$0.0733 (adjusted for the China Star Bonus Issue) on 1 January 2012 to HK\$0.142 on 31 December 2012.

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In the event that the 3,485,808,519 Disposable China Star Shares and the 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the Remaining Group would have recorded an unaudited consolidated profit of HK\$268.92 million under Scenario II and HK\$268.61 million under Scenario III for the year ended 31 December 2012.

Gain or loss on the Disposal

(a) Scenario II

As set out in Appendix IV to this circular, assuming the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, there would have been no gain or loss on the Disposal but the Remaining Group would have recorded a loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$121.70 million and a reclassification of accumulative gain of HK\$12.35 million from available-for-sale financial assets revaluation reserve to the consolidated income statement under Scenario II.

(b) Scenario III

As set out in Appendix IV to this circular, assuming the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, there would have been no gain or loss on the Disposal but the Remaining Group would have recorded a loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$121.70 million and a reclassification of accumulative gain of HK\$12.35 million from available-for-sale financial assets revaluation reserve to the consolidated income statement under Scenario III.

It should be noted that there is no gain or loss on the Disposal under Scenario II and Scenario III, which is attributable to:

- (a) the gain or loss on the Disposal is prepared based on the assumption of the full conversion of the 8% CBs or the Bonus CBs and the 8% CBs (as the case may be) and the Disposal taking place on 1 January 2012;

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- (b) as at 31 December 2011, the 303,990,338 Disposable China Star Shares that already held by the Group were measured on the consolidated statement of financial position of the Group at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 30 December 2011, where 31 December 2011 is a public holiday;
- (c) upon the full conversion of the Bonus CBs and the 8% CBs, the new China Star Shares to be allotted and issued by China Star are recognised as financial assets at fair value through profit or loss and measured at their fair value as at the date of initial recognition, which is the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*;
- (d) upon initial recognition of the new China Star Shares as financial assets at fair value through profit or loss, the shortfall between the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012 and the values of the Bonus CBs and the 8% CBs recorded on the consolidated statement of financial position of the Group as at 31 December 2011 are recognised as loss arising on change in fair value of financial assets at fair value through profit or loss in the consolidated income statement of the Group;
- (e) based on (b) and (c) above, the cost per Disposable China Star Share for the purpose of preparing the financial effect of gain or loss on the Disposal is HK\$0.0733;
- (f) there is no change in the closing prices of China Star Share on 30 December 2011 and 1 January 2012; and
- (g) given that the cost per Disposable China Star Share is HK\$0.0733 which is same as the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012, no gain or loss on the Disposal is recorded.

It should also be noted that the closing price of China Star Share increased by 93.72% from HK\$0.0733 (adjusted for the China Star Bonus Issue) on 1 January 2012 to HK\$0.142 on 31 December 2012. In the event that the 3,485,808,519 Disposable China Star Shares or the 4,093,789,195 Disposable China Star Shares had been disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, there would have been no gain or loss on the Disposal but the Remaining Group have recorded a gain arising on change in fair value of financial assets at fair value through profit or loss of HK\$64.45 million (net of tax expense) and a reclassification of accumulative gain of HK\$12.35 million from available-for-sale financial assets reserve to the consolidated income statement under Scenario II or Scenario III.

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Detailed information of the unaudited pro forma financial information of the Enlarged Group and the Remaining Group in respect of the Conversion and the Disposal is set out in Appendix IV of this circular.

EFFECT ON SHAREHOLDING STRUCTURE OF CHINA STAR

The table below shows the shareholding structure of China Star (i) as at the Latest Practicable Date; (ii) assuming 607,980,676 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs by the Group in full; (iii) assuming 3,181,818,181 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the 8% CBs by the Group in full; (iv) assuming 3,789,798,857 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs by the Group in full; (v) assuming 4,093,789,195 China Star Shares are fully disposed under the Disposal; and (vi) assuming 1,002,560,825 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs by the Group (for illustration purpose only).

	As at the Latest Practicable Date		Assuming 607,980,676 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs by the Group in full		Assuming 3,181,818,181 new China Star Shares to be allotted and issued to the Group upon the exercise of the conversion rights attaching to the 8% CBs by the Group in full		Assuming 3,789,798,857 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs by the Group in full		Assuming 4,093,789,195 China Star Shares are fully disposed under the Disposal		Assuming 1,002,560,825 new China Star Shares are allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs by the Group	
	China Star Shares	Approx. %	China Star Shares	Approx. %	China Star Shares	Approx. %	China Star Shares	Approx. %	China Star Shares	Approx. %	China Star Shares	Approx. %
Heung Wah Keung Family Endowment Limited	2,009,800,613	57.38	2,009,800,613	48.89	2,009,800,613	30.06	2,009,800,613	27.56	2,009,800,613	27.56	2,009,800,613	44.61
Mr. Lei	9,425,652	0.27	9,425,652	0.23	9,425,652	0.14	9,425,652	0.13	9,425,652	0.13	9,425,652	0.21
Dorest Company Limited	41,106	0.00	41,106	0.00	41,106	0.00	41,106	0.00	41,106	0.00	41,106	0.00
The Group	303,990,338	8.68	911,971,014	22.18	3,485,808,519	52.15	4,093,789,195	56.13	—	—	1,306,551,163	29.00
Public Shareholders	1,179,630,306	33.67	1,179,630,306	28.70	1,179,630,306	17.65	1,179,630,306	16.18	5,273,419,501	72.31	1,179,630,306	26.18
Total	3,502,888,015	100.00	4,110,868,691	100.00	6,684,706,196	100.00	7,292,686,872	100.00	7,292,686,872	100.00	4,505,448,840	100.00

Notes:

- For illustration purpose only. Pursuant to the deed polls of the Bonus CBs and 8% CBs executed by China Star, the holders thereof shall have the right at any time after the issue of the Bonus CBs or the 8% CBs (as the case may be) to convert the whole or part of the outstanding principal amount thereof PROVIDED THAT any conversion thereof (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) thereof which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) will not cause the public float of China Star unable to meet the requirement under Rule 8.08 of the Listing Rules. Accordingly, the Group shall strictly observe the terms and conditions of the Bonus CBs and the 8% CBs in exercising the conversion rights attaching thereto.

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2. For illustration purpose only. Assuming no new China Star Shares will be allotted and issued from the Latest Practicable Date to the date of the Conversion, the Group may be able to exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs to maximum of 1,002,560,825 new China Star Shares under the terms and conditions of the deed polls of the Bonus CBs and the 8% CBs and that the conversion of 1,002,560,825 new China Star Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code and China Star would be able to meet the requirement under Rule 8.08 of the Listing Rules.

FINANCIAL INFORMATION OF THE CHINA STAR GROUP

China Star, an exempted company incorporated in Bermuda with limited liability and the issued China Star Shares are listed on the Main Board of the Stock Exchange. China Star is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, sales of Chinese health products, investing in operations which receive the profit stream from gaming promotion business, property and hotel investment, and property development.

According to the annual report of China Star for the year ended 31 December 2012, China Star had the audited net consolidated assets attributable to owners of China Star of approximately HK\$1,587.40 million as at 31 December 2012. For the year ended 31 December 2012, the audited consolidated profit before and after taxation were approximately HK\$93.99 million and approximately HK\$94.53 million respectively. The audited consolidated profit attributable to owners of China Star for the year ended 31 December 2012 amounted to approximately HK\$53.36 million.

According to the annual report of China Star for the year ended 31 December 2011, China Star had the audited net consolidated assets attributable to owners of China Star of approximately HK\$1,968.59 million as at 31 December 2011. For the year ended 31 December 2011, the audited consolidated losses before and after taxation were approximately HK\$661.53 million and approximately HK\$654.11 million respectively. The audited consolidated loss attributable to owners of China Star for the year ended 31 December 2011 amounted to approximately HK\$683.23 million.

The consolidated income statements, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows of the China Star Group are set out in Appendix II to this circular.

REASONS FOR AND BENEFITS OF THE CONVERSION AND THE DISPOSAL

The Company is an investment holding company and its subsidiaries are principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets, provision of management services to the concierge department of a gaming promoter, property investment and money lending.

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On 9 January 2013, China Star issued the Bonus CBs in the aggregate principal amount of HK\$6,079,806.76 to the Group pursuant to the China Star Bonus Issue. As no Shareholders' approval has been obtained for the conversion of the Bonus CBs held by the Group, the Directors consider that the approval of the Conversion by the Shareholders enables the Group to convert the principal amount of the Bonus CBs into new China Star Shares as and when appropriate. Therefore, the Directors consider that the Conversion is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Company has no intention to obtain a controlling interest in China Star, the Company's interests in China Star Shares, the Bonus CBs and the 8% CBs (including the new China Star Shares which may fall to be allotted and issued to the Group upon the exercise of the conversion rights attaching to the Bonus CBs and the 8% CBs) are limited to investment interest for profit purposes only. As the price of China Star Shares has surged significantly since January 2013, the Directors intend to realise the Company's investment interest in China Star by disposing of the Disposable China Star Shares on market. Given that the size of the Disposable China Star Shares is enormous and Hong Kong equity market is dynamic, the Directors believe that the realisation of any Disposable China Star Shares requires a timely execution and a long period of time. As such, a mandate granted by the Shareholders allows the Directors to act promptly in response to the market conditions and provides a high degree of flexibility to the Group for realising the Disposable China Star Shares. Therefore, the Directors consider that the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Disposal, the principal businesses of the Group will remain unchanged.

USE OF PROCEEDS FROM THE DISPOSAL

On the basis of the Conversion is not approved by the Shareholders at the SGM and the maximum number of 3,485,808,519 Disposable China Star Shares is entirely disposed of at the closing price of HK\$0.209 per China Star Share as at the Latest Practicable Date, the net proceeds from the Disposal would be HK\$725.90 million under Scenario II.

On the basis of the Conversion is approved by the Shareholders at the SGM and the maximum number of 4,093,789,195 Disposable China Star Shares is entirely disposed of at the closing price of HK\$0.209 per China Star Share as at the Latest Practicable Date, the net proceeds from the Disposal would be HK\$852.50 million under Scenario III.

The Company intends to apply the net proceeds from the Disposal to finance any possible property investment project and/or other business investment, including but not limited to the subscription (the "**Second Tranche Subscription**") of the second tranche of convertible

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bonds of HK\$300.00 million to be issued by China Star pursuant to the conditional subscription agreement dated 21 January 2011 entered into between the Company and China Star. In December 2012, the Group identified a property investment project in Hong Kong. After a preliminary negotiation through a property agent, the Directors found that the offer price of the property investment project exceeded the Group's estimated value. Therefore, negotiation for that property investment property was ceased. Save and except for disclosed above, no such property investment project or other business investment has been identified by the Group as at the Latest Practicable Date. In the event that the Group proceeds to a possible property investment project and/or other business investment, announcements will be made in compliance with the Listing Rules.

Given that the Second Tranche Subscription is subject to the fulfillment of the conditions precedent set out in the conditional subscription agreement dated 21 January 2011, among other things, the availability of sufficient fund by the Company, the Directors shall give priority to the possible property investment project and/or other business investment over the Second Tranche Subscription in applying the net proceeds from the Disposal.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP AND THE REMAINING GROUP

The financial and trading prospects of the Enlarged Group and the Remaining Group is set out on pages 102 to 103 of Appendix V to this circular.

IMPLICATIONS UNDER THE LISTING RULES

As the relevant applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules are more than 100%, the Conversion constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Conversion is subject to Shareholders' approval at the SGM.

As the relevant applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules are more than 75%, the Disposal, if effected, constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the Shareholders' approval at the SGM.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Conversion and the Disposal. The aforesaid approvals shall be obtained by way of a poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Conversion and the Disposal therefore no Shareholder is required to abstain from voting for the resolutions to approve the Conversion and the Disposal at the SGM.

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Shareholders and investors should note that the Conversion and the Disposal are subject to Shareholders' approvals at the SGM and therefore the Conversion and the Disposal may or may not be effected. As such, Shareholders and investors are urged to exercise caution when dealing in the Shares.

THE SGM

A notice convening the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 June 2013 at 10:10 a.m. (or immediately after conclusion or adjournment of the annual general meeting of the Company scheduled to be held at the same place and on the same date at 10:00 a.m.) for the purpose of considering and, if thought fit, passing, with or without amendments, the resolution to approve the Conversion and the Disposal set out on pages 118 to 120 of this circular.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors are of the opinion that the Conversion and the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the resolution to be proposed at the SGM.

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ADDITIONAL INFORMATION

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

The English text of this circular, the notice of the SGM and the form of proxy for use at the SGM shall prevail over the Chinese text in case of inconsistency.

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

FINANCIAL INFORMATION INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012, including the notes thereto, have been published in the annual reports of the Company for the years ended 31 December 2010 (pages 50 to 187), 31 December 2011 (pages 52 to 206) and 31 December 2012 (pages 61 to 214) respectively, which are incorporated by reference into this circular. The management discussion and analysis of the Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 have been published in the annual reports of the Company for the years ended 31 December 2010 (pages 6 to 18), 31 December 2011 (pages 6 to 20) and 31 December 2012 (pages 7 to 26) respectively, which are incorporated by reference into this circular.

The said annual reports of the Company are available on the Company's website at www.eternityinv.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

STATEMENT OF INDEBTEDNESS**Borrowings**

At the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding borrowings.

Contingent Liabilities

On 15 April 2010, a claim was brought by China Finance & Assets Management Limited ("**China Finance**"), an Independent Third Party, in the High Court Action No. 526 of 2010 against Rexdale Investment Limited ("**Rexdale**"), an indirect wholly owned subsidiary of the Company that, despite repeated demands, Rexdale has failed and still refuses to pay to China Finance a service fee in the sum of HK\$25.00 million.

No provision for the claim brought by China Finance was made in the audited consolidated accounts of the Group for the year ended 31 December 2012 as Lafe Corporation Limited has undertaken to indemnify and keep indemnified One Synergy Limited ("**One Synergy**"), the immediate holding company of Rexdale, against any and all losses, claims, damages, penalties, actions, demands, proceedings, judgement and costs (including legal costs on a full indemnify basis and any amount paid for settlement of claims) arising from or in

connection with the claim pursuant to the sale and purchase agreement dated 31 December 2010 entered into between Lafe Corporation Limited as vendor and One Synergy as purchaser relating to the sale and purchase of the entire issued share capital of Lafe Properties (Hong Kong) Limited (the former name of Rexdale).

General

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 April 2013.

WORKING CAPITAL

The Directors after due and careful enquiry, are of the opinion that, in the absence of unforeseeable and after taking into account of the Conversion and the internal resources of the Group, the Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

BUSINESS AND AN INTEREST IN THE SHARE CAPITAL OF A COMPANY ACQUIRED AFTER 31 DECEMBER 2012, BEING THE DATE TO WHICH THE LATEST PUBLISHED AUDITED CONSOLIDATED ACCOUNTS OF THE GROUP WERE MADE UP

After 31 December 2012, being the date to which the latest published audited consolidated accounts of the Group were made up, the Group acquired a business and an interest in the share capital of a company as follows:

On 18 February 2013, the Company proposed to seek approvals from the Shareholders for (i) the Conversion and (ii) the Disposal. Please refer to the Company's announcement dated 18 February 2013 for more details; and

On 21 March 2013, the Group entered into a subscription agreement with EDS Wellness. Subject to the fulfillment of the conditions set out in the subscription agreement, the Group has agreed to subscribe for the convertible bonds in the principal amount of HK\$40.00 million to be issued by EDS Wellness at their face value. The convertible bonds are unsecured, non-interest bearing and maturing on the date falling on the 30 months from the date of their issue. The convertible bonds carry rights entitling the holders thereof to

convert their principal amount into new shares in EDS Wellness at an initial conversion price of HK\$1.00 per share at any time prior to the maturity date. On the same date, the Group also entered into a loan agreement with EDS Wellness. Pursuant to the loan agreement, the Group has conditionally agreed to grant an unsecured loan in the principal amount of HK\$40.00 million to EDS Wellness. The loan is unsecured, interest bearing at 5% per annum and maturing on the date falling on the third anniversary from the date of drawdown. Please refer to the Company's announcement dated 21 March 2013 for more details.

MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited consolidated accounts of the Group were made up, as at the Latest Practicable Date.

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

FINANCIAL INFORMATION OF THE CHINA STAR GROUP

Set out below is the consolidated income statement, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows of China Star for each of the three years ended 31 December 2010, 2011 and 2012, which were extracted from the annual reports 2011 and 2012 of China Star.

Consolidated Income Statement*For the year ended 31st December*

	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,464,979	1,096,762	864,261
Cost of sales	<u>(809,166)</u>	<u>(481,744)</u>	<u>(239,153)</u>
Gross profit	655,813	615,018	625,108
Other revenue	18,415	18,972	25,293
Other income	377	1,421	27,802
Administrative expenses	(441,234)	(462,600)	(455,812)
Marketing, selling and distribution expenses	(51,582)	(16,059)	(5,810)
Share-based payment expenses	—	—	(8,238)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading	(16,260)	(68,837)	28,707
Gain arising on change in fair value of investment properties	—	—	12,270
Impairment loss recognised in respect of goodwill	—	—	(8,975)
Impairment loss recognised in respect of intangible assets	(24,327)	(700,085)	(197,973)
Impairment loss recognised in respect of film rights	(1,605)	(619)	(1,339)
Impairment loss recognised in respect of films in progress	<u>—</u>	<u>(15,928)</u>	<u>—</u>
Profit/(loss) from operations	139,597	(628,717)	41,033
Finance costs	(45,589)	(31,456)	(15,695)
Share of losses of jointly controlled entities	(17)	(1,344)	—
Share of losses of associates	—	(8)	(1)
Gain arising on change in fair valued in respect of conversion options embedded in convertible notes receivable	<u>—</u>	<u>—</u>	<u>882</u>

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before tax	93,991	(661,525)	26,219
Taxation	<u>535</u>	<u>7,419</u>	<u>(1,392)</u>
Profit/(loss) for the year	<u><u>94,526</u></u>	<u><u>(654,106)</u></u>	<u><u>24,827</u></u>
Profit/(loss) for the year attributable to:			
Owners of the Company	53,360	(683,234)	(8,083)
Non-controlling interests	<u>41,166</u>	<u>29,128</u>	<u>32,910</u>
	<u><u>94,526</u></u>	<u><u>(654,106)</u></u>	<u><u>24,827</u></u>
Earnings/(loss) per share			
Basic	<u><u>HK cents 0.92</u></u>	<u><u>HK cents (55.38)</u></u>	<u><u>HK cents (2.37)</u></u>
Diluted	<u><u>HK cents 0.92</u></u>	<u><u>HK cents (55.38)</u></u>	<u><u>HK cents (2.37)</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

Consolidated Statement of Financial Position

At 31st December

	2012	2011	2010
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Non-current assets			
Property, plant and equipment	547,062	637,702	721,381
Interests in leasehold land	484,492	507,359	464,731
Investment property	—	—	73,580
Goodwill	3,030	3,030	—
Intangible assets	75,176	100,729	791,232
Interests in jointly controlled entities	28,639	28,656	—
Interests in associates	2,377	7,977	7,985
	1,140,776	1,285,453	2,058,909
Current assets			
Inventories	53,345	38,639	1,657
Stock of properties	561,976	550,312	—
Film rights	18,156	19,761	21,321
Films in progress	3,190	3,150	19,038
Trade receivables	329,937	143,008	69,337
Deposits, prepayments and other receivables	42,822	396,386	441,059
Held for trading investments	30,189	50,797	94,050
Amounts due from associates	21,176	16,854	13,714
Prepaid tax	176	86	180
Cash and bank balances	578,863	903,094	625,827
	1,639,830	2,122,087	1,286,183
Total assets	2,780,606	3,407,540	3,345,092
Capital and reserves			
Share capital	16,859	19,647	43,340
Reserves	1,570,542	1,948,945	2,259,435
	1,587,401	1,968,592	2,302,775
Equity attributable to owners of the Company	1,587,401	1,968,592	2,302,775
Non-controlling interests	(191)	306,317	277,181
	1,587,210	2,274,909	2,579,956
Total equity	1,587,210	2,274,909	2,579,956

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

	2012	2011	2010
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Non-current liabilities			
Bank borrowings	350,000	400,000	450,000
Obligations under finance leases	43	153	201
Convertible bonds	341,231	339,187	—
Deferred tax liabilities	83,714	84,253	88,063
	<u>774,988</u>	<u>823,593</u>	<u>538,264</u>
Current liabilities			
Bank borrowings	70,875	66,674	50,000
Obligations under finance leases	111	128	96
Trade payables	251,821	139,080	25,038
Deposits received, accruals and other payables	75,166	68,244	60,470
Tax payable	4	4	—
Amount due to an associate	20,279	34,906	25,766
Amount due to non-controlling interests	152	2	65,502
	<u>418,408</u>	<u>309,038</u>	<u>226,872</u>
Total liabilities	<u>1,193,396</u>	<u>1,132,631</u>	<u>765,136</u>
Total equity and liabilities	<u>2,780,606</u>	<u>3,407,540</u>	<u>3,345,092</u>
Net current assets	<u>1,221,422</u>	<u>1,813,049</u>	<u>1,059,311</u>
Total assets less current liabilities	<u>2,362,198</u>	<u>3,098,502</u>	<u>3,118,220</u>

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

Consolidated Statement of Changes in Equity

For the year ended 31st December

The Group	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK'000	Share-based payment reserve HK\$'000	Convertible bonds reserve HK\$'000	Capital reduction reserve HK\$'000	Retained earnings/(Accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	—	316,008	216,840	2,302,775	277,181	2,579,956
(Loss)/profit for the year	—	—	—	—	—	—	—	—	(683,234)	(683,234)	29,128	(654,106)
Other comprehensive income for the year	—	—	—	38	—	—	—	—	—	38	2	40
Total comprehensive income/(loss) for the year	—	—	—	38	—	—	—	—	(683,234)	(683,196)	29,130	(654,066)
Capital reduction	(44,206)	—	44,206	—	—	—	—	—	—	—	—	—
Exercise of listed warrants	—	2	—	—	—	—	—	—	—	2	—	2
Exercise of share option	—	1	—	—	—	—	—	—	—	1	—	1
Expiry of share options	—	—	—	—	—	(6,844)	—	—	6,844	—	—	—
Income tax relating to transactions with owners of the Company	—	—	—	—	—	—	(1,937)	—	—	(1,937)	—	(1,937)
Issue of new shares upon rights issue	14,735	353,650	—	—	—	—	—	—	—	368,385	—	368,385
Non-controlling interests arising on acquisition	—	—	—	—	—	—	—	—	—	—	6	6
Payment of dividend	—	—	—	—	—	—	—	—	(64,836)	(64,836)	—	(64,836)
Placement of shares	5,778	34,672	—	—	—	—	—	—	—	40,450	—	40,450
Recognition of the equity component of convertible bonds	—	—	—	—	—	—	11,740	—	—	11,740	—	11,740
Share issuing expenses	—	(4,792)	—	—	—	—	—	—	—	(4,792)	—	(4,792)
Transfer to statutory reserve	—	—	—	—	28	—	—	—	(28)	—	—	—
At 31st December 2011 and at 1st January 2012	19,647	992,954	1,100,247	926	287	53,134	9,803	316,008	(524,414)	1,968,592	306,317	2,274,909
Profit for the year	—	—	—	—	—	—	—	—	53,360	53,360	41,166	94,526
Other comprehensive income/(loss) for the year	—	—	—	21	—	—	—	—	—	21	(1)	20
Total comprehensive income for the year	—	—	—	21	—	—	—	—	53,360	53,381	41,165	94,546
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	(283,327)	(283,327)	(347,673)	(631,000)
Exercise of listed warrants	3,454	67,395	—	—	—	—	—	—	—	70,849	—	70,849
Repurchase of shares	(6,242)	(212,240)	—	—	—	—	—	—	—	(218,482)	—	(218,482)
Share issuing and cancelling expenses	—	(3,612)	—	—	—	—	—	—	—	(3,612)	—	(3,612)
Transfer to statutory reserve	—	—	—	—	4	—	—	—	(4)	—	—	—
At 31st December 2012	16,859	844,497	1,100,247	947	291	53,134	9,803	316,008	(754,385)	1,587,401	(191)	1,587,210

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

For the year ended 31st December

The Group	Attributable to owners of the Company												Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Convertible bonds reserve	Properties revaluation reserve	Capital reduction reserve	Retained earnings/ (Accumulated losses)	Sub-total			
	HKS'000	HKS'000	HKS'000	HKS'000	HK'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000		
At 1st January 2010	22,965	400,734	1,056,041	1,059	—	57,376	—	5,330	316,008	215,609	2,075,122	244,271	2,319,393	
(Loss)/profit for the year	—	—	—	—	—	—	—	—	—	(8,083)	(8,083)	32,910	24,827	
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	—	
Exchange alignment	—	—	—	(171)	—	—	—	—	—	—	(171)	—	(171)	
Total comprehensive (loss)/ income for the year	—	—	—	(171)	—	—	—	—	—	(8,083)	(8,254)	32,910	24,656	
Exercise of listed warrants	1	1	—	—	—	—	—	—	—	—	2	—	2	
Exercise of share options	528	10,367	—	—	—	(1,393)	—	—	—	—	9,502	—	9,502	
Expiry of share options	—	—	—	—	—	(4,243)	—	—	—	4,243	—	—	—	
Issue of new shares upon rights issue	14,446	130,018	—	—	—	—	—	—	—	—	144,464	—	144,464	
Placement of shares	5,400	70,200	—	—	—	—	—	—	—	—	75,600	—	75,600	
Released on disposal of investment properties	—	—	—	—	—	—	—	(5,330)	—	5,330	—	—	—	
Share issuing expenses	—	(1,899)	—	—	—	—	—	—	—	—	(1,899)	—	(1,899)	
Share-based payment expenses	—	—	—	—	—	8,238	—	—	—	—	8,238	—	8,238	
Transfer to statutory reserve	—	—	—	—	259	—	—	—	—	(259)	—	—	—	
At 31st December 2010 and 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	—	—	316,008	216,840	2,302,775	277,181	2,579,956	
(Loss)/profit for the year	—	—	—	—	—	—	—	—	—	(683,234)	(683,234)	29,128	(654,106)	
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	—	
Exchange alignment	—	—	—	38	—	—	—	—	—	—	38	2	40	
Total comprehensive income/ (loss) for the year	—	—	—	38	—	—	—	—	—	(683,234)	(683,196)	29,130	(654,066)	
Capital reduction	(44,206)	—	44,206	—	—	—	—	—	—	—	—	—	—	
Exercise of listed warrants	—	2	—	—	—	—	—	—	—	—	2	—	2	
Exercise of share option	—	1	—	—	—	—	—	—	—	—	1	—	1	
Expiry of share options	—	—	—	—	—	(6,844)	—	—	—	6,844	—	—	—	
Income tax relating to transactions with owners of the Company	—	—	—	—	—	—	(1,937)	—	—	—	(1,937)	—	(1,937)	
Issue of new shares upon rights issue	14,735	353,650	—	—	—	—	—	—	—	—	368,385	—	368,385	
Non-controlling interests arising on acquisition	—	—	—	—	—	—	—	—	—	—	—	6	6	
Payment of dividends	—	—	—	—	—	—	—	—	—	(64,836)	(64,836)	—	(64,836)	
Placement of shares	5,778	34,672	—	—	—	—	—	—	—	—	40,450	—	40,450	
Recognition of equity component of convertible bonds	—	—	—	—	—	—	11,740	—	—	—	11,740	—	11,740	
Share issuing expenses	—	(4,792)	—	—	—	—	—	—	—	—	(4,792)	—	(4,792)	
Transfer to statutory reserve	—	—	—	—	28	—	—	—	—	(28)	—	—	—	
At 31st December 2011	19,647	992,954	1,100,247	926	287	53,134	9,803	—	316,008	(524,414)	1,968,592	306,317	2,274,909	

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

Consolidated Statement of Cash Flows

For the year ended 31st December

	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax	93,991	(661,525)	26,219
Adjustments for:			
Finance costs	45,589	31,456	15,695
Interest income	(7,005)	(6,783)	(3,177)
Amortisation of intangible assets	1,226	217	—
Amortisation of interests in leasehold land	22,867	22,866	—*
Depreciation of property, plant and equipment	96,558	104,100	108,264
Loss on disposal of financial assets classified as held for trading	328	2,490	(6,558)
Loss/(gain) arising on change in fair value of financial assets classified as held for trading	15,932	66,347	(22,149)
Gain arising on change in fair value of investment property	—	—	(12,270)
Gain on early redemption of convertible notes receivables	—	—	(26,983)
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	—	—	(882)
Impairment loss recognised in respect of goodwill	—	—	8,975
Impairment loss recognised in respect of film rights	1,605	619	1,339
Impairment loss recognised in respect of films in progress	—	15,928	—
Impairment loss recognised in respect of trade receivables	200	394	—
Impairment loss recognised in respect of intangible assets	24,327	700,085	197,973
Loss on disposal of property, plant and equipment	510	265	713
Loss on derecognition of a subsidiary	—	24	—
Share of losses of associates	—	8	1
Share of losses of jointly controlled entities	17	1,344	—
Reversal of impairment loss on trade receivables and other receivables	—	—	(14)
Share-based payment expenses	—	—	8,238
	93,991	(661,525)	26,219

* The amount was combined in depreciation of property, plant and equipment.

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

	2012 <i>HK\$ '000</i>	2011 <i>HK\$ '000</i>	2010 <i>HK\$ '000</i>
Operating cash flows before movements in working capital	296,145	277,835	295,384
(Increase)/decrease in inventories	(14,706)	3,309	(566)
Increase in stock of properties	(11,664)	(550,312)	—
Decrease in film rights	—	941	254
(Increase)/decrease in films in progress	(40)	(40)	200
(Increase)/decrease in trade receivables	(187,129)	(71,470)	36,091
(Increase)/decrease in deposits, prepayments and other receivables	(6,296)	4,942	10,923
(Increase)/decrease in amounts due from associates	(4,322)	(3,140)	2,721
Increase in trade payables	112,741	104,431	3,612
Decrease in deposits received, accruals and other payables	(7,423)	(14,658)	(71,731)
(Decrease)/increase in amount due to an associate	(14,627)	9,140	25,766
Increase/(decrease) in amount due to non-controlling interests	150	(65,520)	25,000
	<u>162,829</u>	<u>(304,542)</u>	<u>327,654</u>
Cash generated from/(used in) operations			
Tax (paid)/refund	(94)	152	909
Net cash generated from/(used in) operating activities	<u>162,735</u>	<u>(304,390)</u>	<u>328,563</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6,865	6,783	1,965
Acquisition of interests in associates	—	(8)	(1)
Acquisition of jointly controlled entities	—	(30,000)	—
Advance to associates	—	—	(7,985)
Acquisition of subsidiaries (net cash outflow)	—	(28,086)	—
Deposit paid for investment	—	—	(55,000)
Refund of deposit for investment	360,000	55,000	—
Proceeds from disposal of financial assets classified as held for trading	4,348	7,919	44,085
Net proceeds from disposal of assets classified as held for sale	—	—	8,272
Proceeds from disposal of property, plant and equipment	8	—	804
Purchase of financial assets classified as held for trading	—	(33,503)	(11,787)
Purchase of property, plant and equipment	(6,436)	(10,627)	(38,306)
Repayment from associates	5,600	8	—
Redemption of convertible notes receivable	—	—	60,000
	<u>370,385</u>	<u>(32,514)</u>	<u>2,047</u>
Net cash generated from/(used in) investing activities			

APPENDIX II FINANCIAL INFORMATION OF THE CHINA STAR GROUP

	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of additional interests in subsidiaries	(631,000)	—	—
Interest paid	(29,200)	(16,843)	(15,695)
Dividend paid	—	(64,836)	—
Issue of convertible bonds	—	350,000	—
New bank borrowings raised	55,924	—	500,000
New obligations under finance leases	—	73	—
Proceeds for repurchase of shares	(218,482)	—	—
Proceeds from issue of shares upon rights issue	—	368,385	144,464
Proceeds from exercise of warrants	70,849	2	2
Proceeds from placing of shares	—	40,450	75,600
Proceeds from exercise of share options	—	1	9,502
Repayment of obligations under finance leases	(127)	(141)	(104)
Repayment of bank borrowings	(101,723)	(58,144)	(410,906)
Share issuing and cancelling expenses	(3,612)	(4,792)	(1,899)
	<hr/>	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	(857,371)	614,155	300,964
	<hr/>	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(324,251)	277,251	631,574
Cash and cash equivalents at the beginning of the reporting period	903,094	625,827	(5,576)
Effect of foreign exchange rate changes	20	16	(171)
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at the end of the reporting period			
Cash and bank balances	578,863	903,094	625,827
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ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

Set out below are the unaudited condensed consolidated financial information of the Group for the years ended 31 December 2012, 2011 and 2010 (the “**Additional Financial Information of the Group**”). The Additional Financial Information of the Group has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules, and the basis set out in note 1 to the Additional Financial Information of the Group. The Company’s auditor, HLB Hodgson Impey Cheng Limited, has reviewed the Additional Financial Information of the Group in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. There was no qualification or modification in the review report issued by the Company’s auditor.

The Additional Financial Information of the Group for three years ended 31 December 2012, 2011 and 2010 were extracted from the published audited financial statements of the Company for the years ended 31 December 2012 on pages 61 to 64 and pages 66 to 70 and 31 December 2011 on pages 52 to 55 and pages 57 to 61. All of the audited financial statements of the Company have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.eterinityinv.com.hk).

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012, 2011 and 2010

		2012	2011	2010
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover		67,442	79,174	78,200
Cost of sales		—	(14)	(632)
Gross profit		67,442	79,160	77,568
Investment and other income	2	2,601	15,411	13,299
Other gains and losses	2	163,131	(260,687)	(420,183)
Administrative expenses		(23,752)	(21,738)	(14,366)
Share of results of associates		(1,928)	—	(9,371)
Profit/(loss) from operations		207,494	(187,854)	(353,053)
Finance costs		—	—	(3,041)
Profit/(loss) before taxation		207,494	(187,854)	(356,094)
Income tax (expense)/credit		(1,236)	32,598	(363)
Profit/(loss) for the year		206,258	(155,256)	(356,457)
Profit/(loss) attributable to:				
Owners of the Company		206,259	(155,255)	(356,457)
Non-controlling interests		(1)	(1)	—
		206,258	(155,256)	(356,457)

APPENDIX III ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012, 2011 and 2010

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Profit/(loss) for the year		206,258	(155,256)	(356,457)
Other comprehensive income for the year (after tax and reclassification adjustments):				
Net gain/(loss) arising on revaluation of available-for-sale financial assets	2	57,129	(44,780)	—
Share of exchange reserve change of associates		—	—	(83)
Total comprehensive income/(loss) for the year		<u>263,387</u>	<u>(200,036)</u>	<u>(356,540)</u>
Total comprehensive income/(loss) attributable to:				
Owners of the Company		263,388	(200,035)	(356,540)
Non-controlling interests		<u>(1)</u>	<u>(1)</u>	<u>—</u>
		<u>263,387</u>	<u>(200,036)</u>	<u>(356,540)</u>

APPENDIX III ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012, 2011 and 2010

	<i>Notes</i>	2012 <i>HK\$ '000</i>	2011 <i>HK\$ '000</i>	2010 <i>HK\$ '000</i>
ASSETS				
Non-current assets				
Property, plant and equipment		301	630	1,441
Investment properties		21,940	442,920	—
Intangible assets		5,722	43,940	334,681
Interests in associates		43,259	—	—
Convertible notes receivables	2	323,160	289,857	—
Available-for-sale financial assets	2	129,671	59,132	53,892
		<u>524,053</u>	<u>836,479</u>	<u>390,014</u>
Current assets				
Trade receivables		41	4,844	5,859
Loans receivables		60,753	—	—
Deposits, prepayments and other receivables		14,815	15,282	2,456
Amount due from an associate		3,528	2,003	—
Financial assets at fair value through profit or loss		25,199	47,038	9,418
Convertible notes receivables		—	64,872	—
Conversion options embedded in convertible notes receivables	2	74,256	75,282	—
Tax recoverable		—	—	32
Cash and cash equivalents		297,967	217,632	989,625
		<u>476,559</u>	<u>426,953</u>	<u>1,007,390</u>
Assets classified as held for sale		<u>603,000</u>	<u>—</u>	<u>—</u>
Total assets		<u><u>1,603,612</u></u>	<u><u>1,263,432</u></u>	<u><u>1,397,404</u></u>

APPENDIX III ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

	2012	2011	2010
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	2,574	79,344	11,021
Reserves	<u>1,519,380</u>	<u>1,158,292</u>	<u>1,333,642</u>
Equity attributable to owners of the Company	1,521,954	1,237,636	1,344,663
Non-controlling interests	<u>(2)</u>	<u>(1)</u>	<u>—</u>
Total equity	<u><u>1,521,952</u></u>	<u><u>1,237,635</u></u>	<u><u>1,344,663</u></u>
LIABILITIES			
Current liabilities			
Accruals, deposit received and other payables	68,200	11,787	10,872
Trade deposits received	—	477	477
Rental deposits received	1,595	3,113	—
Tax payable	<u>9,533</u>	<u>3,513</u>	<u>1,230</u>
	<u>79,328</u>	<u>18,890</u>	<u>12,579</u>
Non-current liability			
Deferred taxation	<u>2,332</u>	<u>6,907</u>	<u>40,162</u>
Total liabilities	<u><u>81,660</u></u>	<u><u>25,797</u></u>	<u><u>52,741</u></u>
Total equity and liabilities	<u><u>1,603,612</u></u>	<u><u>1,263,432</u></u>	<u><u>1,397,404</u></u>
Net current assets	<u><u>1,000,231</u></u>	<u><u>408,063</u></u>	<u><u>994,811</u></u>
Total assets less current liabilities	<u><u>1,524,284</u></u>	<u><u>1,244,542</u></u>	<u><u>1,384,825</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Share-based payment reserve HK\$'000	Available-for-sale financial assets revaluation reserve HK\$'000 (note 2)	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2012	79,344	221,744	19,844	327,303	11,148	(44,780)	623,033	1,237,636	(1)	1,237,635
Profit for the year	—	—	—	—	—	—	206,259	206,259	(1)	206,258
Other comprehensive income for the year										
Net gain arising on revaluation of available-for-sale financial assets	—	—	—	—	—	57,129	—	57,129	—	57,129
Total comprehensive income for the year	—	—	—	—	—	57,129	206,259	263,388	(1)	263,387
Capital reorganisation	(77,360)	—	—	77,360	—	—	—	—	—	—
Placing of new shares	396	12,298	—	—	—	—	—	12,694	—	12,694
Share issue expenses	—	(356)	—	—	—	—	—	(356)	—	(356)
Share-based payment expenses	—	—	—	—	1,892	—	—	1,892	—	1,892
Release on lapse of share options	—	—	—	—	(1,300)	—	1,300	—	—	—
Exercise of share options	194	8,362	—	—	(1,856)	—	—	6,700	—	6,700
At 31 December 2012	<u>2,574</u>	<u>242,048</u>	<u>19,844</u>	<u>404,663</u>	<u>9,884</u>	<u>12,349</u>	<u>830,592</u>	<u>1,521,954</u>	<u>(2)</u>	<u>1,521,952</u>

For the year ended 31 December 2011

	Attributable to owners of the Company											Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Share-based payment reserve HK\$'000	Convertible notes reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000 (note 2)	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
At 1 January 2011	11,021	482,493	19,844	534,959	12,158	—	—	—	284,188	1,344,663	—	1,344,663
Loss for the year	—	—	—	—	—	—	—	—	(155,255)	(155,255)	(1)	(155,256)
Other comprehensive income for the year												
Net loss arising on revaluation of available-for-sale financial assets	—	—	—	—	—	—	(44,780)	—	—	(44,780)	—	(44,780)
Total comprehensive loss for the year	—	—	—	—	—	—	(44,780)	—	(155,255)	(200,035)	(1)	(200,036)
Placing of new shares	2,203	27,535	—	—	—	—	—	—	—	29,738	—	29,738
Release on lapse of share options	—	—	—	—	(2,310)	—	—	—	2,310	—	—	—
Share-based payment expenses	—	—	—	—	1,300	—	—	—	—	1,300	—	1,300
Share premium cancellation	—	(482,493)	—	(9,297)	—	—	—	—	491,790	—	—	—
Open offer of new shares	66,120	198,359	—	—	—	—	—	—	—	264,479	—	264,479
Share issue expenses	—	(4,150)	—	—	—	—	—	—	—	(4,150)	—	(4,150)
Dividends paid	—	—	—	(198,359)	—	—	—	—	—	(198,359)	—	(198,359)
At 31 December 2011	79,344	221,744	19,844	327,303	11,148	—	(44,780)	—	623,033	1,237,636	(1)	1,237,635

APPENDIX III ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

For the year ended 31 December 2010

	Attributable to owners of the Company											Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Share-based payment reserve HK\$'000	Convertible notes reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000 <i>(note 2)</i>	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
At 1 January 2010	1,881	114,380	19,844	568,022	35,779	17,346	—	(35)	613,827	1,371,044	—	1,371,044
Loss for the year	—	—	—	—	—	—	—	—	(356,457)	(356,457)	—	(356,457)
Other comprehensive income for the year	—	—	—	—	—	—	—	—	—	—	—	—
Share of exchange reserve change of associates	—	—	—	—	—	—	—	(83)	—	(83)	—	(83)
Total comprehensive loss for the year	—	—	—	—	—	—	—	(83)	(356,457)	(356,540)	—	(356,540)
Issue of new shares	264	13,739	—	—	—	—	—	—	—	14,003	—	14,003
Placing of new shares	459	24,797	—	—	—	—	—	—	—	25,256	—	25,256
Exercise of share options	151	11,792	—	—	(2,559)	—	—	—	—	9,384	—	9,384
Allotment and issue of rights shares	8,266	322,368	—	—	—	—	—	—	—	330,634	—	330,634
Release on loss of significant influence over an associate	—	—	—	—	—	—	—	118	—	118	—	118
Share issue expenses	—	(4,583)	—	—	—	—	—	—	—	(4,583)	—	(4,583)
Share-based payment expenses	—	—	—	—	2,310	—	—	—	—	2,310	—	2,310
Release on lapse of share options	—	—	—	—	(23,372)	—	—	—	23,372	—	—	—
Early redemption of convertible notes payable	—	—	—	—	—	(20,773)	—	—	3,446	(17,327)	—	(17,327)
Reversal of deferred tax upon early redemption of convertible notes payable	—	—	—	—	—	3,427	—	—	—	3,427	—	3,427
Dividends paid	—	—	—	(33,063)	—	—	—	—	—	(33,063)	—	(33,063)
At 31 December 2010	11,021	482,493	19,844	534,959	12,158	—	—	—	284,188	1,344,663	—	1,344,663

APPENDIX III ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the years ended 31 December 2012, 2011 and 2010*

	Year ended 31 December		
	2012	2011	2010
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Net cash generated from operating activities	83,907	62,231	72,068
Net cash (used in)/generated from investing activities	(22,610)	(807,932)	114,117
Net cash generated from/(used in) financing activities	<u>19,038</u>	<u>(26,292)</u>	<u>527,638</u>
Net increase/(decrease) in cash and cash equivalents	80,335	(771,993)	713,823
Cash and cash equivalents at the beginning of the year	<u>217,632</u>	<u>989,625</u>	<u>275,802</u>
Cash and cash equivalents at the end of the year	<u><u>297,967</u></u>	<u><u>217,632</u></u>	<u><u>989,625</u></u>
Represented by:			
Cash and bank balances	<u><u>297,967</u></u>	<u><u>217,632</u></u>	<u><u>989,625</u></u>

NOTES TO THE ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

1. BASIS OF PREPARATION OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The Financial Information of the Group is prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules and solely for the purpose of inclusion in the circular in connection with the Conversion and the Disposal.

The Additional Financial Information of the Group has been prepared in accordance with the accounting policies as those adopted by the Company in the preparation of the consolidated financial statements of Group.

The Additional Financial Information of the Group does not contain sufficient information to constitute a complete set of financial statement as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants.

2. THE GROUP'S INTERESTS IN CHINA STAR

	Year ended 31 December		
	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gains/(losses) recognised in the statements of comprehensive income and income statement in relation to the interests in China Star:			
<i>China Star Shares recognised as available-for-sale financial assets:</i>			
Dividend income	—	8,844	—
Impairment loss recognised in respect of available-for-sale financial assets	—	—	(14,280)
Net (loss)/gain arising on revaluation of available-for-sale financial assets	57,129	(44,780)	—
<i>8% CBs</i>			
Gain arising on change in fair value of conversion options embedded in convertible notes receivables	9,186	262	—
Imputed interest income on convertible notes receivables	38,516	18,320	—
	<u>38,516</u>	<u>18,320</u>	<u>—</u>
Carrying amount recognised in the statements of financial position in relation to the interests in China Star:			
<i>China Star Shares recognised as available-for-sale financial assets</i>	43,167	58,960	53,720
<i>8% CBs</i>	374,629	354,927	—
<i>Bonus CB</i>	86,333	—	—
	<u>86,333</u>	<u>—</u>	<u>—</u>

Note:

The dividend income recognised in the unaudited condensed consolidated income statements above was grouped into investment and other income. The impairment loss recognised in respect of available-for-sale financial assets, gain arising on change in fair value of conversion options embedded in convertible notes receivables and imputed interest income on convertible notes receivables recognised in the unaudited condensed consolidated income statements above were grouped into other gains and losses. The net loss/gain arising on revaluation of available-for-sale financial assets recognised in the unaudited condensed consolidated statement of comprehensive income above were grouped into net loss/gain arising on revaluation of available-for-sale financial assets. Carrying amounts of China Star Share and Bonus CB recognised in the unaudited condensed consolidated statements of financial position above were grouped into available-for-sale financial assets. Carrying amount of 8% CBs recognised in the unaudited condensed consolidated statement of financial position above was grouped into convertible notes receivables and conversion options embedded in convertible notes receivables.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP

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



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

11 June 2013

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

Dear Sirs,

We report on the unaudited pro forma financial information of Eternity Investment Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) set out on pages 52 to 89 under the heading of “Unaudited Pro Forma Financial Information of the Enlarged Group and the Remaining Group” (the “**Unaudited Pro Forma Financial Information**”) in Appendix IV of the Company’s circular issued by the Company dated 11 June 2013 (the “**Circular**”) in connection with the Company’s proposals for seeking its shareholders’ approvals for (i) the exercise (the “**Conversion**”) of the conversion rights attaching to the bonus convertible bonds in the aggregate principal amount of HK\$6,079,806.76 (the “**Bonus CBs**”) issued by China Star Entertainment Limited (“**China Star**”) and (ii) the disposal of up to 4,093,789,195 shares in China Star (the “**China Star Shares**”) that already owned and to be owned by the Group (the “**Disposal**”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the Conversion and the Disposal might have affected the relevant financial information of the Group presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 55 to 89 to the Circular.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Respective responsibilities of the directors of the Company and reporting accountants

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

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

Basis of opinion

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

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

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

- the financial position of the Enlarged Group and the Remaining Group (the Group immediately after (i) the full conversion of the Bonus CBs and no disposal of China Star Shares or (ii) the full conversion of the 8% convertible bonds in the aggregate principal amount of HK\$350,000,000 (the “**8% CBs**”) issued by China Star to the Group on 7 July 2011 and the disposal of 3,485,808,519 China Star Shares or (iii) the full conversion of the Bonus CBs and the 8% CBs and the disposal of 4,093,789,195 China Star Shares, as the case may be) as at 31 December 2012 or any future date, or
- the results and cash flows of the Enlarged Group and the Remaining Group for the year ended 31 December 2012 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Yu Chi Fat

Practising Certificate Number: P05467

Hong Kong

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

**BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

This Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Conversion and the Disposal. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group. As the Conversion and the Disposal are two separate transactions and they are not inter-conditional, the following three scenarios are presented:

Scenario I

It is assumed that:

- (a) the Conversion is approved by the shareholders of the Company; and
- (b) the full conversion of the Bonus CBs is completed on 1 January 2012 or 31 December 2012 (as the case may be) and no China Star Shares are disposed of by the Group during the year ended 31 December 2012.

Scenario II

It is assumed that:

- (a) the Conversion is not approved by the shareholders of the Company; and
- (b) the full conversion of the 8% CBs and the disposal of a total of 3,485,808,519 China Star Shares, which represent (i) the 303,990,338 China Star Shares that already held by the Group and (ii) the 3,181,818,181 new China Star Shares to be allotted and issued to the Group pursuant to the exercise of the conversion rights attaching to the 8% CBs by a single transaction are completed on 1 January 2012 or 31 December 2012 (as the case may be).

Scenario III

It is assumed that:

- (a) the Conversion is approved by the shareholders of the Company; and

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

- (b) the full conversion of the 8% CBs and the Bonus CBs and the disposal of a total of 4,093,789,195 China Star Shares, which represent (i) the 303,990,338 China Star Shares that already held by the Group, (ii) the 3,181,818,181 new China Star Shares to be allotted and issued to the Group pursuant to the exercise of the conversion rights attaching to the 8% CBs and (iii) the 607,980,676 China Star Shares to be allotted and issued to the Group pursuant to the exercise of the conversion rights attaching to the Bonus CBs, by a single transaction are completed on 1 January 2012 or 31 December 2012 (as the case may be).

It should be noted that the Unaudited Pro Forma Financial Information is for illustration purpose only as the Group is not able to dispose of its entire China Star Shares that already owned by it and the entire new China Star Shares to be allotted and issued to it upon the exercise of the conversion rights attaching to the Bonus CBs and/or the 8% CBs in full by a single transaction due to any conversion of the outstanding principal amount of the Bonus CBs and/or the 8% CBs shall not (i) trigger a mandatory offer obligation under Rule 26 of the Hong Kong Code on Takeovers and Mergers on the holder(s) of the Bonus CBs or the 8% CBs which exercised the conversion right and its party(ies) acting in concert as defined under the Hong Kong Code on Takeovers and Mergers; and (ii) cause the public float of the China Star unable to meet the requirement under Rule 8.08 of the Listing Rules.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group and the Remaining Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2012 as extracted from the annual report of the Company for the year ended 31 December 2012, after making pro forma adjustments relating to the conversion of the Bonus CBs and/or the 8% CBs and the Disposal, as if they had been completed on 31 December 2012.

The unaudited pro forma income statement, unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group and the Remaining Group are prepared based on the audited consolidated income statement, audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2012 as extracted from the annual report of the Company for the year ended 31 December 2012, after making pro forma adjustments relating to the conversion of the Bonus CBs and/or the 8% CBs and the Disposal, as if they had been completed on 1 January 2012.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

**BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The Unaudited Pro Forma Financial Information is prepared based on the aforesaid historical data after giving effect to the unaudited pro forma adjustments as described in the accompanying notes. Narrative descriptions of the unaudited pro forma adjustments that are (i) directly attributable to the transactions and (ii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the results, cash flows, and financial position of the Enlarged Group and the Remaining Group upon completion of the conversion of the Bonus CBs and/or the 8% CBs and the Disposal or of any future period or of any future date.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

SCENARIO I

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group as at 31 December 2012	Pro forma adjustments		The Enlarged Group as at 31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 1)</i>	<i>(note 2)</i>	
ASSETS				
Non-current assets				
Property, plant and equipment	301			301
Investment properties	21,940			21,940
Intangible assets	5,722			5,722
Interests in associates	43,259	129,499	222,544	395,302
Convertible notes receivables	323,160			323,160
Available-for-sale financial assets	129,671	(129,499)		172
	524,053			746,597
Current assets				
Trade receivables	41			41
Loans receivables	60,753			60,753
Deposits, prepayments and other receivables	14,815			14,815
Amount due from an associate	3,528			3,528
Financial assets at fair value through profit or loss	25,199			25,199
Conversion options embedded in convertible notes receivables	74,256			74,256
Cash and cash equivalents	297,967			297,967
	476,559			476,559
Assets classified as held for sale	603,000			603,000
Total assets	1,603,612			1,826,156

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group as at 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i> <i>HK\$'000</i> <i>(note 1)</i> <i>(note 2)</i>		The Enlarged Group as at 31 December 2012 <i>HK\$'000</i>
EQUITY				
Capital and reserves attributable to owners of the Company				
Share capital	2,574			2,574
Reserves	1,519,380		222,544	1,741,924
Equity attributable to owners of the Company	1,521,954			1,744,498
Non-controlling interests	(2)			(2)
Total equity	1,521,952			1,744,496
LIABILITIES				
Current liabilities				
Accruals, deposit received and other payables	68,200			68,200
Trade deposits received	—			—
Rental deposits received	1,595			1,595
Tax payable	9,533			9,533
	79,328			79,328
Non-current liability				
Deferred taxation	2,332			2,332
Total liabilities	81,660			81,660
Total equity and liabilities	1,603,612			1,826,156
Net current assets	1,000,231			1,000,231
Total assets less current liabilities	1,524,284			1,746,828

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

	The Group for the year ended 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments			The Enlarged Group for the year ended 31 December 2012 <i>HK\$'000</i>
		<i>HK\$'000</i> <i>(note 3)</i>	<i>HK\$'000</i> <i>(note 4)</i>	<i>HK\$'000</i> <i>(note 5)</i>	
Turnover	67,442				67,442
Cost of sales	<u>—</u>				<u>—</u>
Gross profit	67,442				67,442
Investment and other income	2,601				2,601
Other gains and losses	163,131	12,349	437,728		613,208
Administrative expenses	(23,752)				(23,752)
Share of results of associates	<u>(1,928)</u>			20,966	<u>19,038</u>
Profit from operations	207,494				678,537
Finance costs	<u>—</u>				<u>—</u>
Profit before taxation	207,494				678,537
Income tax (expense)/credit	<u>(1,236)</u>				<u>(1,236)</u>
Profit for the year	<u>206,258</u>				<u>677,301</u>
Profit attributable to:					
Owners of the Company	206,259	12,349	437,728	20,966	677,302
Non-controlling interests	<u>(1)</u>				<u>(1)</u>
	<u>206,258</u>				<u>677,301</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

	The Group for the year ended 31 December 2012 <i>HK\$'000</i>	<i>HK\$'000</i> <i>(note 3)</i>	Pro forma adjustments <i>HK\$'000</i> <i>HK\$'000</i> <i>(note 4)</i> <i>(note 5)</i>		<i>HK\$'000</i> <i>(note 6)</i>	The Enlarged Group for the year ended 31 December 2012 <i>HK\$'000</i>
Profit for the year	206,258	12,349	437,728	20,966		677,301
Other comprehensive income for the year (after tax and reclassification adjustments):						
Net gain arising on revaluation of available-for-sale financial assets	57,129					57,129
Release of available-for-sale financial assets revaluation reserve upon disposal of available-for-sale financial assets	—	(12,349)				(12,349)
Share of exchange reserve change of associates	—				4	4
Total comprehensive income for the year	<u>263,387</u>					<u>722,085</u>
Total comprehensive income attributable to:						
Owners of the Company	263,388		437,728	20,966	4	722,086
Non-controlling interests	<u>(1)</u>					<u>(1)</u>
	<u>263,387</u>					<u>722,085</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	The Group for the year ended 31 December 2012 <i>HKS'000</i>		Pro forma adjustments <i>HKS'000</i> <i>(note 3)</i>		The Enlarged Group for the year ended 31 December 2012 <i>HKS'000</i> <i>(note 5)</i>
OPERATING ACTIVITIES					
Profit before taxation	207,494	12,349	437,728	20,966	678,537
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment	240				240
Gain on a bargain purchase	(32)				(32)
Cumulative gain reclassified from equity to profit or loss upon disposal of available-for-sale financial assets	—	(12,349)			(12,349)
Gain on disposal of an investment property	(640)				(640)
Gain arising on change in fair value of conversion options embedded in convertible notes receivables	(42)				(42)
Gain arising on change in fair value of investment properties	(168,592)				(168,592)
Gain on acquisition of associates	—		(437,728)		(437,728)
Loss arising on early redemption of convertible notes receivables	1,930				1,930
Loss on disposal of property, plant and equipment	302				302
Interest income on bank deposits	(1,375)				(1,375)
Imputed interest income on convertible notes receivables	(50,086)				(50,086)
Impairment loss recognised in respect of amount due from an associate	3,865				3,865
Impairment loss recognised in respect of an associate	6,137				6,137
Impairment loss recognised in respect of intangible assets	38,218				38,218
Loss arising on change in fair value of financial assets at fair value through profit or loss	5,169				5,169
Share of results of associates	1,928			(20,966)	(19,038)
Share-based payment expenses	1,892				1,892

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group for the year ended 31 December 2012	Pro forma adjustments			The Enlarged Group for the year ended 31 December 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note 3)	(note 4)	(note 5)	
Operating cash flows before movements in working capital	46,408				46,408
Decrease in trade receivables	4,803				4,803
Increase in loans receivables	(27,148)				(27,148)
Decrease in deposits, prepayments and other receivables	1,336				1,336
Increase in amount due from an associate	(5,390)				(5,390)
Decrease in financial assets at fair value through profit or loss	10,710				10,710
Increase in accruals and other payables	54,745				54,745
Decrease in rental deposits received	(1,518)				(1,518)
	<u>83,946</u>				<u>83,946</u>
Cash generated from operations	83,946				83,946
Tax paid	(39)				(39)
	<u>83,907</u>				<u>83,907</u>
Net cash generated from operating activities	83,907				83,907
INVESTING ACTIVITIES					
Acquisition of available-for-sale financial assets	(7,450)				(7,450)
Acquisition of convertible notes receivables	(27,000)				(27,000)
Interest received	1,375				1,375
Interest received from convertible notes receivables	32,868				32,868
Net cash outflow of acquisition of an associate	(51,324)				(51,324)
Net cash outflow of acquisition of subsidiaries	(33,064)				(33,064)
Net cash inflow of disposal of subsidiaries	686				686
Proceeds from disposal of available-for-sale financial assets	—				—
Proceeds from disposal of investment properties	7,950				7,950
Proceeds from disposal of property, plant and equipment	29				29
Proceeds from early redemption of convertible notes receivables	75,000				75,000
Purchase of investment properties	(21,438)				(21,438)
Purchase of property, plant and equipment	(242)				(242)
	<u>(22,610)</u>				<u>(22,610)</u>
Net cash generated from investing activities	(22,610)				(22,610)

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP

	The Group for the year ended 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments			The Enlarged Group for the year ended 31 December 2012 <i>HK\$'000</i>
		<i>HK\$'000</i> (note 3)	<i>HK\$'000</i> (note 4)	<i>HK\$'000</i> (note 5)	
FINANCING ACTIVITIES					
Proceeds from issue of new shares	19,038				19,038
Net cash generated from financing activities	19,038				19,038
Net increase in cash and cash equivalents	80,335				80,335
Cash and cash equivalents at the beginning of year	217,632				217,632
Cash and cash equivalents at the end of year	297,967				297,967
Analysis of the balances of cash and cash equivalents					
Included in cash and cash equivalents per the consolidated statement of financial position	297,967				297,967

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Notes to the Unaudited Pro Forma Financial Information

1. The pro forma adjustment represents the recognition of 303,990,339 China Star Shares and 607,980,676 new China Star Shares as interests in associates of approximately HK\$129,499,000, and the de-recognition of available-for-sale financial assets of 303,990,339 China Star Shares and the Bonus CBs of approximately HK\$43,166,000 and HK\$86,333,000 respectively with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012, upon the exercise of the conversion rights attaching to the Bonus CBs at a conversion price of HK\$0.01 per China Star Share in full on 31 December 2012.

2. The pro forma adjustment represents the recognition of gain on acquisition of associates in respect of 303,990,339 China Star Shares and 607,980,676 new China Star Shares of approximately HK\$222,544,000 with reference to 22.18% of the fair value of the identifiable net assets of China Star of approximately HK\$1,587,210,000 according to the annual report of China Star for the year ended 31 December 2012, upon the exercise of the conversion rights attaching to the Bonus CBs at a conversion price of HK\$0.01 per China Star Share in full on 31 December 2012.

Calculation of the gain on acquisition of associates is as follows:

	<i>HK\$'000</i>
De-recognition of available-for-sale financial assets of 303,990,339 China Star Shares with reference to the closing price of HK\$0.142 per China Star Share	(43,166)
De-recognition of available-for-sale financial assets of 607,980,676 new China Star Shares with reference to the closing price of HK\$0.142 per China Star Share	(86,333)
Recognition of 303,990,339 China Star Shares and 607,980,676 new China Star Shares as interests in associates	(129,499)
22.18% of the fair value of the identifiable net assets of China Star of approximately HK\$1,587,210,000 at 31 December 2012	352,043
Gain on acquisition of associates	<u>222,544</u>

3. The pro forma adjustment represents the reclassification of accumulative gain of 303,990,338 China Star Shares of approximately HK\$12,349,000 from available-for-sale financial assets revaluation reserve to the consolidated income statement upon the de-recognition available-for-sale financial assets of 303,990,338 China Star Shares on 1 January 2012.

Calculation of the accumulative gain of China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement is as follows:

	<i>HK\$'000</i>
Accumulative loss of China Star Shares in available-for-sale financial assets revaluation reserve at 1 January 2012	(44,780)
Net gain arising on revaluation of available-for-sale financial assets for the year ended 31 December 2012	57,129
Reclassification of accumulative gain of 303,990,338 China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement	<u>12,349</u>

The pro forma adjustment has no continuing financial effect.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

4. The pro forma adjustment represents the recognition of gain on acquisition of associates in respect of 303,990,339 China Star Shares and 607,980,676 new China Star Shares of approximately HK\$437,728,000 with reference to 22.18% of the fair value of the identifiable net assets of China Star of approximately HK\$2,274,909,000 according to the annual report of China Star for the year ended 31 December 2011, upon the exercise of the conversion rights attaching to the Bonus CBs at a conversion price of HK\$0.01 per China Star Share in full on 1 January 2012.

Calculation of the gain on acquisition of associates is as follows:

	<i>HK\$'000</i>
De-recognition of available-for-sale financial assets of 303,990,339 China Star Shares with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012)	(22,282)
De-recognition of available-for-sale financial assets of 607,980,676 new China Star Shares with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012)	<u>(44,565)</u>
Recognition of 303,990,339 China Star Shares and 607,980,676 new China Star Shares as interests in associates	(66,847)
22.18% of the fair value of the identifiable net assets of China Star of approximately HK\$2,274,909,000 at 1 January 2012	<u>504,575</u>
Gain on acquisition of associates	<u><u>437,728</u></u>

The pro forma adjustment has no continuing financial effect.

5. The pro forma adjustment represents the recognition of share of results of associates of approximately HK\$20,966,000 with reference to 22.18% of the profit for the year ended 31 December 2012 of China Star of approximately HK\$94,526,000 according to the annual report of China Star for the year ended 31 December 2012. The pro forma adjustment has continuing financial effect.
6. The pro forma adjustment represents the recognition of share of exchange reserve change of associates of approximately HK\$4,000 with reference to 22.18% of the other comprehensive income of China Star for the year ended 31 December 2012 of approximately HK\$20,000 according to the annual report of China Star for the year ended 31 December 2012. The pro forma adjustment has continuing financial effect.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

SCENARIO II

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	The Group as at 31 December 2012 HK\$'000	Pro forma adjustments	The Remaining Group as at 31 December 2012 HK\$'000
	HK\$'000	HK\$'000 HK\$'000 HK\$'000	HK\$'000
		(note 1) (note 2) (note 3)	(note 4)
ASSETS			
Non-current assets			
Property, plant and equipment	301		301
Investment properties	21,940		21,940
Intangible assets	5,722		5,722
Interests in associates	43,259		43,259
Convertible notes receivables	323,160	(300,374)	22,786
Available-for-sale financial assets	129,671		86,505
	<u>524,053</u>		<u>180,513</u>
Current assets			
Trade receivables	41		41
Loans receivables	60,753		60,753
Deposits, prepayments and other receivables	14,815		14,815
Amount due from an associate	3,528		3,528
Financial assets at fair value through profit or loss	25,199	374,630 77,188 (451,818)	25,199
Conversion options embedded in convertible notes receivables	74,256	(74,256)	—
Cash and cash equivalents	297,967		791,159
	<u>476,559</u>		<u>895,495</u>
Assets classified as held for sale	603,000		603,000
Total assets	<u><u>1,603,612</u></u>		<u><u>1,679,008</u></u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group as at 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments				The Remaining Group as at 31 December 2012 <i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 1)</i>	<i>(note 2)</i>	<i>(note 3)</i>	<i>(note 4)</i>	
EQUITY						
Capital and reserves attributable to owners of the Company						
Share capital	2,574					2,574
Reserves	1,519,380		64,452		(1,792)	1,582,040
Equity attributable to owners of the Company	1,521,954					1,584,614
Non-controlling interests	(2)					(2)
Total equity	<u>1,521,952</u>					<u>1,584,612</u>
LIABILITIES						
Current liabilities						
Accruals, deposit received and other payables	68,200					68,200
Trade deposits received	—					—
Rental deposits received	1,595					1,595
Tax payable	9,533		12,736			22,269
	<u>79,328</u>					<u>92,064</u>
Non-current liability						
Deferred taxation	2,332					2,332
Total liabilities	<u>81,660</u>					<u>94,396</u>
Total equity and liabilities	<u>1,603,612</u>					<u>1,679,008</u>
Net current assets	<u>1,000,231</u>					<u>1,406,431</u>
Total assets less current liabilities	<u>1,524,284</u>					<u>1,586,944</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

	The Group for the year ended 31 December 2012	Pro forma adjustments					The Remaining Group for the year ended 31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 5)</i>	<i>(note 6)</i>	<i>(note 7)</i>	<i>(note 8)</i>	<i>(note 11)</i>	
Turnover	67,442						67,442
Cost of sales	—						—
Gross profit	67,442						67,442
Investment and other income	2,601						2,601
Other gains and losses	163,131	(121,700)	12,349	(9,186)	(38,516)		6,078
Administrative expenses	(23,752)					(926)	(24,678)
Share of results of associates	(1,928)						(1,928)
Profit from operations	207,494						49,515
Finance costs	—						—
Profit before taxation	207,494						49,515
Income tax (expense)/credit	(1,236)				4,620		3,384
Profit for the year	206,258						52,899
Profit attributable to:							
Owners of the Company	206,259	(121,700)	12,349	(9,186)	(33,896)	(926)	52,900
Non-controlling interests	(1)						(1)
	206,258						52,899

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

	The Group						The
	for the						Remaining
	year ended						Group
	31 December						for the
	2012						year ended
	HK\$ '000	HK\$ '000	Pro forma adjustments		HK\$ '000	HK\$ '000	31 December
		(note 5)	HK\$ '000	HK\$ '000	(note 8)	(note 11)	2012
			(note 6)	(note 7)			HK\$ '000
Profit for the year	206,258	(121,700)	12,349	(9,186)	(33,896)	(926)	52,899
Other comprehensive income							
for the year (after tax							
and reclassification							
adjustments):							
Net gain arising on revaluation							
of available-for-sale financial							
assets	57,129						57,129
Release of available-for-sale							
financial assets revaluation							
reserve upon disposal of							
available-for-sale financial							
assets	—		(12,349)				(12,349)
Total comprehensive income							
for the year	<u>263,387</u>						<u>97,679</u>
Total comprehensive income							
attributable to:							
Owners of the Company	263,388	(121,700)		(9,186)	(33,896)	(926)	97,680
Non-controlling interests	<u>(1)</u>						<u>(1)</u>
	<u>263,387</u>						<u>97,679</u>

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

	The Group						The Remaining Group	
	for the year ended 31 December 2012						for the year ended 31 December 2012	
	HK\$'000	HK\$'000 (note 5)	HK\$'000 (note 6)	Pro forma adjustments HK\$'000 (note 7) HK\$'000 (note 9)		HK\$'000 (note 10)	HK\$'000 (note 11)	HK\$'000
OPERATING ACTIVITIES								
Profit before taxation	207,494	(121,700)	12,349	(9,186)		(38,516)	(926)	49,515
<i>Adjustments for:</i>								
Depreciation of property, plant and equipment	240							240
Gain on a bargain purchase	(32)							(32)
Cumulative gain reclassified from equity to profit or loss upon disposal of available-for-sale financial assets	—		(12,349)					(12,349)
Gain on disposal of an investment property	(640)							(640)
Gain arising on change in fair value of conversion options embedded in convertible notes receivables	(42)			9,186				9,144
Gain arising on change in fair value of investment properties	(168,592)							(168,592)
Loss arising on early redemption of convertible notes receivables	1,930							1,930
Loss on disposal of property, plant and equipment	302							302
Interest income on bank deposits	(1,375)							(1,375)
Imputed interest income on convertible notes receivables	(50,086)					38,516		(11,570)
Impairment loss recognised in respect of amount due from an associate	3,865							3,865
Impairment loss recognised in respect of an associate	6,137							6,137
Impairment loss recognised in respect of intangible assets	38,218							38,218
Loss arising on change in fair value of financial assets at fair value through profit or loss	5,169	121,700						126,869
Share of results of associates	1,928							1,928
Share-based payment expenses	1,892							1,892

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group for the year ended 31 December 2012	Pro forma adjustments					The Remaining Group for the year ended 31 December 2012
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
		<i>(note 5)</i>	<i>(note 6)</i>	<i>(note 7)</i>	<i>(note 9)</i>	<i>(note 10)</i>	<i>(note 11)</i>
Operating cash flows before							
movements in working capital	46,408						45,482
Decrease in trade receivables	4,803						4,803
Increase in loans receivables	(27,148)						(27,148)
Decrease in deposits, prepayments and other receivables	1,336						1,336
Increase in amount due from an associate	(5,390)						(5,390)
Decrease in financial assets at fair value through profit or loss	10,710						10,710
Increase in accruals and other payables	54,745						54,745
Decrease in rental deposits received	(1,518)						(1,518)
Cash generated from operations	83,946						83,020
Tax paid	(39)						(39)
Net cash generated from operating activities	<u>83,907</u>						<u>82,981</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group for the year ended 31 December 2012	Pro forma adjustments					The Remaining Group for the year ended 31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 5)</i>	<i>(note 6)</i>	<i>(note 7)</i>	<i>(note 9)</i>	<i>(note 10)</i>	<i>(note 11)</i>
INVESTING ACTIVITIES							
Acquisition of available-for-sale financial assets	(7,450)						(7,450)
Acquisition of convertible notes receivables	(27,000)						(27,000)
Interest received	1,375						1,375
Interest received from convertible notes receivables	32,868					(28,000)	4,868
Net cash outflow of acquisition of an associate	(51,324)						(51,324)
Net cash outflow of acquisition of subsidiaries	(33,064)						(33,064)
Net cash inflow of disposal of subsidiaries	686						686
Proceeds from disposal of available-for-sale financial assets	—				255,510		255,510
Proceeds from disposal of investment properties	7,950						7,950
Proceeds from disposal of property, plant and equipment	29						29
Proceeds from early redemption of convertible notes receivables	75,000						75,000
Purchase of investment properties	(21,438)						(21,438)
Purchase of property, plant and equipment	(242)						(242)
Net cash (used in)/generated from investing activities	<u>(22,610)</u>						<u>204,900</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group for the year ended 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments					The Remaining Group for the year ended 31 December 2012 <i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 5)</i>	<i>(note 6)</i>	<i>(note 7)</i>	<i>(note 9)</i>	<i>(note 10)</i>	<i>(note 11)</i>
FINANCING ACTIVITIES							
Proceeds from issue of new shares	19,038						19,038
Net cash generated from financing activities	19,038						19,038
Net increase in cash and cash equivalents	80,335						306,919
Cash and cash equivalents at the beginning of year	217,632						217,632
Cash and cash equivalents at the end of year	297,967						524,551
Analysis of the balances of cash and cash equivalents							
Included in cash and cash equivalents per the consolidated statement of financial position	297,967				255,510	(28,000)	(926)
	<u>297,967</u>						<u>524,551</u>

Notes to the Unaudited Pro Forma Financial Information

1. The pro forma adjustment represents the recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss of approximately HK\$374,630,000 and the de-recognition of the convertible notes receivables and the conversion options embedded in convertible notes receivables of the 8% CBs of approximately HK\$300,374,000 and HK\$74,256,000 respectively, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 31 December 2012.
2. The pro forma adjustment represents the recognition of the gain arising on change in fair value of financial assets at fair value through profit or loss in respect of 3,181,818,181 China Star Shares of approximately HK\$77,188,000 with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 31 December 2012, and a provision for tax expense of approximately HK\$12,736,000 on the gain arising on change in fair value of approximately HK\$77,188,000 at a tax rate of 16.5%.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the gain arising on change in fair value of financial assets at fair value through profit or loss (before tax expense) is as follows:

	<i>HK\$'000</i>
De-recognition of the convertible notes receivables of the 8% CBs as at 31 December 2012	(300,374)
De-recognition of the conversion options embedded in convertible notes receivables of the 8% CBs as at 31 December 2012	(74,256)
Recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	(374,630)
Fair value of 3,181,818,181 new China Star Shares with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012	451,818
Gain arising on change in fair value of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	<u>77,188</u>

3. The pro forma adjustment represents the cash inflow of approximately HK\$494,984,000 and the de-recognition of 3,485,808,519 China Star Shares of approximately HK\$494,984,000, upon the disposal of 3,485,808,519 China Star Shares at the closing price of HK\$0.142 per China Star Share on 31 December 2012.

4. The pro forma adjustment represents the estimated charges on the disposal of 3,485,808,519 China Star Shares, which are calculated based on the gross proceeds of approximately HK\$494,984,000 in note 3.

Calculation of the estimated charges on the disposal of 3,485,808,519 China Star Shares is as follows:

	<i>HK\$'000</i>
Brokerage fee (HK\$494,984,000 x 0.25%)	1,237
Stamp Duty (HK\$494,984,000 x 0.1%)	495
Transaction levy (HK\$494,984,000 x 0.003%)	15
Trading fee (HK\$494,984,000 x 0.005%)	25
CCASS fee (HK\$494,984,000 x 0.004%)	20
Total estimated charges	<u>1,792</u>

5. The pro forma adjustment represents the recognition of loss arising on change in fair value of financial assets at fair value through profit or loss in respect of 3,181,818,181 China Star Shares of approximately HK\$121,700,000 with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 1 January 2012.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the loss arising on change in fair value of financial assets at fair value through profit or loss is as follows:

	<i>HK\$'000</i>
De-recognition of the convertible notes receivables of the 8% CBs as at 1 January 2012	(289,857)
De-recognition of the conversion options embedded in convertible notes receivables of the 8% CBs as at 1 January 2012	<u>(65,070)</u>
Recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	(354,927)
Fair value of 3,181,818,181 new China Star Shares with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012	<u>233,227</u>
Loss arising on change in fair value of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	<u><u>(121,700)</u></u>

The pro forma adjustment has continuing financial effect.

6. The pro forma adjustment represents the reclassification of accumulative gain of 303,990,338 China Star Shares of HK\$12,349,000 from available-for-sale financial assets revaluation reserve to the consolidated income statement, upon the disposal of 3,485,808,519 China Star Shares at the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012.

Calculation of the accumulative gain of China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement is as follows:

	<i>HK\$'000</i>
Accumulative loss of China Star Shares in available-for-sale financial assets revaluation reserve at 1 January 2012	(44,780)
Net gain arising on revaluation of available-for-sale financial assets for the year ended 31 December 2012	<u>57,129</u>
Reclassification of accumulative gain of 303,990,338 China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement	<u><u>12,349</u></u>

The pro forma adjustment has no continuing financial effect.

7. The pro forma adjustment represents the reversal of gain arising on change in fair value of conversion options embedded in the 8% CBs of approximately HK\$9,186,000 for the year ended 31 December 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 1 January 2012.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the reversal of the gain arising on change in fair value of conversion options embedded in the 8% CBs is as follows:

	<i>HK\$'000</i>
Fair value of the conversion options embedded in the 8% CBs at 31 December 2012	74,256
Fair value of the conversion options embedded in the 8% CBs at 1 January 2012	<u>(65,070)</u>
Reversal of the gain arising on change in fair value of conversion options embedded in the 8% CBs that has been recognised in the audited consolidated income statement for the year ended 31 December 2012	<u>9,186</u>

The pro forma adjustment has no continuing financial effect.

8. The pro forma adjustment represents the reversal of the imputed interest income on the convertible notes receivables of the 8% CBs of approximately HK\$38,516,000 and the income tax expense of HK\$4,620,000 on the interest income received of HK\$28,000,000 at a tax rate of 16.5% for the year ended 31 December 2012. The imputed interest income is calculated by using the effective interest rate method in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* and at an effective interest rate of 13.17% which is determined based on the fair value of the convertible notes receivables of the 8% CBs at initial recognition. The pro forma adjustment has no continuing financial effect.

9. The pro forma adjustment represents the cash inflow of approximately HK\$255,510,000 upon the disposal of 3,485,808,519 China Star Shares at the closing price of HK\$0.0733 per China Star Share (adjusted for bonus issue as announced by China Star on 12 December 2012) on 1 January 2012. The pro forma adjustment has no continuing financial effect.

10. The pro forma adjustment represents the reversal of imputed interest income and interest income received on the convertible notes receivables of the 8% CBs of approximately HK\$38,516,000 and HK\$28,000,000 respectively for the year ended 31 December 2012. The imputed interest income is calculated by using the effective interest rate method in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* and at an effective interest rate of 13.17% which is determined based on the fair value of the convertible notes receivables of the 8% CBs at initial recognition.

Calculation of the reversal of imputed interest income and interest income received of the 8% CBs:

	<i>HK\$'000</i>
Imputed interest income of the 8% CBs for the year ended 31 December 2012	10,516
Interest income received of the 8% CBs for the year ended 31 December 2012	<u>28,000</u>
Reversal of total interest income of the 8% CBs recognised for the year ended 31 December 2012	<u>38,516</u>

The pro forma adjustment has no continuing financial effect.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

11. The pro forma adjustment represents the estimated charges on disposal of 3,485,808,519 China Star Shares, which are calculated based on the gross proceeds of HK\$255,510,000 in note 9.

Calculation of the estimated charges on the disposal of 3,485,808,519 China Star Share is as follows:

	<i>HK\$'000</i>
Brokerage fee (HK\$255,510,000 x 0.25%)	639
Stamp Duty (HK\$255,510,000 x 0.1%)	256
Transaction levy (HK\$255,510,000 x 0.003%)	8
Trading fee (HK\$255,510,000 x 0.005%)	13
CCASS fee (HK\$255,510,000 x 0.004%)	10
	<hr/>
Total estimated charges	926
	<hr/> <hr/>

The pro forma adjustment has no continuing financial effect.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

SCENARIO III

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	The Group as at 31 December 2012 <i>HK\$'000</i>	Pro forma adjustments					The Remaining Group as at 31 December 2012 <i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 1)</i>	<i>(note 2)</i>	<i>(note 3)</i>	<i>(note 4)</i>	<i>(note 5)</i>	
ASSETS							
Non-current assets							
Property, plant and equipment	301						301
Investment properties	21,940						21,940
Intangible assets	5,722						5,722
Interests in associates	43,259						43,259
Convertible notes receivables	323,160		(300,374)				22,786
Available-for-sale financial assets	129,671	(86,333)			(43,166)		172
	<u>524,053</u>						<u>94,180</u>
Current assets							
Trade receivables	41						41
Loans receivables	60,753						60,753
Deposits, prepayments and other receivables	14,815						14,815
Amount due from an associate	3,528						3,528
Financial assets at fair value through profit or loss	25,199	86,333	374,630	77,188	(538,151)		25,199
Conversion options embedded in convertible notes receivables	74,256		(74,256)				—
Cash and cash equivalents	297,967				581,317	(2,103)	877,181
	476,559						981,517
Assets classified as held for sale	603,000						603,000
Total assets	<u><u>1,603,612</u></u>						<u><u>1,678,697</u></u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group as at 31 December 2012 <i>HKS'000</i>	<i>HKS'000</i> <i>(note 1)</i>	Pro forma adjustments			<i>HKS'000</i> <i>(note 5)</i>	The Remaining Group as at 31 December 2012 <i>HKS'000</i>
		<i>HKS'000</i> <i>(note 2)</i>	<i>HKS'000</i> <i>(note 3)</i>	<i>HKS'000</i> <i>(note 4)</i>			
EQUITY							
Capital and reserves							
attributable to owners of the Company							
Share capital	2,574						2,574
Reserves	1,519,380		64,452		(2,103)		1,581,729
Equity attributable to owners of the Company	1,521,954						1,584,303
Non-controlling interests	(2)						(2)
Total equity	1,521,952						1,584,301
LIABILITIES							
Current liabilities							
Accruals, deposit received and other payables	68,200						68,200
Rental deposits received	1,595						1,595
Tax payable	9,533		12,736				22,269
	79,328						92,064
Non-current liability							
Deferred taxation	2,332						2,332
Total liabilities	81,660						94,396
Total equity and liabilities	1,603,612						1,678,697
Net current assets	1,000,231						1,492,453
Total assets less current liabilities	1,524,284						1,586,633

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

	The Group for the year ended 31 December 2012	Pro forma adjustments						The Remaining Group for the year ended 31 December 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note 6)	(note 7)	(note 8)	(note 9)	(note 10)	(note 13)	
Turnover	67,442							67,442
Cost of sales	—							—
Gross profit	67,442							67,442
Investment and other income	2,601							2,601
Other gains and losses	163,131	(41,768)	(121,700)	12,349	(9,186)	(38,516)		(35,690)
Administrative expenses	(23,752)						(1,086)	(24,838)
Share of results of associates	(1,928)							(1,928)
Profit from operations	207,494							7,587
Finance costs	—							—
Profit before taxation	207,494							7,587
Income tax (expense)/credit	(1,236)					4,620		3,384
Profit for the year	206,258							10,971
Profit attributable to:								
Owners of the Company	206,259	(41,768)	(121,700)	12,349	(9,186)	(33,896)	(1,086)	10,972
Non-controlling interests	(1)							(1)
	206,258							10,971

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

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

	The Group for the year ended 31 December 2012	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	Pro forma adjustments			The Remaining Group for the year ended 31 December 2012
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 6)</i>	<i>(note 7)</i>	<i>(note 8)</i>	<i>(note 9)</i>	<i>(note 10)</i>	<i>(note 13)</i>	
Profit for the year	206,258	(41,768)	(121,700)	12,349	(9,186)	(33,896)	(1,086)	10,971
Other comprehensive income for the year (after tax and reclassification adjustments):								
Net gain arising on revaluation of available-for-sale financial assets	57,129							57,129
Release of available-for-sale financial assets revaluation reserve upon disposal of available-for-sale financial assets	—			(12,349)				(12,349)
Total comprehensive income for the year	<u>263,387</u>							<u>55,751</u>
Total comprehensive income attributable to:								
Owners of the Company	263,388	(41,768)	(121,700)		(9,186)	(33,896)	(1,086)	55,752
Non-controlling interests	<u>(1)</u>							<u>(1)</u>
	<u>263,387</u>							<u>55,751</u>

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

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

	The Group for the year ended 31 December 2012			Pro forma adjustments					The Remaining Group for the year ended 31 December 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note 6)	(note 7)	(note 8)	(note 9)	(note 11)	(note 12)	(note 13)	
OPERATING ACTIVITIES									
Profit before taxation	207,494	(41,768)	(121,700)	12,349	(9,186)		(38,516)	(1,086)	7,587
<i>Adjustments for:</i>									
Depreciation of property, plant and equipment	240								240
Gain on a bargain purchase	(32)								(32)
Cumulative gain reclassified from equity to profit or loss upon disposal of available-for-sale financial assets	—			(12,349)					(12,349)
Gain on disposal of an investment property	(640)								(640)
Gain arising on change in fair value of conversion options embedded in convertible notes receivables	(42)				9,186				9,144
Gain arising on change in fair value of investment properties	(168,592)								(168,592)
Loss arising on early redemption of convertible notes receivables	1,930								1,930
Loss on disposal of property, plant and equipment	302								302
Interest income on bank deposits	(1,375)								(1,375)
Imputed interest income on convertible notes receivables	(50,086)						38,516		(11,570)
Impairment loss recognised in respect of amount due from an associate	3,865								3,865
Impairment loss recognised in respect of an associate	6,137								6,137
Impairment loss recognised in respect of intangible assets	38,218								38,218
Loss arising on change in fair value of financial assets at fairvalue through profit or loss	5,169	41,768	121,700						168,637
Share of results of associates	1,928								1,928
Share-based payment expenses	1,892								1,892

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

	The Group for the year ended 31 December 2012		Pro forma adjustments						The Remaining Group for the year ended 31 December 2012
	HK\$'000	HK\$'000 (note 6)	HK\$'000 (note 7)	HK\$'000 (note 8)	HK\$'000 (note 9)	HK\$'000 (note 11)	HK\$'000 (note 12)	HK\$'000 (note 13)	HK\$'000
Operating cash flows before movements in working capital	46,408								45,322
Decrease in trade receivables	4,803								4,803
Increase in loans receivables	(27,148)								(27,148)
Decrease in deposits, prepayments and other receivables	1,336								1,336
Increase in amount due from an associate	(5,390)								(5,390)
Decrease in financial assets at fair value through profit or loss	10,710								10,710
Increase in accruals and other payables	54,745								54,745
Decrease in rental deposits received	(1,518)								(1,518)
Cash generated from operations	83,946								82,860
Tax paid	(39)								(39)
Net cash generated from operating activities	83,907								82,821
INVESTING ACTIVITIES									
Acquisition of available-for-sale financial assets	(7,450)								(7,450)
Acquisition of convertible notes receivables	(27,000)								(27,000)
Interest received	1,375								1,375
Interest received from convertible notes receivables	32,868						(28,000)		4,868
Net cash outflow of acquisition of an associate	(51,324)								(51,324)
Net cash outflow of acquisition of subsidiaries	(33,064)								(33,064)
Net cash inflow of disposal of subsidiaries	686								686
Proceeds from disposal of available-for-sale financial assets	—					300,075			300,075
Proceeds from disposal of investment properties	7,950								7,950
Proceeds from disposal of property, plant and equipment	29								29
Proceeds from early redemption of convertible notes receivables	75,000								75,000
Purchase of investment properties	(21,438)								(21,438)
Purchase of property, plant and equipment	(242)								(242)
Net cash (used in)/generated from investing activities	(22,610)								249,465

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP

	The Group for the year ended 31 December 2012 HK\$'000	Pro forma adjustments						The Remaining Group for the year ended 31 December 2012 HK\$'000	
		HK\$'000 (note 6)	HK\$'000 (note 7)	HK\$'000 (note 8)	HK\$'000 (note 9)	HK\$'000 (note 11)	HK\$'000 (note 12)		HK\$'000 (note 13)
FINANCING ACTIVITIES									
Proceeds from issue of new shares	19,038							19,038	
Net cash generated from financing activities	19,038							19,038	
Net increase in cash and cash equivalents	80,335							351,324	
Cash and cash equivalents at the beginning of year	217,632							217,632	
Cash and cash equivalents at the end of year	297,967							568,956	
Analysis of the balances of cash and cash equivalents									
Included in cash and cash equivalents per the consolidated statement of financial position	297,967					300,075	(28,000)	(1,086)	568,956

Notes to the Unaudited Pro Forma Financial Information

1. The pro forma adjustment represents the recognition of 607,980,676 new China Star Shares as financial assets at fair value through profit or loss of approximately HK\$86,333,000 and the de-recognition of available-for-sale financial assets of the Bonus CBs of approximately HK\$86,333,000, with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012, upon the exercise of the conversion rights attaching to the Bonus CBs at a conversion price of HK\$0.01 per China Star Share in full on 31 December 2012.
2. The pro forma adjustment represents the recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss of approximately HK\$374,630,000 and the de-recognition of the convertible notes receivables and the conversions option embedded in convertible notes receivables of the 8% CBs of approximately HK\$300,374,000 and HK\$74,256,000 respectively upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 31 December 2012.
3. The pro forma adjustment represents the recognition of gain arising on change in fair value of financial assets at fair value through profit or loss in respect of 3,181,818,181 China Star Share of approximately HK\$77,188,000 with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 31 December 2012 and a provision for tax expense of approximately HK\$12,736,000 on the gain arising on change in fair value of approximately HK\$77,188,000 at a tax rate of 16.5%.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the gain arising on change in fair value of financial assets at fair value through profit or loss (before tax expense) is as follows:

	<i>HK\$'000</i>
De-recognition of the convertible notes receivables of the 8% CBs as at 31 December 2012	(300,374)
De-recognition of the conversion options embedded in convertible notes receivables of the 8% CBs as at 31 December 2012	<u>(74,256)</u>
Recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	(374,630)
Fair value of 3,181,818,181 new China Star Shares with reference to the closing price of HK\$0.142 per China Star Share on 31 December 2012	<u>451,818</u>
Gain arising on change in fair value of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	<u><u>77,188</u></u>

4. The pro forma adjustment represents the cash inflow of approximately HK\$581,317,000 and the de-recognition of 4,093,789,195 China Star Shares of approximately HK\$581,317,000, upon the disposal of 4,093,789,195 China Star Shares at the closing price of HK\$0.142 per China Star Share on 31 December 2012.
5. The pro forma adjustment represents the estimated charges on the disposal of 4,093,789,195 China Star Shares, which are calculated based on the gross proceeds of approximately HK\$581,317,000 in note 4.

Calculation of the estimated charges on the disposal of 4,093,789,195 China Star Shares is as follows:

	<i>HK\$'000</i>
Brokerage fee (HK\$581,317,000 x 0.25%)	1,453
Stamp Duty (HK\$581,317,000 x 0.1%)	581
Transaction levy (HK\$581,317,000 x 0.003%)	17
Trading fee (HK\$581,317,000 x 0.005%)	29
CCASS fee (HK\$581,317,000 x 0.004%)	<u>23</u>
Total estimated charges	<u><u>2,103</u></u>

6. The pro forma adjustment represents the recognition of loss arising on change in fair value of financial assets at fair value through profit or loss in respect of 607,980,676 China Star Shares of approximately HK\$41,768,000 with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012, upon the exercise of the conversion rights attaching to the Bonus CBs at a conversion price of HK\$0.01 per China Star Share in full on 1 January 2012.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the loss arising on change in fair value of financial assets at fair value through profit or loss is as follows:

	<i>HK\$'000</i>
De-recognition of available-for-sale financial assets of the Bonus CBs	(86,333)
Recognition of 607,980,676 new China Star Shares as financial assets at fair value through profit or loss	(86,333)
Fair value of 607,980,676 new China Star Shares with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012	44,565
Loss arising on change in fair value of the 607,980,676 new China Star Shares as financial assets at fair value through profit or loss	<u>(41,768)</u>

The pro forma adjustment has continuing financial effect.

7. The pro forma adjustment represents the recognition of loss arising on change in fair value of financial assets at fair value through profit or loss in respect of 3,181,818,181 China Star Shares of approximately HK\$121,700,000 with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 1 January 2012.

Calculation of the loss arising on change in fair value of financial assets at fair value through profit or loss is as follows:

	<i>HK\$'000</i>
De-recognition of the convertible notes receivables of the 8% CBs as at 1 January 2012	(289,857)
De-recognition of the conversion options embedded in convertible notes receivables of the 8% CBs as at 1 January 2012	(65,070)
Recognition of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	(354,927)
Fair value of 3,181,818,181 new China Star Shares with reference to the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012	233,227
Loss arising on change in fair value of 3,181,818,181 new China Star Shares as financial assets at fair value through profit or loss	<u>(121,700)</u>

The pro forma adjustment has no continuing financial effect.

8. The pro forma adjustment represents the reclassification of accumulative gain of 303,990,338 China Star Shares of HK\$12,349,000 from available-for-sale financial assets revaluation reserve to the consolidated income statement, upon the disposal of 4,093,789,195 China Star Shares at the closing price of HK\$0.0733 per China Star Share (adjusted for the bonus issue as announced by China Star on 12 December 2012) on 1 January 2012.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

Calculation of the accumulative gain of China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement is as follows:

	<i>HK\$'000</i>
Accumulative loss of China Star Shares in available-for-sale financial assets revaluation reserve at 1 January 2012	(44,780)
Net gain arising on revaluation of available-for-sale financial assets for the year ended 31 December 2012	<u>57,129</u>
Reclassification of accumulative gain of 303,990,338 China Star Shares from available-for-sale financial assets revaluation reserve to the consolidated income statement	<u><u>12,349</u></u>

The pro forma adjustment has no continuing financial effect.

9. The pro forma adjustment represents the reversal of gain arising on change in fair value of conversion options embedded in the 8% CBs of approximately HK\$9,186,000 for the year ended 31 December 2012, upon the exercise of the conversion rights attaching to the 8% CBs at an adjusted conversion price of HK\$0.11 per China Star Share in full on 1 January 2012.

Calculation of the reversal of gain arising on change in fair value of conversion options embedded in the 8% CBs is as follows:

	<i>HK\$'000</i>
Fair value of the conversion options embedded in the 8% CBs at 31 December 2012	74,256
Fair value of the conversion options embedded in the 8% CBs at 1 January 2012	<u>(65,070)</u>
Reversal of the gain arising on change in fair value of conversion options embedded in the 8% CBs recognised for the year ended 31 December 2012	<u><u>9,186</u></u>

The pro forma adjustment has no continuing financial effect.

10. The pro forma adjustment represents the reversal of imputed interest income on the convertible notes receivables of the 8% CBs for of approximately HK\$38,516,000 and income tax expense of HK\$4,620,000 on the interest income received of HK\$28,000,000 at a tax rate of 16.5% for the year ended 31 December 2012. The imputed interest income is calculated by using the effective interest rate method in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* and at an effective interest rate of 13.17% which is determined based on the fair value of the convertible notes receivables of the 8% CBs at initial recognition. The pro forma adjustment has no continuing financial effect.
11. The pro forma adjustment represents the cash inflow of approximately HK\$300,075,000 upon the disposal of 4,093,789,195 China Star Shares at the closing price of HK\$0.0733 per China Star Share on 1 January 2012. The pro forma adjustment has no continuing financial effect.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION ON
THE ENLARGED GROUP AND THE REMAINING GROUP**

12. The pro forma adjustment represents the reversal of imputed interest income and interest income received on the convertible notes receivables of the 8% CBs of approximately HK\$38,516,000 and HK\$28,000,000 respectively for the year ended 31 December 2012. The imputed interest income is calculated by using the effective interest rate method in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* and at an effective interest rate of 13.17% which is determined based on the fair value of the convertible notes receivables of the 8% CBs at initial recognition.

Calculation of the reversal of imputed interest income and interest income received of the 8% CBs:

	<i>HK\$'000</i>
Imputed interest income of the 8% CBs for the year ended 31 December 2012	10,516
Interest income received of the 8% CBs for the year ended 31 December 2012	28,000
	38,516
Reversal of total interest income of the 8% CBs recognised for the year ended 31 December 2012	38,516

The pro forma adjustment has no continuing financial effect.

13. The pro forma adjustment represents the estimated charges on the disposal of the 4,093,289,195 China Star Shares, which are calculated based on the gross proceeds of HK\$300,075,000 in note 11.

Calculation of the estimated charges on the disposal of the 4,093,289,195 is as follows:

	<i>HK\$'000</i>
Brokerage fee (HK\$300,075,000 x 0.25%)	750
Stamp Duty (HK\$300,075,000 x 0.1%)	300
Transaction levy (HK\$300,075,000 x 0.003%)	9
Trading fee (HK\$300,075,000 x 0.005%)	15
CCASS fee (HK\$300,075,000 x 0.004%)	12
	1,086
Total estimated charges	1,086

The pro forma adjustment has no continuing financial effect.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE ENLARGED GROUP AND
THE REMAINING GROUP

For the year ended 31 December 2012

Financial Review

Results of operations

The Enlarged Group or Remaining Group recorded a turnover of HK\$67.44 million for the year ended 31 December 2012, a 14.82% decrease from HK\$79.17 million for the previous year. Of the total turnover amount, HK\$51.08 million or 75.74% was generated from provision of management services, HK\$9.78 million or 14.51% was generated from money lending, HK\$5.93 million or 8.79% was generated from property investment and HK\$0.65 million or 0.96% was generated from sale of financial assets.

Under Scenario I, it is assumed that the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star Shares had been disposed of. Profit attributable to owners of the Company for the year ended 31 December 2012 would have been HK\$677.30 million.

Under Scenario II, it is assumed that the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012. Profit attributable to owners of the Company for the year ended 31 December 2012 would have been HK\$52.90 million.

Under Scenario III, it is assumed that the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012. Profit attributable to owners of the Company for the year ended 31 December 2012 would have been HK\$10.97 million.

Investment and other income decreased by 83.12% from HK\$15.41 million in the year ended 31 December 2011 to HK\$2.60 million in the year ended 31 December 2012. This decrease was attributable to the decrease in interest income on bank deposits and the absence of special dividend income from China Star.

Other gains and losses represent items of income and expense, which are material and/or extraordinary in nature. Major items of other gains and losses recorded during the year are as follows:

- (a) the Directors reassessed the fair value of investment properties held by the Enlarged Group or the Remaining Group at the end of the reporting period with reference to the property valuations performed by the independent professional valuers and, in light of the recent increase in property prices in Hong Kong, a gain arising on change in fair value of investment properties of HK\$168.59 million was recognised;
- (b) the convertible notes of HK\$75 million issued by Culture Landmark Investment Limited (“**Culture Landmark**”, stock code: 674) and the convertible note of HK\$27 million issued by Koffman Corporate Service Limited (“**Koffman**”), a Hong Kong private company, generated an imputed interest income of HK\$11.57 million to the Enlarged Group or the Remaining Group;
- (c) on 3 August 2012, the Enlarged Group or the Remaining Group acquired 29.00% interest in the issued share capital of China Media and Films Holdings Limited (“**China Media**”, stock code: 8172) at a consideration of HK\$51.32 million. At the end of the reporting period, the Directors performed an impairment test for the investment in China Media with reference to the market value of shares in China Media on 31 December 2012 and recognised an impairment loss in respect of an associate of HK\$6.14 million;
- (d) at the end of the reporting period, the Directors also performed impairment tests for the carrying amounts of management services agreements held by the Enlarged Group or the Remaining Group with reference to the valuations performed by the independent professional valuer and, in light of the management services agreement with Dore Entretenimento Sociedade Unipessoal Limitada (“**Dore**”), a licensed gaming promoter for Wynn Macau, terminated on 12 September 2012, an impairment loss on intangible assets of HK\$37.84 million was recognised. In addition, an impairment loss on intangible assets of HK\$0.38 million was also recognised for the remaining management services agreement held by the Enlarged Group or the Remaining Group in light of a keen competition in Macau VIP gaming sector;
- (e) the Enlarged Group or the Remaining Group revalued its equity portfolio at market prices at the end of the reporting period and recognised a loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$5.17 million;

- (f) Under Scenario I, it is assumed that the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star had been disposed of. China Star would have become an associate of the Company and the Enlarged Group would have recorded a gain on acquisition of an associate of HK\$437.73 million. The accumulative gain in respect of the 303,990,338 China Star Shares of HK\$12.35 million would have reclassified from available-for-sale financial assets revaluation reserve to the consolidated income statement;
- (g) Under Scenario II, it is assumed that the 8% CBs had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012. The Remaining Group would have recorded a loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$121.70 million and the accumulative gain in respect of the 303,990,338 China Star Shares of HK\$12.35 million would have reclassified from available-for-sale financial assets revaluation reserve to the consolidated income statement;
- (h) Under Scenario III, it is assumed that the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star had been disposed of at the closing price of HK\$0.0733 per China Star Share (adjusted for the China Star Bonus Issue) on 1 January 2012. The Remaining Group would have recorded a loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$121.70 million and the accumulative gain in respect of the 303,990,338 China Star Shares of HK\$12.35 million would have reclassified from available-for-sale financial assets revaluation reserve to the consolidated income statement; and
- (i) a wholly owned subsidiary of Spark Concept Group Limited (“**Spark Concept**”, together with its subsidiaries, the “**Spark Concept Group**”), an associate company of the Company engaged in catering and trading, owed the Enlarged Group or the Remaining Group an amount of HK\$7.39 million at 31 December 2012. In view of the net liabilities position of that subsidiary of Spark Concept, an impairment loss of HK\$3.86 million was recognised against the amount due from an associate.

Administrative expenses (before amortisation and depreciation) amounted to HK\$23.51 million for the year ended 31 December 2012, a 9.30% increase from HK\$21.51 million for the previous year. This increase was mainly attributable to the increase in Directors’ salaries and allowances, which was partly offset by the decrease in legal and professional fees.

During the period from 3 August 2012, being the date on which China Media became an associate company of the Company, to 31 December 2012, China Media and its subsidiaries reported a consolidated loss of HK\$6.65 million and contributed a loss of HK\$1.93 million to the Enlarged Group or the Remaining Group.

For the year ended 31 December 2012, the Spark Concept Group reported a consolidated loss of HK\$3.23 million. As its share of post-acquisition losses equals to its interests in Spark Concept, the Enlarged Group or the Remaining Group did not further recognise any shares of losses.

Assuming the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star Shares had been disposed of, China Star would have become an associated company of the Company and contributed a profit of HK\$20.97 million to the Enlarged Group.

Liquidity and financial resources

During the year, the Enlarged Group or the Remaining Group funded its operations through a combination of cash generated from operations, equity attributable to owners of the Company and issue of new shares.

Under Scenario I, it is assumed that the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star Shares had been disposed of,

- (a) equity attributable to owners of the Company would have been increased from HK\$1,237.64 million at 31 December 2011 to HK\$1,744.50 million at 31 December 2012; and
- (b) the cash and cash equivalents of the Enlarged Group would have remained at HK\$297.97 million (2011: HK\$217.63 million).

Under Scenario II, it is assumed that the 8% CBs million had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012,

- (a) equity attributable to owners of the Company would have increased from HK\$1,237.64 million at 31 December 2011 to HK\$1,584.61 million at 31 December 2012; and

(b) the cash and cash equivalents of the Remaining Group would have amounted to HK\$791.16 million (2011: HK\$217.63 million).

Under Scenario III, it is assumed that the Bonus CBs and the 8% CBs had been fully converted into 3,789,798,857 new China Star Shares and 4,093,789,195 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012,

(a) equity attributable to owners of the Company would have increased from HK\$1,237.64 million at 31 December 2011 to HK\$1,584.30 million at 31 December 2012; and

(b) the cash and cash equivalents of the Remaining Group would have amounted to HK\$877.18 million (2011: HK\$217.63 million).

At 31 December 2012, the Enlarged Group or the Remaining Group had no borrowings (2011: Nil).

Net current assets and current ratio

Under Scenario I, it is assumed that the Bonus CBs had been fully converted into 607,980,676 new China Star Shares on 1 January 2012 and no Disposable China Star Shares had been disposed of, the Enlarged Group's net current assets and current ratio would have been HK\$1,000.23 million (2011: HK\$408.06 million) and 13.61 (2011: 22.60), respectively at 31 December 2012.

Under Scenario II, it is assumed that the 8% CBs million had been fully converted into 3,181,818,181 new China Star Shares and 3,485,808,519 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the Remaining Group's net current assets and current ratio would have been HK\$1,406.43 million (2011: HK\$408.06 million) and 16.28 (2011: 22.60), respectively at 31 December 2012.

Under Scenario III, it is assumed that the Bonus CBs and the 8% CBs had been fully converted into 3,524,647,342 new China Star Shares and 3,828,637,680 Disposable China Star Shares had been fully disposed of at the closing price of HK\$0.142 per China Star Share on 31 December 2012, the Remaining Group's net current assets and current ratio would have been HK\$1,492.45 million (2011: HK\$408.06 million) and 17.21 (2011: 22.60), respectively at 31 December 2012.

Capital structure

During the year, the capital structure of the Company had the following changes:

- (a) on 9 May 2012, the capital of the Company was reorganised involving (i) every 40 existing shares of HK\$0.01 each in the issued share capital of the Company be consolidated into one share of HK\$0.40 (the “**Consolidated Share**”) (the “**Share Consolidation**”); (ii) the total number of the Consolidated Shares in the issued share capital of the Company be rounded down to a whole number by cancelling the fractional Consolidated Share arising from the Share Consolidation; (iii) the paid-up capital of each Consolidated Share be reduced from HK\$0.40 to HK\$0.01 by cancelling HK\$0.39 (together with (ii) above are hereinafter referred to as the “**Capital Reduction**”) so as to form a new share of HK\$0.01; and (iv) the amount of credit arising in the accounts of the Company from the Capital Reduction be credited to the contributed surplus account of the Company;
- (b) on 18 May 2012, the Company issued 39,670,000 new shares at a price of HK\$0.32 per share by way of placing of new shares under specific mandate raising HK\$12.34 million (net of expenses) for financing possible property investment project of the Enlarged Group or the Remaining Group and/or enhancing the Enlarged Group’s or the Remaining Group’s fixed income portfolio by subscribing high-yield convertible notes;
- (c) on 20 December 2012, the Company issued 7,120,000 new shares at a price of HK\$0.345 per share pursuant to the exercise of share options under the Company’s share option scheme; and
- (d) on 28 December 2012, the Company issued 12,300,000 new shares at a price of HK\$0.345 per share pursuant to the exercise of share options under the Company’s share option scheme.

Material acquisitions

Save and except for the full conversion of the Bonus CBs and the 8% CBs into new China Star Shares and China Star becoming an associate of the Company resulting from the completion of the Conversion, the Enlarged Group or the Remaining Group had the following material acquisitions during the year:

- (a) on 5 January 2012, the Enlarged Group or the Remaining Group acquired the entire issued shares in and the sale loan due by Hong Kong Builders Finance Limited (“**Hong Kong Builders**”) from Koffman Financial Group Limited at a consideration of HK\$33.07 million. Hong Kong Builders is carrying on money lending business in Hong Kong;

- (b) on 22 March 2012, the Enlarged Group or the Remaining Group subscribed for the convertible note in the principal amount of HK\$27.00 million issued by Koffman. The convertible note is unsecured, non-interest bearing and maturing on 21 March 2015. Provided that the convertible note has not been redeemed, the whole convertible note shall automatically be converted into shares in Koffman upon the success of initial public offering of Koffman's shares at the price of initial public offering. Any amount of the convertible note which remains outstanding on the maturity date shall be redeemed by Koffman at its then outstanding principal amount plus a premium calculated at 20% of the then outstanding principal amount;
- (c) on 3 August 2012, the Enlarged Group or the Remaining Group acquired 146,640,000 shares in China Media, representing 29.00% of the issued share capital of China Media, from Culture Landmark at a consideration of HK\$51.32 million;
- (d) on 22 August 2012, the Enlarged Group or the Remaining Group acquired two three-storey New Territories Small Houses located in Ma Yau Tong, Sai Kung, New Territories, Hong Kong at a total consideration of HK\$21.44 million. These two three-storey New Territories Small Houses are held by the Enlarged Group or the Remaining Group as long-term investments for rental purposes; and
- (e) on 27 November 2012, the Enlarged Group or the Remaining Group exercised the subscription rights attaching to the listed bonus warrants (warrant code: 1056) issued by China Star in the principal amount of HK\$7.45 million to subscribe for 35,990,338 new China Star Share at an adjusted subscription price of HK\$0.207 per China Star Share. The cash consideration for the subscription amounted to HK\$7.45 million.

Material disposals

Save and except for the disposal of up to 4,093,789,195 Disposable China Star Shares, the Enlarged Group or the Remaining Group had the following material disposals during the year:

- (a) on 27 April 2012, the Enlarged Group or the Remaining Group disposed of its residential property located in Tseung Kwan O, New Territories, Hong Kong at a consideration of HK\$7.95 million;

- (b) on 28 May 2012, Culture Landmark early redeemed HK\$23 million of the convertible notes of HK\$75.00 million held by the Enlarged Group or the Remaining Group at par;
- (c) on 3 August 2012, Culture Landmark early redeemed the remaining balance of the convertible notes of HK\$52.00 million held by the Enlarged Group or the Remaining Group at par; and
- (d) on 20 November 2012, the Enlarged Group or the Remaining Group as vendor entered into a preliminary sale and purchase agreement with Grand Reward Limited as purchaser relating to the sale and purchase of the whole of 1st floor and the flat roof, the whole of 6th to 12th floors, roof, external walls, two lavatories, three lorry parking spaces and eight private car parking spaces on the ground floor of an industrial building located in Kwun Tong, Kowloon, Hong Kong (the “**Kwun Tong Property**”) at a consideration of HK\$586.00 million. The proposed disposal of the Kwun Tong Property was approved by the Shareholders on 9 January 2013 and has not been completed as at the date of this annual report.

Pledge of assets

At 31 December 2012, no assets of the Enlarged Group or the Remaining Group were pledged.

Commitments

At 31 December 2012, the Enlarged Group or the Remaining Group had a total commitments of HK\$309.00 million relating to:

- (a) the subscription of the second tranche of convertible notes to be issued by China Star in the aggregate principal amount of HK\$300.00 million pursuant to the conditional subscription agreement dated 21 January 2011. The subscription of the second tranche of convertible notes is conditional upon the fulfillment of the conditions precedent set out in the conditional subscription agreement, among other things, the availability of sufficient fund by the Company. On 29 June 2012, the completion date of subscription was extended from 30 June 2012 to 31 December 2013; and
- (b) six building mortgages in the aggregate principal amount of HK\$9.00 million to be made to six individuals pursuant to six building mortgages entered into between Hong Kong Builders and the six individuals in February 2012.

Exchange risk and hedging

During the year, the majority of the Enlarged Group's or the Remaining Group's transactions, assets and liabilities are denominated in Hong Kong Dollars. Accordingly, no financial instruments for hedging purposes have been used by the Enlarged Group or the Remaining Group.

Contingent liabilities

At 31 December 2012, the Enlarged Group or the Remaining Group had a material contingent liability relating to a claim brought by China Finance & Assets Management Limited ("**China Finance**") in the High Court Action No. 526 of 2010 against Rexdale Investment Limited, a wholly owned subsidiary of the Company, for failing to pay a service fee in the sum of HK\$25.00 million to China Finance.

No provision for the claim brought by China Finance was made in the consolidated financial statements of the Enlarged Group or the Remaining Group for the year ended 31 December 2012 as Lafe Corporation Limited has undertaken to indemnify and keep indemnified the Enlarged Group or the Remaining Group against any all losses, claims, damages, penalties, actions, demands, proceedings, judgment and costs arising from or in connection with the claim.

Employees and remuneration policy

At 31 December 2012, the headcount of the Enlarged Group or the Remaining Group was 13 (2011: 12). Staff costs (including Directors' remuneration) for the year ended 31 December 2012 amounted to HK\$10.66 million (2011: HK\$5.52 million). In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

Operation Review

During the year ended 31 December 2012, no revenue was generated from the film distribution business as the Enlarged Group or the Remaining Group was not able to secure quality films at reasonable prices for distribution. In order to revitalise its film distribution business, the Enlarged Group or the Remaining Group acquired a 29% interest in the issued share capital of China Media from Culture Landmark in August 2012. The film distribution business has been waning over the last few years with management having a difficult time finding and sourcing quality films for distribution on commercially viable terms and

profitability for the Enlarged Group or the Remaining Group. As one of principal activities of China Media is film production, the Directors believe that taking an investment in China Media enables the Enlarged Group or the Remaining Group to (i) form a strategic alliance with Culture Landmark and China Media leveraging on each respective strengths; and (ii) secure a stable supply of films from China Media for distribution in Mainland China.

Hong Kong equities had a volatile year in 2012. With the European Central Bank's pledge to do whatever it takes to save Euro in July 2012, followed by the outright monetary transaction announced in September 2012, and improving economic data from Mainland China, Hong Kong equities have gained more than 15% since bottoming in June 2012. During the year, the Enlarged Group or the Remaining Group did not make any investment in equities, but sought opportunities to realise its equities. In March 2012, the Enlarged Group or the Remaining Group disposed of certain equities and recorded a gain of HK\$0.65 million. During the year, the Enlarged Group or the Remaining Group recorded a loss arising on change in fair value of HK\$5.17 million for its equities.

During the year, the provision of management services business generated services fee income amounted to HK\$51.08 million, a 35.26% decrease as compared to the previous year. This decrease not only reflects the termination of the management services agreement with Dore on 12 September 2012, but also a keen competition in Macau VIP gaming sector following the opening of Galaxy Macau in May 2011 and the first phase of Sands Cotai Central in April 2012, despite a 7.51% increase in Macau VIP gaming revenue in 2012 as compared to the previous year. Following the termination of the management services agreement with Dore, the Enlarged Group or the Remaining Group continues to provide management services to the concierge department of a licensed gaming promoter pursuant to the remaining management services agreement held by it. Given that the Enlarged Group or the Remaining Group has expertise in provision of management services available, the Directors intended to explore opportunities in providing management services to the concierge departments of other gaming promoters in Macau in order to revitalise its provision of management services business. However, in view of the keen competition in Macau VIP gaming sector, the Directors have determined to cease the exploration. During the year, the Enlarged Group or the Remaining Group recognised an impairment loss on intangible assets of HK\$38.22 million.

During the year, the Enlarged Group's or the Remaining Group's property investment business generated a rental income of HK\$5.93 million. In April 2012, the Enlarged Group or the Remaining Group disposed of its residential property located in Tseung Kwan O, New Territories, Hong Kong at a consideration of HK\$7.95 million and recorded a gain on disposal of investment property of HK\$0.64 million. In August 2012, the Enlarged Group or the Remaining Group acquired two three-storey New Territories Small Houses

located in Ma Yau Tong, Sai Kung, New Territories, Hong Kong at a total consideration of HK\$21.44 million. These two three-storey New Territories Small Houses are held by the Enlarged Group or the Remaining Group as long-term investments for rental purposes. All units of these two three-storey New Territories Small Houses have been rented out since the fourth quarter of 2012 at a monthly rental of HK\$0.08 million. In October 2012, the Enlarged Group or the Remaining Group disposed of its car parking space located in Tseung Kwan O, New Territories, Hong Kong by selling the entire issued share capital of Dynamic Eagle Investments Limited at a consideration of HK\$0.69 million, which was determined based on the net assets value of Dynamic Eagle Investments Limited at 30 September 2012 adjusted for the fair value of the car parking space on that date, and recorded a gain on disposal of a subsidiary of HK\$441. In November 2012, the Enlarged Group or the Remaining Group as vendor entered into a preliminary sale and purchase agreement with Grand Reward Limited as purchaser relating to the sale and purchase of the Kwun Tong Property at a consideration of HK\$586 million. The proposed disposal of the Kwun Tong Property was approved by the Shareholders on 9 January 2013. As the proposed disposal has not yet been completed, the Kwun Tong Property was reclassified as “assets classified as held for sale” at 31 December 2012 for financial reporting purpose. It is expected that the proposed disposal will be completed in the second quarter of 2013. Despite the fact that the consideration for disposing of the Kwun Tong Property is reached at HK\$586.00 million, the Kwun Tong Property is revalued upwards to its market value of HK\$603.00 million at 31 December 2012 in accordance with Hong Kong Accounting Standard 40 Investment Property. Given that the carrying value of the Kwun Tong Property of HK\$603.00 million at 31 December 2012 exceeds the consideration of HK\$586.00 million by HK\$17.00 million, it is expected that the Enlarged Group or the Remaining Group will record a loss on disposal of the Kwun Tong Property of HK\$17.00 million plus transaction costs to be incurred upon completion. During the year, the Enlarged Group or the Remaining Group recognised a gain arising on change in fair value of investment properties of HK\$168.59 million, in which HK\$168.00 million was related to the Kwun Tong Property.

With a view to diversify its revenue sources, the Enlarged Group or the Remaining Group expanded into money lending business by acquiring the entire issued shares in and the sale loan due by Hong Kong Builders, a Hong Kong company engaged in money lending business, at a consideration of HK\$33.07 million. As the net fair value of the identifiable assets of Hong Kong Builders exceeds the fair value of the consideration paid by HK\$0.03 million, the Enlarged Group or the Remaining Group recognised a gain on a bargain purchase of HK\$0.03 million. Hong Kong Builders generated interest income on loans of HK\$9.78 million for the year. During the year, Hong Kong Builders granted new loans in the aggregate principal amount of HK\$63.82 million to customers and received

loans repayments of HK\$32 million. In February 2012, Hong Kong Builders entered into six building mortgages in the aggregate principal amount of HK\$9 million with six individuals. The drawdown of the building mortgages is expected to be taken place in the second quarter of 2013. At 31 December 2012, Hong Kong Builders' loans receivables together with accrued interest receivables amounted to HK\$60.75 million.

For the purpose of creating a fixed income portfolio, the Enlarged Group or the Remaining Group subscribed for the convertible notes of HK\$350.00 million and HK\$75.00 million issued by China Star and Culture Landmark respectively in 2011. In March 2012, the Enlarged Group or the Remaining Group subscribed for the convertible note issued by Koffman in the principal amount of HK\$27.00 million at its face value. The convertible note issued by Koffman is unsecured, non-interest bearing and maturing on 21 March 2015. According to the terms of the convertible note issued by Koffman, the whole convertible note shall automatically be converted into shares in Koffman upon the success of initial public offering of Koffman's shares at the price of initial public offering, provided that the convertible note has not been redeemed. Any amount of the convertible note which remains outstanding on the maturity date shall be redeemed by Koffman at its then outstanding principal amount plus a premium calculated at 20% of the then outstanding principal amount. In May 2012, Culture Landmark early redeemed HK\$23.00 million of the convertible notes of HK\$75.00 million held by the Enlarged Group or the Remaining Group at par. In August 2012, Culture Landmark early redeemed the remaining balance of the convertible notes of HK\$52 million at par. Accordingly, a loss arising on early redemption of convertible notes receivables of HK\$1.93 million was recorded. At 31 December 2012, the Enlarged Group or the Remaining Group held the convertible note receivable from Koffman of HK\$27 million.

In the first half of 2012, the Spark Concept Group expanded their operations by opening a Japanese noodle shop in Central District and a European cuisine restaurant in Sheung Wan. The Spark Concept Group now has four operating arms, which are a fine dining restaurant, the European cuisine restaurant, the Japanese noodle shop and a wine trading company. Due to the rising in food and labour costs and the pre-operating expenses incurred, the Spark Concept Group reported a loss of HK\$3.23 million for the year. As the Enlarged Group or the Remaining Group's share of post-acquisition losses equals to its interests in Spark Concept Group Limited, no further share of losses was recognised. To finance the capital expenditures for opening of the Japanese noodle shop and the European cuisine restaurant, each of the shareholders of Spark Concept made an interest-free advance to the Spark Concept Group according to its shareholding interest. In January 2012, the Enlarged Group or the Remaining Group made a cash advance of HK\$5.39 million to Advance Top Limited, a wholly owned subsidiary of Spark Concept. At 31 December 2012, Advance Top Limited owed the Enlarged Group or the Remaining Group an amount of HK\$7.39

million, which is unsecured, interest-free and repayable on demand. In view of the net liabilities position of Advance Top Limited, an impairment loss of HK\$3.86 million was recognised against the amount due from Advance Top Limited.

Financial and Trading Prospects

As the market grapples with the same issues that have hung over it for several years now: the Eurozone debt crisis, fragile state of economic recovery in the United States and fears of a slowdown in Mainland China, the outlook for 2013 remains uncertain and the Directors expect periods of volatility in 2013. However, the Directors recognise that an uncertainty outlook can often coincide with a good opportunity to invest. As such, the Enlarged Group or the Remaining Group will continue to adopt a more conservative investment approach toward its sale of financial assets business for 2013.

Following the termination of the management services agreement with Dore on 12 September 2012, the Enlarged Group or the Remaining Group continues to provide management services to the concierge department of a licensed gaming promoter pursuant to the remaining management services agreement held by it. As the competition in Macau VIP gaming sector is keen, the Directors expect a relatively stable performance for the Enlarged Group's or the Remaining Group's provision of management services business in 2013.

For enriching its property investment portfolio, the Enlarged Group or the Remaining Group acquired two three-storey New Territories Small Houses in August 2012. All units of these two three-storey New Territories Small Houses have been rented out since the fourth quarter of 2012. According to the terms of the proposed disposal, the Enlarged Group or the Remaining Group shall deliver vacant possession of the Kwun Tong Property to Grand Reward Limited upon completion. In January 2013, the Enlarged Group or the Remaining Group served three-month notices to the tenants of the Kwun Tong Property for terminating the tenancies for the purpose of completing the proposed disposal. Accordingly, the rental income of the Enlarged Group's or the Remaining Group's property investment business will be deteriorated after the first quarter of 2013. Despite the introduction of new measures by the Hong Kong Government and Hong Kong Monetary Authority for stabilising property prices in February 2013, the Directors remain optimistic about Hong Kong properties as land is a scarce resource in Hong Kong and the land supply of Hong Kong is limited. As such, the Directors will cautiously seek opportunity for investing other properties in order to enrich the Enlarged Group's or the Remaining Group's property investment portfolio and increase the Enlarged Group's or the Remaining Group's rental income.

Following the expansion into money lending business in the first quarter of 2012, a number of merchants and professionals have enquired the Enlarged Group or the Remaining Group for obtaining short-term financings. The Directors believe that there is a strong demand for short-term financings in Hong Kong and have determined to allocate more resources to expand the Enlarged Group's or the Remaining Group's money lending business in order to improve the Enlarged Group's or the Remaining Group's performance. Despite the determination for expanding its money lending business, the Enlarged Group or the Remaining Group will adopt a cautious approach towards its assessment and approval of loans in order to reduce its credit risk.

Given that the outlook for 2013 remains uncertain, the Enlarged Group or the Remaining Group will continue to cautiously monitor the business environment and continue to strengthen its business foundation by focusing on its the existing businesses to protect the interests of the Shareholders. In addition to focusing on the Enlarged Group's or the Remaining Group's existing businesses in the next fiscal year, the Directors will continue to cautiously identify suitable investment opportunities for the Enlarged Group or the Remaining Group to diversify its businesses and broaden its revenue.

Events after the Reporting Period

Subsequent to 31 December 2012 and up to the date of this annual report, the Enlarged Group or the Remaining Group had the following material events:

- (a) on 24 January 2013, the Company issued 47,000,000 new shares at a price of HK\$0.645 per share by way of placing of new shares under general mandate raising HK\$29.86 million (net of expenses) for property investment in Hong Kong in order to enrich the Enlarged Group's or the Remaining Group's investment properties portfolio. Please refer to the Company's announcement dated 14 January 2013 for more details;
- (b) on 8 March 2013, the Enlarged Group or the Remaining Group entered into a loan agreement with an individual. Pursuant to the loan agreement, the Enlarged Group or the Remaining Group has conditionally agreed to grant an unsecured loan in the principal amount of HK\$80 million to the individual. The loan is unsecured, interest bearing at 8% per annum and maturing on the date falling on the second anniversary from the date of drawdown. Please refer to the Company's announcement dated 8 March 2013 for more details. The loan has not been drawn as at the date of this annual report;

- (c) on 13 March 2013, the Board announced the proposed issue of not less than 152,224,414 new shares and not more than 152,432,572 new shares of the Company by way of open offer to the qualifying Shareholders for subscription at a price of HK\$1.20 per share on the basis of one new share for every two existing shares held on 5 April 2013. The net proceeds from the open offer are estimated to be not less than HK\$180.02 million but not more than HK\$180.27 million and intended to be used for financing the expansion of the loan portfolio of the Enlarged Group's or the Remaining Group's money lending business and/or the potential subscription of the convertible bonds to be issued by a company listed on the Growth Enterprise Market of the Stock Exchange. Please refer to the Company's announcement dated 13 March 2013 for more details; and
- (d) on 21 March 2013, the Enlarged Group or the Remaining Group entered into a subscription agreement with EDS Wellness. Subject to the fulfillment of the conditions set out in the subscription agreement, the Enlarged Group or the Remaining Group has agreed to subscribe for the convertible notes in the principal amount of HK\$40.00 million to be issued by EDS Wellness at their face value. The convertible notes are unsecured, non-interest bearing and maturing on the date falling on the 30 months from the date of their issue. The convertible notes carry rights entitling the holders thereof to convert their principal amount into new shares in EDS Wellness at an initial conversion price of HK\$1.00 per share at any time prior to the maturity date. On the same date, the Enlarged Group or the Remaining Group also entered into a loan agreement with EDS Wellness. Pursuant to the loan agreement, the Enlarged Group or the Remaining Group has conditionally agreed to grant an unsecured loan in the principal amount of HK\$40.00 million to EDS Wellness. The loan is unsecured, interest bearing at 5% per annum and maturing on the date falling on the third anniversary from the date of drawdown. Please refer to the Company's announcement dated 21 March 2013 for more details.

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 respect and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

Save as disclosed below, as at the Latest Practicable Date, no Directors or chief executive of the Company had or was deemed to have interests or short positions in Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long positions

a. *the Shares*

Name of Director	Note	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Lei Hong Wai	<i>1</i>	Held by controlled corporations	105,708,000	23.15%
Mr. Cheung Kwok Wai, Elton	<i>1</i>	Held by controlled corporations	105,708,000	23.15%

Name of Director	<i>Note</i>	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Cheung Kwok Fan	<i>1</i>	Held by controlled corporations	105,708,000	23.15%
Mr. Chan Kin Wah, Billy		Beneficial owner	2,449,500	0.54%

Note:

1. Twin Success International Limited is owned as to 50% by Silver Pacific International Limited and as to 50% by Silver Pacific Development Limited. Silver Pacific International Limited is wholly owned by Mr. Lei Hong Wai. Silver Pacific Development Limited is owned as to 50% by Mr. Cheung Kwok Wai, Elton and as to 50% by Mr. Cheung Kwok Fan.

b. the share options

Name of Director	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	950	950
Mr. Chan Kin Wah, Billy	Beneficial owner	2,962,391	2,962,391

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

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

Long positions*a. the Shares*

Name of Shareholder	Notes	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Twin Success International Limited	1	Beneficial owner	105,708,000	23.15%
Silver Pacific International Limited	1 and 2	Held by controlled corporation	105,708,000	23.15%
Silver Pacific Development Limited	1 and 3	Held by controlled corporation	105,708,000	23.15%
Mr. Lei Hong Wai	1 and 2	Held by controlled corporations	105,708,000	23.15%
Mr. Cheung Kwok Wai, Elton	1 and 3	Held by controlled corporations	105,708,000	23.15%
Mr. Cheung Kwok Fan	1 and 3	Held by controlled corporations	105,708,000	23.15%

Name of Shareholder	Notes	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Asia Vest Partners VII Limited	4	Held by controlled corporations	32,373	9.95%
Asia Vest Partners X Limited	4	Held by controlled corporations	32,373	9.95%
Asia Vest Partners Limited	4	Held by controlled corporations	32,373	9.95%
Mr. Andrew Nam Sherrill	4	Held by controlled corporations	32,373	9.95%

Notes:

1. Twin Success International Limited is owned as to 50% by Silver Pacific International Limited and as to 50% by Silver Pacific Development Limited.
2. Silver Pacific International Limited is wholly owned by Mr. Lei Hong Wai.
3. Silver Pacific Development Limited is owned as to 50% by Mr. Cheung Kwok Wai, Elton and as to 50% by Mr. Cheung Kwok Fan.
4. The number of issued Shares held was adjusted for the capital reorganisation of the Company that became effective on 2 May 2008, 23 April 2009 and 9 May 2012.

b. *the share options*

Name of Shareholder	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	950	950

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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

None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited consolidated accounts of the Group were made up.

5. COMPETING INTEREST

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

6. LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

On 15 April 2010, a claim was brought by China Finance in the High Court Action No. 526 of 2010 against Rexdale that, despite repeated demands, Rexdale has failed and still refused to pay to China Finance a service fee in the sum of HK\$25.00 million.

No provision for the claim brought by China Finance was made in the audited consolidated accounts of the Group for the year ended 31 December 2012 as Lafe Corporation Limited has undertaken to indemnify and keep indemnified One Synergy against any and all losses, claims, damages, penalties, actions, demands, proceedings, judgement and costs (including legal costs on a full indemnify basis and any amount paid for settlement of claims) arising from or in connection with the claim pursuant to the sale and purchase agreement dated 31 December 2010 entered into between Lafe Corporation Limited as vendor and One Synergy as purchaser relating to the sale and purchase of the entire issued share capital of Lafe Properties (Hong Kong) Limited (the former name of Rexdale).

7. SERVICES CONTRACTS

As at the Latest Practicable Date, no Directors had entered into any services contracts with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

8. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinions and advices, which are contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

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

9. EXPERTS' INTERESTS IN ASSETS

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

- (a) was not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited consolidated accounts of the Group were made up; and
- (b) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. MISCELLANEOUS

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

- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, having its office situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) Mr. Chan Kin Wah, Billy, the company secretary of the Company, is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from University of New South Wales in Australia.

11. MATERIAL CONTRACTS

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

- (a) the conditional sale and purchase agreement dated 25 May 2011 (as supplemented by the supplemental agreement dated 10 June 2011) and entered into between Vartan Holdings Limited as vendor and Riche (BVI) Limited, a wholly owned subsidiary of the Company, as purchaser in relation to the sale and purchase of the entire share capital of Adelio Holdings Limited at a consideration of HK\$267.6 million;
- (b) the placing and subscription agreement dated 7 June 2011 and entered into between Mr. Lei Hong Wai, the Company and Kingston Securities Limited in relation to the placing of 220,280,000 existing shares of HK\$0.01 each beneficially owned by Mr. Lei Hong Wai at a price of HK\$0.135 per share and the subscription of 220,280,000 new shares of HK\$0.01 each at a price of HK\$0.135 per share by Mr. Lei Hong Wai;
- (c) the underwriting agreement dated 7 June 2011 and entered into between the Company, Kingston Securities Limited, Mr. Lei Hong Wai and Thought Diamond International Limited in relation to the underwriting arrangement in respect of proposed issue of not less than 5,510,560,980 new shares of HK\$0.01 each and not more than 6,619,444,395 new shares by way of open offer to the qualifying Shareholders on the basis of five new shares for every one existing share held on 25 July 2011 at a price of HK\$0.04 per new share;

- (d) the supplemental agreement dated 10 June 2011 and entered into between Vartan Holdings Limited and Riche (BVI) Limited to amend the pre-completion undertaking given by Vartan Holdings Limited to Riche (BVI) Limited to the corresponding conditional sale and purchase agreement dated 25 May 2011;
- (e) the master franchise agreement dated 6 July 2011 and entered into between Advance Top Limited, a then wholly owned subsidiary of the Company, and アース株式会社 (an unofficial English translation: Az-earth Company Limited and an unofficial Chinese translation: 麵鮮醬油房 周月) relating to the grant of the sole and exclusive rights and master license of franchise business of selling noodles, drinks and related Japanese food products by アース株式会社 (an unofficial English translation: Az-earth Company Limited and an unofficial Chinese translation: 麵鮮醬油房 周月) to Advance Top Limited in the Greater China Region for a period of ten years commencing from 15 July 2011;
- (f) the supplemental agreement dated 30 September 2011 and entered into between Citadines Ashley TST (Singapore) Pte. Ltd. and Golden Stone Management Limited, a wholly owned subsidiary of the Company, relating to the extension of long stop date of the conditional sale and purchase agreement dated 4 April 2011 from 30 September 2011 to 30 November 2011;
- (g) the sale and purchase agreement dated 26 October 2011 and entered into between Riche (BVI) Limited as purchaser and Ms. Tan Ting Ting as vendor relating to the sale and purchase of the entire issued share capital of Dynamic Eagle Investments Limited, a property investment company, at a consideration of HK\$6.50 million;
- (h) the conditional subscription agreement dated 22 December 2011 and entered into between Culture Landmark Investment Limited (“**Culture Landmark**”) (stock code: 674), a company listed on Main Board of the Stock Exchange, as issuer and the Company as subscriber in relation to the subscription of the convertible bonds to be issued by Culture Landmark in the principal amount of HK\$75.00 million;
- (i) the conditional sale and purchase agreement dated 3 January 2012 and entered into amongst Koffman Financial Group Limited as vendor, Eternity Finance as purchaser and Mr. Yu Shu Kuen (present name: Mr. Yu Zhen Hua Johnny) as guarantor in relation to the sale and purchase of the entire share capital of Hong Kong Builders and the respective shareholder’s loan at an aggregate consideration of HK\$33.07 million;

- (j) the binding provisional sale and purchase agreement dated 7 March 2012 and the sale and purchase agreement dated 20 March 2012 and entered into between Dynamic Eagle Investments Limited, a wholly owned subsidiary of the Company, as vendor and an Independent Third Party as purchaser in relation to the sale and purchase of an investment property located at Tseung Kwan O, Sai Kung, New Territories at a consideration of HK\$7.95 million;
- (k) the conditional subscription agreement dated 19 March 2012 and entered into between Koffman Corporate Service Limited as issuer and Eternity Finance as subscriber in relation to the subscription of convertible note to be issued by Koffman Corporate Service Limited in the principal amount of HK\$27.00 million;
- (l) the conditional placing agreement dated 5 April 2012 and entered into between the Company and Kingston Securities Limited in relation to the placing of 39,670,000 new Shares at a price of HK\$0.32 per new Share;
- (m) the deed of variation dated 28 May 2012 and entered into between Eternity Finance and Culture Landmark in relation to the early redemption of the convertible bonds in the principal amount of HK\$75.00 million issued by Culture Landmark;
- (n) the sale and purchase agreement dated 28 May 2012 and entered into between the Company as purchaser and Culture Landmark as vendor in relation to the sale and purchase of 146,640,000 shares in China Media at a consideration of HK\$51.32 million;
- (o) the irrevocable undertaking dated 4 June 2012 given by Simple View to China Star not to (i) accept the offer proposed by China Star; (ii) acquire any shares in China Star; (iii) dispose of and/or transfer any of the 200,000,000 shares in China Star held by it; and (iv) dispose of and/or transfer and/or exercise any of the subscription rights attached to the warrants issued by China Star on 15 June 2010 in an aggregate principal amount of HK\$10.00 million held by it, before the closing or lapse or termination of the proposed conditional cash offer as announced by China Star on 4 June 2012;
- (p) the irrevocable undertaking dated 4 June 2012 given by Victory Peace to China Star not to (i) accept the offer proposed by China Star; (ii) acquire any shares in China Star; (iii) dispose of and/or transfer any of the 68,000,000 shares in China Star held by it; and (iv) dispose of and/or transfer and/or exercise any

- of the subscription rights attached to the warrants issued by China Star on 29 June 2011 in an aggregate principal amount of HK\$26.25 million held by it, before the closing or lapse or termination of the proposed conditional cash offer as announced by China Star on 4 June 2012;
- (q) the irrevocable undertaking dated 4 June 2012 given by Eternity Finance to China Star not to (i) acquire any shares in China Star; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attached to the convertible bonds in the aggregate principal of HK\$350.00 million issued by China Star held by it, before the closing or lapse or termination of the proposed conditional cash offer as announced by China Star on 4 June 2012; and (iii) require China Star to extend any offer notwithstanding the terms of the convertible bonds;
 - (r) the irrevocable undertaking dated 4 June 2012 given by the Company to China Star not to (i) acquire any shares in China Star; (ii) dispose of and/or transfer and/or exercise any of the conversion rights attached to the convertible bonds in the aggregate principal of HK\$300.00 million to be issued by China Star, if issued, before the closing or lapse or termination of the proposed conditional cash offer as announced by China Star on 4 June 2012; and (iii) require China Star to extend any offer notwithstanding the terms of the convertible bonds, if issued;
 - (s) the supplemental agreement dated 29 June 2012 and entered into between the Company and China Star relating to the extension of completion date of the second tranche subscription of the convertible bonds of HK\$300.00 million in the conditional subscription agreement dated 21 January 2011 from 30 June 2012 to 31 December 2013;
 - (t) the conditional sale and purchase agreement dated 21 August 2012 and entered into between East Legend Properties Limited, a wholly owned subsidiary of the Company, as purchaser and an Independent Third Party as vendor relating to the sale and purchase of all that piece or parcel of land situate lying and being at Sai Kung District, New Territories and registered in the Land Registry as LOT No. 646 IN DEMARACTION DISTRICT NO. 401 and of and in the three storeyed building known as No. 267 Ma Yau Tong, Sai Kung, New Territories which has been constructed on that land at a consideration of HK\$10.72 million;

- (u) the conditional sale and purchase agreement dated 21 August 2012 and entered into between Goway Properties Limited, a wholly owned subsidiary of the Company, as purchaser and an Independent Third Party as vendor relating to the sale and purchase of all that piece or parcel of land situate lying and being at Sai Kung District, New Territories and registered in the Land Registry as LOT No. 647 IN DEMARACTION DISTRICT NO. 401 and of and in the three storeyed building known as No. 267A Ma Yau Tong, Sai Kung, New Territories which has been constructed on that land at a consideration of HK\$10.72 million;
- (v) the conditional sale and purchase agreement dated 16 October 2012 and entered into between Riche (BVI) Limited as vendor and Ms. Tan Ting Ting as purchaser relating to the sale and purchase of the entire issued share capital of Dynamic Eagle Investments Limited at a consideration of HK\$0.69 million;
- (w) the binding preliminary sale and purchase agreement dated 20 November 2012 and entered into between Rexdale as vendor, and Grand Reward Limited as purchaser relating to a disposed of Lucky (Kwun Tong) Industrial Building at a consideration of HK\$586.00 million;
- (x) a confirmation dated 20 November 2012 and signed by Simple View for electing to receive the bonus convertible bonds in lieu of all of its entitlement to the bonus shares under the bonus issue of shares and bonus convertible bonds to fulfill the minimum public float as announced by China Star on 20 November 2012;
- (y) a confirmation dated 20 November 2012 and signed by Victory Peace for electing to receive the bonus convertible bonds in lieu of all of its entitlement to the bonus shares under the bonus issue of shares and bonus convertible bonds to fulfill the minimum public float as announced by China Star on 20 November 2012;
- (z) the placing agreement dated 14 January 2013 and entered into between the Company and Kingston Securities Limited, pursuant to which the Company has conditionally by agreed to place, through Kingston Securities Limited on a best effort basis, a maximum of 47,000,000 new Shares to not fewer than six independent investors at a price of HK\$0.645;

- (aa) the underwriting agreement dated 13 March 2013 and entered into between the Company, Kingston Securities Limited and Twin Success International Limited in relation to the underwriting arrangement in respect of proposed issue of not less than 152,224,414 new Shares and not more than 152,432,572 new Shares by way of open offer to the qualifying Shareholders for subscription at a price of HK\$1.20 per new Share on the basis of one new Share for every two existing Shares held on 5 April 2013;
- (bb) the subscription agreement dated 21 March 2013 and entered into between New Cove Limited, a wholly owned subsidiary of the Company, as subscriber and EDS Wellness as issuer relating to the subscription of the convertible bonds in the principal amount of HK\$40.00 million;
- (cc) the sale and purchase agreement dated 6 June 2013 and entered into between Riche (BVI) Limited as vendor and Mason Capital Limited as purchaser relating to sale and purchase of the entire issued share capital of East Legend Properties Limited and the shareholder's loan due by East Legend Properties Limited at a consideration of HK\$12,505,431; and
- (dd) the sale and purchase agreement dated 6 June 2013 and entered into between Riche (BVI) Limited as vendor and Mason Capital Limited as purchaser relating to sale and purchase of the entire issued share capital of Goway Properties Limited and the shareholder's loan due by Goway Properties Limited at a consideration of HK\$12,489,911.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the financial years ended 31 December 2011 and 2012;
- (c) the report on factual findings from HLB Hodgson Impey Cheng Limited on the additional financial information of the Group, the text of which is set out in Appendix III to this circular;

- (d) the letter from HLB Hodgson Impey Cheng Limited on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV to this circular;
- (e) the written consent referred to in the paragraph headed “Expert and Consent” to this Appendix;
- (f) the material contracts referred to in the paragraph headed “Material Contracts” to this Appendix; and
- (g) this circular.

NOTICE OF SPECIAL GENERAL MEETING



ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Eternity Investment Limited (the “**Company**”) will be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 June 2013 at 10:10 a.m. (or immediately after conclusion or adjournment of the annual general meeting of the Company scheduled to be held at the same place and on the same date at 10:00 a.m.) for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the exercise of conversion rights conferred by the bonus convertible bonds (the “**Bonus Convertible Bonds**”) issued by China Star Entertainment Limited (“**China Star**”) on 9 January 2013 to Simple View Investment Limited (“**Simple View**”) and Victory Peace Holdings Limited (“**Victory Peace**”), both of them are indirect wholly owned subsidiaries of the Company, in the aggregate principal amount of HK\$6,079,806.76 (the “**Conversion**”) be and are hereby approved; and
- (b) any one or more of the directors (each a “**Director**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as he/they consider(s) necessary, desirable or expedient in his/their opinion to implement and/or give effect to the Conversion.”

NOTICE OF SPECIAL GENERAL MEETING

2. “**THAT**

- (a) the disposal by (i) Simple View of up to 235,990,338 ordinary shares of HK\$0.01 each in the share capital of China Star (each a “**China Star Share**”); (ii) Simple View of up to 471,980,676 China Star Shares which may fall to be allotted and issued to Simple View upon the exercise of the conversion rights conferred by the Bonus Convertible Bonds in the principal amount of HK\$4,719,806.76 subject to and conditional upon the passing of the ordinary resolution numbered 1 as set out in the notice of the Meeting; (iii) Victory Peace of up to 68,000,000 China Star Shares; (iv) Victory Peace of up to 136,000,000 China Star Shares which may fall to be allotted and issued to Victory Peace upon the exercise of the conversion rights conferred by the Bonus Convertible Bonds in the principal amount of HK\$1,360,000.00 subject to and conditional upon the passing of the ordinary resolution numbered 1 as set out in the notice of the Meeting; and (v) Eternity Finance Group Limited (“**Eternity Finance**”), an indirect wholly owned subsidiary of the Company, of up to 3,181,818,181 China Star Shares which may fall to be allotted and issued to Eternity Finance upon the exercise of the conversion rights conferred by the convertible bonds issued by China Star to Eternity Finance on 7 July 2011 in the aggregate principal amount of HK\$350,000,000 on terms more particularly set out in the circular of the Company date 11 June 2013 (the “**Circular**”) (a copy of the Circular marked “A” and initialed by the chairman of the Meeting for identification purpose has been tabled at the Meeting) within a period of 12-month from the date of passing of this resolution and on such other terms and conditions as may be determined by the Directors from time to time (provided that such terms and conditions shall not be inconsistent with the terms set out in the Circular) (collectively, the “**Disposal**”) be and are hereby approved; and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as he/they consider(s) necessary, desirable or expedient in his/their opinion to implement and/or give effect to the Disposal.”

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

Hong Kong, 11 June 2013

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business

in Hong Kong:
Unit 3811
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he/she/it so wish and in such event, the form of proxy shall be deemed to be revoked.
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share(s) as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share(s) shall alone be entitled to vote in respect thereof.