IMPORTANT

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

If you have sold or transferred all your shares in International Entertainment Corporation, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for the sole purpose of giving information with regard to International Entertainment Corporation and the acquisition of the entire issued share capital of Fortune Gate Overseas Limited and giving notice of an extraordinary general meeting of International Entertainment Corporation. This circular appears for information purposes only and does not constitute nor is it intended to constitute an offer to sell or a solicitation of an offer to buy or subscribe for any securities of International Entertainment Corporation.

INTERNATIONAL ENTERTAINMENT CORPORATION
國 際 娛 樂 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

VERY SUBSTANTIAL ACQUISITION TREATED AS A REVERSE TAKEOVER AND AN APPLICATION FOR NEW LISTING AND CONNECTED TRANSACTION INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF FORTUNE GATE OVERSEAS LIMITED AND POSSIBLE ISSUE OF CONVERTIBLE NOTE AND POSSIBLE RIGHTS ISSUE TO RAISE ABOUT HK$1,415 MILLION FROM QUALIFYING SHAREHOLDERS AT HK$1.5 PER RIGHTS SHARE AND INCREASE IN AUTHORISED SHARE CAPITAL

Joint Sponsors

taifook
TAIFOOK CAPITAL LIMITED

SOMERLEY LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

CIMB
CIMB-GK Securities (HK) Limited

A letter from CIMB-GK Securities (HK) Limited, the independent financial adviser to the independent board committee and the Independent Shareholders of International Entertainment Corporation, is set out on pages 125 to 154 of this circular.

A notice convening an extraordinary general meeting of International Entertainment Corporation to be held at 11:00 a.m. on 1 August 2007 at Room 605, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

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

29 June 2007

EXPECTED TIMETABLE

	2007
Latest time for lodging forms of proxy for the EGM	11:00 a.m. on 30 July
EGM	1 August

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This circular contains information about the proposed acquisition by the Company of the entire issued share capital of the Acquired Company. The Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the GEM Listing Rules and is conditional upon, *inter alia*, approval by the Independent Shareholders. The Acquisition is also treated by the Stock Exchange as a new application for listing pursuant to the GEM Listing Rules. The Company has not authorised any person to provide you with information which is not contained in or is different from what is contained in this circular. The particulars given in this circular comply (to the extent applicable) with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the GEM Listing Rules for the purposes of giving information with regard to the Company and the Acquisition. This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group and the Acquired Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:–

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

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

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

No information or representation that is not contained in this circular may be relied on by anybody as having been authorised by the Company, the Directors, the Acquired Group or any other persons involved in the Acquisition.

CONTENTS

CONTENTS

This section aims to give you an overview of the information contained in this circular. It does not contain all the information that may be important to you. You should read the whole document before you make any decision about the Acquisition.

INTRODUCTION

This circular is being issued to provide the Shareholders with information regarding the Acquisition, as a result of which the Company is treated as a deemed new listing applicant. The Acquisition involves the proposed purchase of the Acquired Company which holds (i) a controlling interest in the Hotel Group and (ii) a 40% interest in ATD. The Hotel Group owns a property in Manila in which it operates the Hotel. It has also leased premises to PAGCOR, which operates a casino in the premises, for a rent which is calculated by reference to the gross win (after deduction of local gaming tax) gained from the domestic peso gaming area of the casino. This rental makes substantial contribution to the results of the Hotel Group. ATD holds a site in Macau which is proposed to be developed into a five star hotel with a casino therein, the operation of which is the subject of a co-operation agreement with SJM and is subject to the approval and authorisation by the Macau Government. Further information regarding the Acquisition is set out below and in the section headed "Letter from the Board" in this circular. Further information regarding the Acquired Interests is set out in the section headed "Additional information relating to the casino located in the Hotel", Appendix II to this circular headed "Business of the Acquired Interests", Appendix IV to this circular headed "Accountants' Report on the Acquired Company", Appendix V to this circular headed "Accountants' Report on ATD" and Appendix VII to this circular headed "Property valuation of the Enlarged Group".

On the consummation of the Acquisition, the assets, liabilities and results of the Enlarged Group would principally comprise those which are attributable to the business, operations and investment of the Acquired Interests (in the Philippines and Macau) instead of the Group's current media business. Certain risks relating to the Acquired Interests (including those associated with investment or operations in the Philippines and Macau) are described in the section headed "Risk factors" in this circular. Further financial information regarding the Enlarged Group is set out in Appendix VI to this circular.

HISTORY OF THE GROUP

The Group originated in June 1998 when the domain name of hkcyber.com was registered. In March 1999, the Group commenced developing an informative, interesting and interactive portal covering a range of topics and services and constructing the infrastructure of the website *hkcyber.com*. In November 1999, the Group officially launched its website at *hkcyber.com* which initially covered news, finance, fortune, horse racing, leisure and sports together with community features, namely chat room, free e-mail, interactive stories in which viewers can participate in developing different story lines and message boards.

Since 31 July 2000, the Shares have been listed on GEM. In January 2002, the Group further expanded its multimedia business in the PRC market by forming a joint venture to provide employment, community services and professional corporate services via service centers and on-line portals.

In May 2002, the Company acquired the entire issued share capital of COAGL from the COAGL Vendors for a consideration of HK$80 million. COAGL and its subsidiaries are principally engaged in the provision of wireless, broadband and multimedia enabling and system integration services in the Asia Pacific region. Following completion of the acquisition of COAGL, the Group has evolved from an on-line multimedia content provider to an enabler in wireless, broadband and multimedia technologies. In May 2002, the name of the Company was changed from hkcyber.com (Holdings) Limited to Cyber On-Air Group Company Limited.

In November 2002, September 2003 and March 2004, the Group discontinued its business of providing advertising platform for internet marketing and E-mall, licensing and subscription of web content and provision of recruitment and corporate services respectively.

In April 2004, Mediastar, a wholly-owned subsidiary of CTF, became the controlling Shareholder upon the issue by the Company of 120,000,000 new Shares to Mediastar at an aggregate subscription amount of HK$120,000,000.

In December 2004, the Company acquired approximately 51.0% of the voting rights in M8 at a total consideration of US$11,626,203. M8 and its subsidiaries are an established independent picture production/distribution group in North America principally engaged in the acquisition, financing, production, and worldwide licensing of theatrical feature films in a variety of genres. Past releases of M8 include the critically acclaimed drama **Monster**, which stars Charlize Theron and Christina Ricci and was selected as "The Best Film of 2003" by the famous US film critic Roger Ebert whose column is nationally syndicated in the US. For her performance in the film, star Charlize Theron has garnered a myriad of accolades and awards including the prestigious Golden Globe Award for "Best Actress- Drama" and an Academy Award for "Best Actress". **Monster** was theatrically released in the U.S. by Newmarket Films, and was theatrically released throughout Canada by Remstar/Alliance Atlantis. Other past M8 releases include **The I Inside**, a suspense thriller starring Ryan Phillippe, Piper Perabo, and Stephen Rea, **11:14**, a black comedy starring Hilary Swank, Rachel Leigh Cook, Barbara Hershey, and Patrick Swayze, and the character-driven drama **The United States of Leland**, starring Kevin Spacey, Don Cheadle, Ryan Gosling, Chris Klein, and Lena Olin.

On 17 December 2004, the name of the Company was changed from Cyber On-Air Group Company Limited to International Entertainment Corporation. In 2005, the Group further expanded its business operations by investments in production of television series and music concerts in Hong Kong and the PRC.

As announced by the Company on 22 February 2007, the delisting (the "Delisting") of the class A multiple voting shares (Symbol: MEE.A) and the class B subordinate voting shares (Symbol: MEE.B) of M8 Entertainment Inc. ("M8") on the Toronto Stock Exchange ("TSX") became effective from 5:01 p.m. (Toronto time) on 15 March 2007. As informed by TSX, the Delisting was principally due to the fact that M8 had failed to meet the continued listing requirements of TSX, particularly the maintenance of market value.

THE ACQUISITION AGREEMENT

Pursuant to the Original Agreement, the Company has conditionally agreed to acquire the Sale Shares and the Sale Loans at an aggregate consideration of HK$850 million (subject to adjustments) and, in addition to making cash payment of HK$450 million (subject to adjustments), to issue the Convertible Note to satisfy part of the Purchase Price. As announced on 17 March 2005, the Company exercised the Purchase Option on 17 March 2005, as a result of which the Purchase Price was increased by HK$363.2 million (subject to adjustment) to HK$1,213.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. On 26 June 2007, the Company, Cross-Growth and CTF entered into the Supplemental Agreement whereby they formalised, inter alia, the exclusion of FHPI as a member of the Acquired Group and the adjustment of the Purchase Price downward by HK$15 million to HK$1,198.2 million (subject to adjustments) as a result of such exclusion. Details of the Acquisition Agreement are summarised below:

Date

The Original Agreement was dated 23 November 2004 and was amended by the Supplemental Agreement:

Parties

Vendor:	Cross-Growth, a company incorporated in the BVI whose principal business activity is investment holding. It is beneficially owned by CTF
Purchaser:	The Company
Guarantor:	CTF, the holding company of Cross-Growth and the holding company of Mediastar, as the guarantor of the obligations of Cross-Growth CTF is principally engaged in the business of property investment and investment holding. CTF, through its subsidiaries and associated companies, invests in various sectors ranging from property investment, property management, public utilities, logistics, telecommunications, infrastructure and hotels etc. As at the date of the Announcement, CTF through Mediastar, its wholly-owned subsidiary, held a total of 120,000,079 Shares, representing about 58.6% of the then issued share capital of the Company As at the Latest Practicable Date, CTF through Mediastar, its wholly-owned subsidiary, held a total of 120,000,079 Shares, representing about 50.9% of the issued share capital of the Company

Assets to be acquired

The Sale Shares represent the entire issued share capital of the Acquired Company held by the CTF Group at Completion. Immediately prior to Completion, the following will be transferred to the Acquired Company as a result of the Reorganisation: (i) the 51%

equity interest in the Hotel Group and the associated loans due from the Hotel Group to the CTF Group; and (ii) the 40% equity interest in ATD and the related shareholder's loans (representing the investment cost to Cheung Hung for its 40% attributable interest in ATD). Upon Completion, the Company will own 51% attributable interest in the Hotel Group (which is the owner of the Hotel) and 40% attributable interest in ATD.

As at the Latest Practicable Date, CTF indirectly owned 73% attributable interest in the Hotel Group and Cheung Hung, an associate of the CTF Group, owned 40% attributable interest in ATD. Up to 31 December 2006, the original purchase cost incurred and the additional investment made/to be made by the CTF Group for the 73% attributable interest in the Hotel Group amounted to approximately HK$806.8 million and the original purchase cost paid/to be paid by Cheung Hung for its 40% attributable interest in ATD amounted to approximately HK$363.2 million.

Cross-Growth and CTF have undertaken under the Acquisition Agreement to effect the Reorganisation before Completion (in the manner approved by the Company).

Consideration

Pursuant to the Supplemental Agreement, the Purchase Price has been revised downwards by HK$15 million to HK$1,198.2 million, subject to adjustments. The Purchase Price will be paid as to HK$400 million by the issue of the Convertible Note and as to the balance of HK$798.2 million (subject to adjustments) in cash, which will be raised from the Rights Issue. The Convertible Note may be issued by the Company at the direction of Cross-Growth to one or more wholly-owned subsidiaries of CTF.

The Purchase Price (subject to the adjustments as described in detail in the letter from the Board in this circular) is to be paid at Completion. The amounts payable or receivable by the Company as a result of the adjustments will be settled after the amount of the various adjustments have been calculated and agreed between Cross-Growth and the Company. If the total additional amounts payable by the Company as a result of such adjustments exceeds HK$100 million, then the Company may defer payment of the excess, provided that the Company must reduce the unpaid excess by a minimum of HK$10 million per annum and interest is to accrue on the unpaid excess at the Hong Kong dollar prime rate per annum. Subject to the approval of the Acquisition by the Independent Shareholders and Completion on or before 31 December 2007, the Directors expect that the price adjustments could be determined and fully settled on or before 31 July 2008.

The Conversion Shares (assuming conversion takes place at the initial Conversion Price) would represent about 84.8% of the issued share capital of the Company as at the Latest Practicable Date and about 14.5% of the issued share capital of the Company as enlarged by the issue of 943,325,788 Rights Shares (assuming no new Shares are issued before the Record Date) and the Conversion Shares.

Based on the current specifications, the aggregate of the expected total investment cost and the surplus of the valuation of the Hotel Property amounts to approximately HK$1,877 million (the "Adjusted Value of the Hotel Group"). The revised Purchase Price before the exercise of the Purchase Option of HK$835 million, which is determined with reference to the Adjusted Value of the Hotel Group, represents a discount of about 12.8% to the 51% of the Adjusted Value of the Hotel Group.

The initial consideration for the Macau Interest is HK$363.2 million (subject to adjustment) which is determined with reference to and is equivalent to the purchase cost of the Macau Interest paid by Cheung Hung. As at 31 December 2006, the principal assets and liabilities of ATD consisted of the Macau Property, pledged bank deposits and bank balances, bank borrowings, amounts due to shareholders, deposits received on sales of properties and construction cost payables. This consideration is also equivalent to a discount of approximately 51% to the 40% of the appraised value of the Macau Property as at 30 April 2007 of approximately HK$738.8 million.

Conditions Precedent

Completion is conditional upon the fulfillment (or waiver, in certain cases as stated below) of the following Conditions Precedent:–

1. the Company being satisfied with its due diligence review of the legal and financial affairs of the Acquired Group and ATD in all material respects;

2. the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Conversion Shares and approving in principle the new listing application filed by the Company as a result of the Completion;

3. the Shares remaining listed on the Stock Exchange at all times prior to and on Completion and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 15 trading days (other than any suspension pending clearance of the Announcement) and no indication having been received on or before the date of Completion from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or in connection with the terms of the Acquisition Agreement or for any other reason;

4. the Independent Shareholders approving the Acquisition Agreement, the Rights Issue, the Capital Increase and the transactions contemplated thereunder, including the issue of the Convertible Note and the allotment of the Conversion Shares;

5. the completion of the Rights Issue taking place;

6. the Reorganisation having been completed to the sole satisfaction of the Company;

7. approvals, permissions, consents and/or waivers from the relevant government and/or regulatory bodies and/or third party financiers as required to give effect to the transactions contemplated under the Acquisition Agreement being obtained; and

8. the fair market value of the Hotel Property as stated in the valuation report attached as Appendix VII to this circular being not less than HK$1,250 million.

The Company may waive in writing compliance with the Conditions Precedent described in paragraphs 1, 6 and 8 above.

If the Conditions Precedent are not fulfilled or waived (as provided in the Acquisition Agreement) in writing on or before 31 December 2007 (or such later date as may be agreed by Cross-Growth and the Company in writing), the Acquisition Agreement will terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise, save in respect of any prior breach of the Acquisition Agreement.

As at the Latest Practicable Date, the Conditions Precedent described in paragraphs 1 and 8 had been fulfilled.

Other terms

Under the Acquisition Agreement, Cross-Growth and CTF have undertaken that for so long as CTF remains (whether directly or indirectly) a controlling shareholder (as defined in the GEM Listing Rules) of the Company, neither of them nor their respective subsidiaries shall carry on (whether directly or indirectly) any tours, entertainment and leisure related business which competes with the business activities carried on by the Acquired Group and ATD in the Philippines and Macau respectively (save for those disclosed in pages II-3 to II-5 this circular and in respect of holdings of less than 10% of the voting shares in publicly listed and traded companies), provided that they shall be entitled to invest in potentially competing projects, if and to the extent that such investment opportunity has first been offered to and rejected by the Company in writing.

CTF has further given an undertaking in the Acquisition Agreement that it will not dispose of its direct and indirect interest in the Shares that it had as at the date of the Acquisition Agreement and as at Completion at any time before the expiry of six calendar months after Completion, provided that this shall not preclude any disposal for the purpose of facilitating any placing of Shares by the Company or maintaining public float of the Shares, subject in both cases to compliance with the GEM Listing Rules.

THE ACQUIRED COMPANY

CTF is an investment-holding conglomerate with businesses including investments in hotel properties all around the world. The Hotel Group originated when CTF decided to establish a deluxe hotel with casino facilities in the Philippines. In September 2002, the CTF Group and other investors became the shareholders of Flexi-Deliver, the intermediate investment holding company of the operating companies incorporated in Philippines. The Acquired Company was incorporated on 8 November 2004 to facilitate the Acquisition. The Acquired Company has had no business activities, operations, assets or liabilities since its incorporation up to the Latest Practicable Date, other than entering into transactions to effect the Reorganisation as stipulated in the Acquisition Agreement. On completion of such Reorganisation, Flexi-Deliver will become a wholly-owned subsidiary of Maxprofit which in turn will be owned as to 51% by the Acquired Company.

FINANCIAL INFORMATION OF THE ACQUIRED COMPANY

The following is a summary of the combined income statement of the Acquired Company for the Track Record Period which has been extracted from the accountants' report on the Acquired Company set out in Appendix IV to this circular. The results of ATD have not been included in the accountants' report on the Acquired Company as the Acquired Company will only acquire 40% of the equity interest in ATD pursuant to the Reorganisation, which does not meet the definition of business combination under common control in the principles of merger accounting. The combined income statement has been prepared on the basis set out in the accountants' report on the Acquired Company.

	For the year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	54,571	198,911	319,224
Direct operating costs	(47,267)	(126,455)	(155,890)
Gross profit	7,304	72,456	163,334
Other income	377	1,735	14,515
General and administrative expenses	(16,402)	(41,776)	(52,804)
Other expenses	(381)	(1,019)	(3,824)
Finance costs	(36,549)	(86,727)	(103,268)
(Loss)/profit before taxation	(45,651)	(55,331)	17,953
Taxation credit	1,687	7,800	10,901
(Loss)/profit for the year from continuing operations	(43,964)	(47,531)	28,854
(Loss)/profit for the year from discontinued operation	(9,240)	(7,886)	(8,847)
(Loss)/profit for the year	(53,204)	(55,417)	20,007
Attributable to:			
Equity holders of the Acquired Company	(27,134)	(28,263)	10,204
Minority interests	(26,070)	(27,154)	9,803
	(53,204)	(55,417)	20,007

The leasing income of the Acquired Group is derived from the Hotel Group's lease of part of its property to PAGCOR, part of which is used as its offices and part for the operation of a casino in the premises. The rent for the premises is calculated by reference to the gross win (after deduction of local gaming tax) gained from the domestic peso gaming area of the casino. PAGCOR derives its exclusive right, privilege and authority to establish, operate and maintain gambling casinos within the territorial jurisdiction of the Philippines from the PAGCOR Charter. The PAGCOR Charter is currently due to expire on 10 July 2008. As at the Latest Practicable Date, the entire legislative procedure for the charter extension had not yet been completed, further information relating to which is set out in the section "Additional information relating to the casino located in the Hotel". If the renewal of the PAGCOR Charter is not approved by the President of the Philippines, then the lease between the Hotel Group and PAGCOR in respect of the casino at the Hotel Property will expire on 10 July 2008 (and not on expiry of the 12 year term envisaged in the lease). There is no assurance that the Acquired Group may in such circumstances be able to lease the casino premises to other operators (if any) which then may be authorised to engage in casino operations in the Philippines on comparable or more favourable terms or at all, or that the casino premises could be used for other purposes to generate income for the Acquired Group. If the Acquired Group is not able to generate sufficient alternative income from such premises (whether as casino or otherwise) on termination of the existing lease or do so shortly after expiry, the revenue and the results of the Acquired Group could be adversely affected.

FINANCIAL INFORMATION OF ATD

The following is a summary of the consolidated income statements of ATD for the three years ended 31 December 2006 which have been extracted from the accountants' report on ATD set out in Appendix V to this circular. The consolidated income statements have been prepared on the basis set out in the same accountants' report.

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Other income	–	–	442
General and administrative expenses	(6,539)	(94)	(213)
Finance costs	–	–	–
(Loss)/profit before taxation	(6,539)	(94)	229
Taxation	–	–	–
(Loss)/profit for the year	(6,539)	(94)	229

KEY UPDATES ON THE BUSINESSES OF THE ACQUIRED GROUP

Since the entering into the Original Agreement on 23 November 2004, there have been no material changes to the principal businesses of the Hotel Group and ATD. The Hotel continued to pick up business since the establishment and the turnover of the Acquired Group increased from approximately HK$54.6 million for the year ended 31 December 2004 to approximately HK$319.2 million for the year ended 31 December 2006. During the Track Record Period, the Hotel has completed the major renovations of the internal structure and has experienced a significant increase of revenue. For ATD, it had obtained a syndicated loan facility of up to HK$1.5 billion to finance the construction of the hotel and residential complex. In December 2006, ATD commenced pre-sales of the residential units of the Macau Property. As at the Latest Practicable Date, the construction of the hotel and residential complex was still in progress. The directors of the Acquired Group have confirmed that there have been no material changes to the cooperation agreements between the Acquired Group and PAGCOR, and between ATD and SJM since the date of the Original Agreement.

As disclosed in the Company's announcements dated 29 September 2005 and 6 January 2006, the Company was in negotiation with CTF for the exclusion of FHPI from the Acquisition. On 30 June 2006, the Acquired Company completed the disposal of FHPI. On 26 June 2007, the Company has entered into a supplemental agreement with Cross-Growth and CTF to amend certain provisions of the Original Agreement including, among others, to formalise the exclusion of FHPI from the Acquisition. Accordingly, the Purchase Price has been adjusted downwards by HK$15 million to reflect the exclusion of FHPI. Save for the matters already disclosed in this circular, the Directors confirm that there has not been any material change to the subject matter of the Acquisition since the date of the Original Agreement.

REASONS FOR AND BENEFITS OF THE ACQUISITION, THE CAPITAL INCREASE, THE RIGHTS ISSUE AND THE ISSUE OF CONVERTIBLE NOTE

As stated in the circular of the Company dated 6 April 2004, the Directors intended to seek new business opportunities which would expand or complement the current activities of the Group. It is the intention of the Directors to explore the leisure and entertainment market for opportunities in those sectors they perceive to have potential growth in the long run. The objective is to strive for better return to the Shareholders. The Directors believe that the benefits of a broadened revenue base for the Group will reinforce the growth strategy of the Company and diversify the geographical coverage of the Company's business interests. The net proceeds to be derived from the Rights Issue and the issue of the Convertible Note will be used to finance the Acquisition and to provide additional working capital to the Group.

FUTURE PLANS AND PROSPECTS

After Completion, the Directors intend to conduct a further detailed review of the existing businesses of the Group with a view to expanding the Enlarged Group's leisure and entertainment business operations and enhancing its long term profitability and long term growth potential of the Group. Please refer to the section headed "Statement of Business Objective" in this circular for details of the Enlarged Group's business plans and strategies. This may include continued development of existing markets or expansion into new markets (both in terms of location and industry segment), as appropriate, where the Directors perceive potential growth in the long run. The Directors may in the future scale down or adjust areas of operations where appropriate.

GEM LISTING RULES REQUIREMENTS

Since the aggregate audited combined total asset value of the Acquired Company exceeds 100% of that of the Company and the Purchase Price exceeds 100% of the market capitalisation of the Company at the time of entering into the Original Agreement, the Acquisition constitutes a very substantial acquisition of the Company pursuant to the GEM Listing Rules. Given that the Acquisition Agreement was entered into within 24 months of CTF becoming the controlling Shareholder, the Stock Exchange indicated that it would treat the Company as a new listing applicant if the Acquisition proceeds to Completion.

As CTF is the sole beneficial owner of Mediastar, the controlling Shareholder, the Acquisition and the issue of the Convertible Note also constitute connected transactions for the Company, and therefore they are subject to the approval of the Independent Shareholders by poll at the EGM pursuant to Rule 20.52 of the GEM Listing Rules. The Rights Issue would increase the issued share capital of the Company by more than 50%. Thus, the Rights Issue is also subject to the approval of the Independent Shareholders by poll at the EGM pursuant to Rule 10.29 of the GEM Listing Rules. Mediastar, CTF and their respective associates will abstain from voting on the proposed resolutions to approve the Acquisition, the issue of the Convertible Note and the Rights Issue at the EGM.

The Acquired Company meets the requirements under Rule 11.12(1) of the GEM Listing Rules and the Enlarged Group meets all the other basic conditions set out in Chapter 11 of the GEM Listing Rules. A new listing application in respect of the Acquisition has been made to the Listing Committee of the Stock Exchange. **Save for the approval of the listing application by the Listing Committee of the Stock Exchange, the Acquisition is also subject to fulfilment or waiver (as applicable) of other conditions. Shareholders and potential investors of the Company are advised to exercise caution in dealing in the Shares.**

The Independent Board Committee has been established to consider the Acquisition, the issue of the Convertible Note and the Rights Issue and to advise the Independent Shareholders. CIMB-GK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition, the issue of the Convertible Note and the Rights Issue.

RISK FACTORS

Upon the Completion, the Directors consider that the business and operations of the Enlarged Group are subject to a number of risk factors which can be catergorised into (i) risks relating to the Acquired Interests; (ii) risks relating to the film industry; and (iii) risks relating to the IT industry which are summarized as follows:

Risks relating to the Acquired Interests

- Expiry of the PAGCOR Charter
- Political or social instability in the Philippines
- Economic growth in the Philippines
- Reliance on licensed operators
- Reliance on the Hyatt®
- Reliance on key management
- Sensitivity to the customers' spending power
- The occurrence of natural catastrophes in the Philippines
- Power interruption occurs in the Philippines
- Water shortage
- Insurance coverage
- Outbreak of highly infectious disease
- Change in the economic conditions and policies in the PRC
- Competition
- Risk of being a minority shareholder
- Foreign exchange
- Differences in accounting standards
- Continuous and steady supplies of consumable materials
- Seasonality
- The industry statistics contained in this circular are derived from various publicly available sources and may not be reliable

Risks relating to the film industry

- Change in consumers' preference and/or purchasing power
- Launching risk

Risks relating to the IT industry

- Rapid changing technology
- Competition

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

"Acquired Company"	Fortune Gate Overseas Limited, a company incorporated in the BVI on 8 November 2004 and legally and beneficially owned by the CTF Group
"Acquired Group"	the Acquired Company and its subsidiaries
"Acquired Interests"	comprise the Acquired Company, the Hotel Group and ATD upon completion of the Reorganisation
"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loans by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the Original Agreement as amended by the Extension Letters and the Supplemental Agreement
"Announcement"	the announcement of the Company dated 23 November 2004 in relation to, inter alia, the Acquisition, the Rights Issue and the Convertible Note
"Articles"	the articles of association of the Company
"associate"	has the meaning ascribed thereto under the GEM Listing Rules
"ATD"	Arc of Triumph Development Company Limited, a company incorporated in Macau on 7 September 2000 and owned as to 40% by Cheung Hung
"Board"	the board of Directors
"BSP"	Bangko Sentral ng Pilipinas, the central bank of the Philippines
"BVI"	British Virgin Islands
"CAGR"	compound annual growth rate
"Capital Increase"	the increase of the authorised share capital of the Company from HK$500,000,000 to HK$2,000,000,000 by creation of 1,500,000,000 Shares
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC

"Cheung Hung"	Cheung Hung Development (Holdings) Limited, a company incorporated in Hong Kong on 12 December 2003 and owned as to 48.75% by the CTF Group, 48.75% beneficially by the grandchildren of Dr. Cheng Yu Tung and 2.5% by an Independent Third Party
"CIMB-GK"	CIMB-GK Securities (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
"COA"	Commission on Audit, a state audit institution of the Philippines which the Philippine Constitution declares independent as a constitutional office, confers upon it powers to audit all accounts pertaining to all government revenues and expenditures/uses of government resources and to prescribe accounting and auditing rules and exclusive authority to define the scope and techniques for its audits, and prohibits the legislation of any law which would limit its audit coverage
"COAGL"	Cyber On-Air Group Limited, a company incorporated in the BVI on 15 December 2000
"COAGL Vendors"	Mr. Wong Kwok Kin, Mr. Choi Wing Kin (a Director), Cyber Network Technology Limited, Wellington Equities Inc. (which is beneficially wholly-owned by Mr. Lo Lin Shing, Simon, a Director), and Mr. So Kam Wing (a Director)
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	International Entertainment Corporation (formerly known as Cyber On-Air Group Company Limited), a company incorporated in the Cayman Islands on 14 April 2000 under the Companies Law with limited liability, the Shares of which are listed on the GEM

"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Loans in accordance with the provisions of the Acquisition Agreement
"Conditions Precedent"	the conditions precedent to Completion
"Conversion Price"	initially HK$2 per Conversion Share (subject to adjustments)
"Conversion Share(s)"	the Share(s) which fall(s) to be issued upon the exercise of conversion rights attached to the Convertible Note
"Convertible Note"	a HK$400,000,000 convertible note due in 3 years, convertible into Conversion Shares at the Conversion Price to be issued by the Company on Completion
"Cross-Growth"	Cross-Growth Co., Ltd., a company incorporated in the BVI on 27 July 2001 and wholly-owned by CTF
"CTF"	Chow Tai Fook Enterprises Limited, a company incorporated in Hong Kong with limited liability and controlled by CYTFL
"CTF Group"	CTF and its subsidiaries
"CTFHE"	CTF Hotel and Entertainment, Inc., a company incorporated in the Philippines on 7 October 2002 and a wholly-owned subsidiary of Flexi-Deliver
"CTFP"	CTF Properties (Philippines), Inc., a company incorporated in the Philippines on 3 October 2002 and a wholly-owned subsidiary of Flexi-Deliver
"CYTFL"	Cheng Yu Tung Family (Holdings) Limited, a company incorporated in the BVI with limited liability and controlled by the family members of Dato' Dr. Cheng Yu Tung
"Deed of Indemnity"	a deed of indemnity dated 26 June 2007 entered into by CTF in favour of the Company, the Acquired Company, the Hotel Group and ATD containing, inter alia, the indemnities referred to in the paragraph headed "Indemnities" in Appendix IX to this circular
"Director(s)"	director(s) of the Company

"Double Delights"	Double Delights Enterprises Limited, a company incorporated in the BVI on 6 September 2002 and beneficially owned by Cross-Growth, Mr. To Hin Tsun, Gerald, Mr. William Doo Wai Hoi, an Independent Third Party and Mr. Chan Kam Ling as to 73%, 11%, 8%, 5% and 3% respectively
"EAF(s)"	the excess application form(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition, the issue of the Convertible Note, the Rights Issue and the Capital Increase
"Enlarged Group"	the Group as enlarged by the Acquisition
"Excluded Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) is/are in a place outside Hong Kong where, the Directors, based on the legal opinions provided by the legal advisers, consider it necessary or expedient to exclude such Shareholder(s) on account either of the legal restrictions under the laws of the place(s) of his/their registered address(es) or the requirements of the relevant regulatory body or stock exchange in that/these place(s)
"Extension Letters"	three extension letters between the Company and Cross-Growth dated 30 December 2005, 22 June 2006 and 22 December 2006 regarding the extension of the date of fulfillment or waiver (as applicable) of the Conditions Precedent
"FHPI"	Foreign Holiday Philippines Inc., a company incorporated in the Philippines on 1 April 2003 and a wholly-owned subsidiary of Flexi-Deliver until 30 June 2006
"Flexi-Deliver"	Flexi-Deliver Holding Ltd., a company incorporated in the BVI on 8 May 2002 and an intermediate holding company through which the CTF Group holds its interest in the Hotel Group. Currently, it is beneficially owned by Double Delights. Flexi-Deliver will become a wholly-owned subsidiary of Maxprofit upon completion of the Reorganisation

"GAAP"	General Accepted Accounting Principles
"Gambling Ordinance"	Gambling Ordinance (Chapter 148 of the Laws of Hong Kong)
"GDP"	gross domestic product
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GHES"	Great Holiday Entertainment Services, Inc., a company incorporated in the Philippines on 10 February 2005 and a wholly-owned subsidiary of Flexi-Deliver
"GHHS"	Great Holiday Health & Spa, Inc., a company incorporated in the Philippines on 3 February 2005 and a wholly-owned subsidiary of Flexi-Deliver
"Group"	the Company and its subsidiaries, excluding the Acquired Group
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hotel"	Hyatt Hotel and Casino Manila, a deluxe hotel in Metro Manila, the Philippines with a casino operated therein
"Hotel Group"	Maxprofit and its subsidiaries
"Hotel Interest"	the 51% attributable interest in the Hotel Group to be held by the Acquired Company upon completion of the Reorganisation
"Hotel Property"	the property partially owned and partially leased by the Hotel Group for the operation of the Hotel
"Hyatt Group"	Hyatt International Corporation and its subsidiaries

"Independent Board Committee"	the independent committee of the Board, comprising Messrs. Cheung Hon Kit, Kwee Chong Kok, Michael and Wong Chi Keung, all being independent non-executive Directors, established to advise the Independent Shareholders in relation to the Acquisition, the Rights Issue and the issue of the Convertible Note
"Independent Shareholders"	the Shareholders other than Mediastar, CTF and their respective associates
"Independent Third Party"	a party who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules)
"IT"	information technology
"Joint Sponsors"	Taifook Capital and Somerley
"Last Dealing Date"	17 November 2004, being the last trading day for the Shares prior to the publication of the Announcement
"Latest Practicable Date"	27 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"M8"	M8 Entertainment Inc., a subsidiary of the Company
"M8 Group"	M8 and its subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC
"Macau Interest"	40% equity interest in ATD and related shareholder's loans to ATD (if any)
"Macau Property"	a property under construction and development located at Lot No. A2/j Novos Aterros do Porto Exterior (新口岸外港填海區), Macau
"Maxprofit"	Maxprofit International Limited, a company incorporated in the BVI on 8 November 2004 and the holding company of the Hotel Group upon completion of the Reorganisation

"Mediastar"	Mediastar International Limited, the controlling Shareholder and a wholly-owned subsidiary of CTF
"MSPI"	Marina Square Properties, Inc., a company incorporated in the Philippines on 11 October 2002 and a wholly-owned subsidiary of Flexi-Deliver
"NCHI"	New Coast Hotel, Inc., a company incorporated in the Philippines on 11 October 2002 and a wholly-owned subsidiary of Flexi-Deliver
"Original Agreement"	the acquisition agreement dated 23 November 2004 entered into among Cross-Growth, the Company and CTF in relation to, inter alia, the Acquisition
"PAGCOR"	Philippine Amusement and Gaming Corporation, an Independent Third Party and a corporation incorporated on 4 January 1977 in the Philippines and controlled and wholly-owned by the government of the Philippines
"PAGCOR Charter"	Presidential Decree No. 1869, as amended
"PAL(s)"	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
"Philippines"	the Republic of the Philippines
"PRC" or "China"	the People's Republic of China which, for the purposes of this circular only, excludes Hong Kong, Macau and Taiwan
"Pride Ever"	Pride Ever Resources Ltd., a company incorporated in the BVI on 9 July 2002 and will be beneficially owned by Maxprofit upon completion of the Reorganisation and through which funding will be provided to the Hotel Group
"Prospectus"	a prospectus containing details of the Rights Issue to be issued by the Company to the Shareholders in connection with the Rights Issue
"Prospectus Documents"	the Prospectus, PAL and EAF

"Purchase Option"	the option in favour of the Company to purchase the Macau Interest
"Purchase Price"	the purchase price of the Sale Shares and the Sale Loans
"Qualifying Shareholder(s)"	Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es), as shown on the register of members of the Company, is/are located in Hong Kong
"Record Date"	2 August 2007, being the record date for determining the entitlements of the Shareholders in the Rights Issue
"Reorganisation"	the corporate reorganisation to facilitate completion of the Acquisition by the Company pursuant to the Acquisition Agreement
"Rights Issue"	the issue by way of rights to the Qualifying Shareholders on the basis of four Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date at a subscription price of HK$1.5 per Rights Share
"Rights Share(s)"	new Share(s) to be issued and allotted by the Company under the Rights Issue
"Sale Loans"	all amounts due as at the date of Completion from the members of the Acquired Group (excluding ATD) to the CTF Group, which amount will not be less than HK$578.8 million
"Sale Shares"	the entire issued share capital of the Acquired Company legally and beneficially owned by the CTF Group immediately prior to Completion
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$1.0 each in the share capital of the Company

"Share Option Scheme"	the share option scheme of the Company adopted on 20 August 2004
"Shareholder(s)"	holder(s) of Share(s)
"SJM"	Sociedade de Jogos de Macau, S.A., one of the concessionaires validly licensed to carry out the operation of games of fortune or chance or other casino games in Macau
"Somerley"	Somerley Limited, a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purpose of the SFO
"Starcharm"	Starcharm Limited, a company incorporated in the BVI on 18 October 2004 and will become a wholly-owned subsidiary of Maxprofit upon completion of the Reorganisation
"STDM"	Sociedade de Turismo e Diversoes de Macau, S.A.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Supplemental Agreement"	the supplemental agreement dated 26 June 2007 entered into among Cross-Growth, the Company and CTF to amend certain provisions of the Original Agreement
"Taifook Capital"	Taifook Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
"Track Record Period"	the period commencing from 1 January 2005 up to 31 December 2006
"Underwriting Agreement"	the underwriting agreement dated 23 November 2004 as amended by a supplemental underwriting agreement dated 26 June 2007, all entered into between the Company and CTF in relation to the underwriting and certain other arrangements in respect of the Rights Issue

DEFINITIONS

"US" or "United States"	the United States of America
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"MOP"	Macau pataca, the lawful currency of Macau
"Peso" or "P" or "PhP"	Peso, the lawful currency of the Philippines
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the US
"sq.m."	square metres
"%"	per cent.

Unless otherwise specified, for the purpose of this circular and for the purpose of illustration only, United States dollars amounts and Hong Kong dollar amounts have been translated using the following rates:

US$1	:	*HK$7.8*
US$1	:	*Peso46.42*
HK$1	:	*Peso5.94*
HK$1	:	*MOP1.044*
HK$1	:	*RMB0.976*

No representation is made that any amounts in US$, Peso, MOP, RMB or HK$ were, or could have been or could be in the future, converted at the above rate or at any other rates or at all.

In addition to the other information contained in this circular, you should take into account the following risks in considering the Acquisition. If any of the risks occurs, the business, financial condition or operating results of the Enlarged Group could be adversely affected.

RISKS RELATING TO THE ACQUIRED INTERESTS

Expiry of the PAGCOR Charter

The PAGCOR Charter is currently due to expire on 10 July 2008. As at the Latest Practicable Date, the entire legislative procedure for the charter extension had not yet been completed, which includes, amongst other things, approval or deemed approval of the President of the Philippines. If the renewal of the PAGCOR Charter is not approved by the President of the Philippines, then the lease between the Hotel Group and PAGCOR in respect of the casino at the Hotel Property will expire on 10 July 2008 (and not on expiry of the 12 year term envisaged in the lease). There is no assurance that the Acquired Group may in such circumstances be able to lease the casino premises to other operators (if any) which then may be authorised to engage in casino operations in the Philippines on comparable or more favourable terms or at all, or that the casino premises could be used for other purposes to generate income for the Acquired Group. If the Acquired Group is not able to generate sufficient alternative income from such premises (whether as casino or otherwise) on termination of the existing lease or do so shortly after expiry, the revenue and the results of the Acquired Group could be adversely affected.

Political or social instability in the Philippines

Given the Philippines' history over the past 30 years of military and civilian uprising (which ended the rule of President Ferdinand Marcos), coup d'etat attempts (during the administration of Corazon Aquino), mass public protests (before President Joseph Estrada's stepping down from office) and kidnapping, criminal and terrorist activities including bombing incidents (in Mindanao and including Metro Manila), and in view of recent calls by the opposition party for the resignation of the incumbent president, there is no assurance that the political and social environment in the Philippines will continue to be stable. Any political or social instability in the Philippines in the future may have a negative effect on its tourism business and may in turn adversely affect the business of the Hotel Group.

Economic growth in the Philippines

As the Hotel Group's business operations and assets are substantially based in the Philippines, its income and growth depend, to a large extent, on the performance of the Philippine economy. In the past, Philippines has experienced periods of sluggishness or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls.

In late 1990s, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the Peso and substantial increases in interest rates. While the Philippine economy has experienced mild recovery early this century, it continues to face a significant budget deficit, limited foreign currency reserves and a weak Peso exchange rate. In 2005, certain international credit rating agents have downgraded the foreign currency and credit rating for the Philippines. There can be no assurance that ratings of the Philippines will not be subject to a further downgrade from their current levels. There can be no assurance that the budget deficit of the Philippines (being of Peso 52 billion for the first quarter of 2007) will not increase or that measures will be taken to reduce such current deficit or that, if taken, such measures will be successful.

Any deterioration in the economic conditions of the Philippines as a result of these or other factors, including a further depreciation of the Peso or increase in interest rates, could materially and adversely affect the Hotel Group's customers and contractual counterparties upon whom the Hotel Group's business depends. This, in turn, could adversely affect the Hotel Group's financial condition, results of operations and cash flows.

There can also be no assurance that the current or any future government will adopt economic policies conducive to sustain economic growth or which will not adversely affect the Hotel Group's business and/or the leisure industry in the Philippines as a whole. There is also no assurance that the laws and regulations in relation to the taxation in the Philippines will not be changed in a manner that is adverse to the Hotel Group. Any changes in such laws and regulations in the Philippines may increase the tax exposure of the Hotel Group and its profitability and financial performance would be adversely affected.

Reliance on licensed operators

There is no assurance that the Hotel Group and ATD will be able to extend the lease agreement and/or the cooperation agreement with the licensed casino operators in the Philippines and Macau after the expiry of the relevant agreements nor is there any assurance that the Macau government will give its approval for the operation of a casino at the property being developed by ATD. Further, there is no assurance that the gaming industry in the Philippines and Macau will continue to prosper. Given there are only a limited number of licensed casino operators in the Philippines and Macau, if, for any reason, such agreements are terminated before expiry and the Hotel Group and ATD are not able to find substituting "lessees" for their casino facilities on commercially viable terms or at all, the Enlarged Group's results of operations and cash flows may be adversely affected.

Reliance on the Hyatt®

There is no assurance that the term of the license agreement between the Hotel Group and Hotel Project Systems, Pte Limited (an indirect subsidiary of Hyatt International Corporation, "HPSL"), whereby HPSL agreed to provide the Hotel Group with technology experience and know-how of technical systems and operating standards and services for international deluxe hotels to be applied to the Hotel, will be extended after its initial term of 5 years from the date of the formal opening of the Hotel (notwithstanding the option to extend the term of that license). If, for any reason, such license agreement is terminated before expiry (whether by reason of HPSL's failure to comply in full with applicable Philippines licensing or other laws and regulations or otherwise) and the Hotel Group is unable to secure, if necessary, other internationally recognised hotel managers with similar experience, size and expertise on commercially viable terms, the Hotel Group's results of operations and cash flows may be adversely affected.

Reliance on key management

The Directors believe that the Hotel Group's ability to maintain its competitive position is, to a certain extent, attributable to the expertise and experience of its key management team, which includes Mr. Paulo Ho who has extensive prior working relationship with PAGCOR and Mr. Gottfried Bogensperger who has many years of experience working in various Hyatt hotels. The death or loss of the services of any member of the senior management or the inability to attract additional and retain existing senior management personnel could have a material adverse effect on the operations of the Acquired Group.

Sensitivity to the customers' spending power

Customers' demand for hotel casino resort and other type of luxury amenities is particularly sensitive to downturns of the economy. Changes in consumer preferences or disposable income brought about by factors such as fears of war or insurgencies, future acts of terrorism, general economic conditions, fears of recession and changes in consumer confidence in the economy could reduce customer demand for luxury products and leisure services, thus imposing practical limits on pricing and harming the business of the Acquired Group.

The occurrence of natural catastrophes in the Philippines

The Philippines, in particular, has experienced a number of major natural catastrophes over the years including floodings, landslips, typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the business operations in the Philippines. There can be no assurance that the insurance coverage that the Hotel Group maintains for these and similar risks will adequately compensate it for all damages and the economic losses which it may suffer as a result of such natural catastrophes in the Philippines.

Power interruption occurs in the Philippines

The Hotel Group consumes substantial amounts of electricity in the operation of the Hotel and the maintenance of casino facilities. The Hotel Group has experienced recurring public power interruption to its operation in the Philippines. Typhoons hit the Philippines on a regular basis, which has led to blackouts at many hotel operations in the Philippines in the past and may lead to further blackouts in the future. The Hotel Group currently has backup power systems in the Hotel and casino premises for the purpose of reducing periods of blackouts. However, there is no assurance that the Hotel Group will always have adequate supplies of electricity to meet its daily needs at the Hotel and casino premises. Any blackout for a significant period of time may have an adverse effect on the Hotel Group's business.

Water shortage

The supply of fresh water is essential to hotel operation. The Hotel has in the past experienced a shortage of water supply. Water being supplied from the mains by Maynilad Water Service Inc. ("Maynilad") had then not been sufficient to secure the consumption of the hotel operation. Accordingly, the Hotel had needed to purchase from other water suppliers separately by trucks. There can be no assurance that Maynilad will be able to supply adequate fresh water in the Manila District and to the Hotel without interruption. Should the Hotel Group fail to source another continuous supply of fresh water, the operation of the Hotel will be adversely affected.

Insurance coverage

Although the Hotel Group has certain "all risk" property insurances for its properties covering damage caused by a casualty loss, each policy has certain exclusions and limitation. The level of insurance coverage may not be adequate to cover all losses in the event of major casualty. In addition, certain casualty events, such as acts of war or insurgencies, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, may not be covered at all under the policies. Therefore, certain acts could expose the Hotel Group to heavy and uninsured losses. In addition to the damage caused to the properties by a casualty loss, the Hotel Group may suffer disruption of business as a result of fire, natural disasters, acts of war or terrorism or be subject to claims by third parties injured or harmed. While the Hotel Group carries business general accident comprehensive general liability insurance, such insurance may not be adequate to cover all losses in any of such events.

Outbreak of highly infectious disease

In early 2003, Hong Kong, the PRC, Taiwan, Singapore and certain other regions in the world experienced an outbreak of a new and highly contagious form of atypical pneumonia known as severe acute respiratory syndrome ("SARS"). The World Health Organisation had issued restrictive travel advice to travellers going to certain infected regions. As a result, there was a significant decrease in travel to and from, and economic activity in, the Asian region, including Macau and the Philippines. If an outbreak of SARS recurs or if an outbreak of another highly infectious disease occurs, it may adversely affect the number of visitors to Macau and the Philippines and disrupt the operation of hotels or casino industries in those places. These events could have a material adverse impact on the financial condition, results of operations and cash flow of the Acquired Group.

Change in the economic conditions and policies in the PRC

The Directors expect a significant number of customers from the PRC to visit Macau and the Philippines. General economic conditions and policies in the PRC could have a significant impact on the financial prospects of the Enlarged Group. Any slowdown in economic growth or reversal of the PRC's current policies of liberalizing restrictions on travel and currency movements could adversely affect the number of visitors from the PRC to stay in the hotels in Macau or the Philippines as well as the amounts they are willing to spend.

Competition

The hotel, resort and casino businesses are highly competitive in Macau and the Philippines. The Hotel Group competes to some extent with hotels located elsewhere in Asia, such as Malaysia's Genting Highlands. In addition, certain countries in Asia have legalised and others may in the future legalise casino gaming, including Singapore, Japan, Taiwan and Thailand. It is expected that there will also be competition from cruise liners operating out of Hong Kong and other areas of Asia that offer gaming and other leisure services. The proliferation of gaming venues in Southeast Asia could significantly and adversely affect the financial condition, results of operations or cash flow of the Enlarged Group.

Risk of being a minority shareholder

Upon completion of the Acquisition, the Enlarged Group will hold 40% of the equity interest of ATD and ATD will become an associated company of the Company. Furthermore, five out of seven board members of ATD will be nominated by the other 60% shareholders of ATD. Accordingly, the Company will not have control over ATD. The other shareholders of ATD may (i) have economic or business objectives that are inconsistent with those of the Enlarged Group; (ii) experience financial difficulties; and (iii) be unable or unwilling to fulfill their obligations under the current development plan of ATD. Therefore, the adoption of any unfavorable resolution by ATD or any material change of economic or business objective of the other shareholders of ATD may have an adverse effect on the Enlarged Group's financial condition, results of operations or cash flows.

Foreign exchange

BSP maintains a freely floating Peso whose value is determined, to a large extent, by supply and demand factors. BSP may participate in the market, buying or selling the Peso as it sees fit. The value of Peso floats against a basket of currencies made up of the US dollars and other currencies and it is possible that exchange rate of the Peso to the basket of currencies becomes volatile. Fluctuation in the exchange rate may adversely affect the value transacted or converted into Hong Kong dollars of the Hotel Group's earnings and assets. During the last decade, the Philippine economy has from time to time experienced devaluations of the Peso and limited availability of foreign exchange. There is no assurance that any future movements in the exchange rates of the Peso against HK$, US$ and other foreign currencies will not adversely affect the Enlarged Group's financial condition, results of operations or cash flows.

The Philippine monetary authorities regulate the manner in which money is brought into, taken out or, in certain cases, held in the country. Although foreign-currency transactions have been liberalized, remittances of currency from the Philippines to places outside the Philippines are to some degree controlled. Subject only to the authority of the BSP to impose foreign exchange controls or restrictions during a foreign exchange crisis or national emergency, foreign investors may legally purchase foreign exchange from outside the banking system (e.g. foreign exchange dealers). The restrictions or controls that BSP may impose during emergencies include, among others, temporarily suspending or restricting the sale of foreign exchange, subjecting all transactions in foreign exchange to licensing requirements, or requiring any person residing or entity operating in the Philippines to deliver any foreign exchange obtained to BSP, or to any bank or agent designated by BSP, at the then effective exchange rates. The Hotel Group has to rely on foreign exchange dealers from outside the Philippines exchange banking system to repatriate money out of the Philippines. Foreign currency is generally readily available outside the banking system, unless the amount required is extraordinarily significant, in which case, it would be advisable to make prior arrangements with several sources for the purchase. Even though the constitution and the local laws to some extent guarantee the remittability of dividends, interest, loan principal and capital for foreign investments, any future control on foreign-exchange movement or money changing may have an adverse effect on the ability of the Hotel Group to remit monies outside the Philippines where necessary.

Differences in accounting standards

The Company is essentially an investment holding company. Substantially all of the Enlarged Group's business operations are conducted through its subsidiaries in Hong Kong, Canada, US and the Philippines. The Enlarged Group's ability to pay dividends is dependent upon the earnings of its subsidiaries and their distribution of funds to it, primarily in the form of dividends. The profit available for distribution for the subsidiaries established in Canada, US and the Philippines is determined in accordance with the Canadian GAAP, US GAAP and Philippines GAAP respectively, a sum which may differ from that arrived at by adopting the Hong Kong GAAP. There is no assurance that the distributable profits of the Enlarged Group's overseas subsidiaries will be comparable to the reported accounting profits under the Hong Kong GAAP. Accordingly, the Company may not have sufficient distribution from its overseas subsidiaries to support the profit distribution to the Shareholders.

Continuous and steady supplies of consumable materials

The Hotel usually sources consumable materials from local suppliers first to ensure the continuous and immediate supply of the consumable materials. If the items sourced out locally do not meet the required high quality and standards, it may be difficult to have the supplies and items of standard and consistent quality available when needed. Various vendors' price comparison has to be issued with any purchase made, but this may not always be obtainable for products or services required.

Seasonality

Hotel and leisure business is noted for its seasonality and vulnerability to external events. News on bird's flu, terrorism and political instability can lead to sudden and immediate decline in tourist or business arrivals. Since costs comprise both fixed cost such as salaries and other maintenance as well as variable cost which consist of room supplies, electricity, and food costs, the profitability of the Enlarged Group basically depends on revenues to be generated in the peak season.

The industry statistics contained in this circular are derived from various publicly available sources and may not be reliable

Certain statistics in the sections headed "Summary" and "Industry overview" in this circular relating to the hotel and film industry, such as statistics relating to the Philippines, Macau, US and other parts of the world, are derived from various official government publication. Whilst the Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by the Company and may be inconsistent, inaccurate, incomplete or out-of-date. None of the Company, the Joint Sponsors, their respective directors and advisers or any other parties involved in the new listing application make any representation as to the accuracy or completeness of such information and, accordingly, such information should not be unduly relied upon.

RISKS RELATING TO THE FILM INDUSTRY

Change in consumers' preference and/or purchasing power

Demand for the Group's films relies on the end-users' acceptance of the Group's films in general and the purchasing power of the end-users. Audience reaction, initial reviews and public taste cannot be predicted with certainty. Also, a general downturn in the economy could have a direct impact on ticket sales. There can be no assurance that the Group's end-users will continue to watch the Group's films in the future. If the taste and purchasing power of these end-users change in the future and prefer films of other producers, the Group's business and financial results may be adversely affected.

Launching risk

The successful launch of a film to the market depends on many factors. Some of them are beyond the control of the film director or the Group of which could have an adverse effect on the completion or launch date of the film. These include, for example, weather, civil action, disturbances, terrorist action, strikes or the inability of any important member of the cast to perform due to illness or any other causes. The Group's films may or may not be completed on time or within budget and delivered to the distributors. Although the intention of the Group is to secure a theatrical release or licensing of all of its films, there can be no assurance that such release will take place or the licensing arrangement can be secured.

RISKS RELATING TO THE IT INDUSTRY

Rapid changing technology

The IT industry faces rapid technological changes and short product cycles. The demand for IT products and services are also subject to business cycles, which may rise or fall along with overall economic growth and business investment. The Group's future success in the IT project services depends upon its ability to respond and adapt quickly to technology and product cycles so that the Group is able to offer products and services to meet the changing demands of its customers. The Group's inability to do so may greatly undermine its future development.

Competition

So far as the Directors are aware, there are a large number of companies engaged in the provision of project services, network solutions, technology project and multimedia services business. The Group therefore faces intense competition from these companies. Even though the Directors consider that the Group has certain advantages over its competitors, there is no assurance that other competitors will not surpass the Group's performance in the future. In the event that competition intensifies or the Group fails to sustain its competitive advantage or effectively implement its business strategies, the Group's business, results of operation and financial position may be materially and adversely affected.

For the purpose of the new listing application, the Company has sought a waiver from the GEM Listing Division in relation to certain requirements under the GEM Listing Rules. Details of such waiver are described below.

DISPOSAL OF SHARES BY CTF

Pursuant to Rule 13.17 of the GEM Listing Rules, the Company shall procure, amongst other things, that every significant shareholder (as defined in the GEM Listing Rules) undertakes to the Company and the Stock Exchange that for a period commencing on the date by reference to which disclosure of the shareholding of the significant shareholder is made in the listing document and ending on the date which is 6 months from the listing date (the "Restriction Period"), such significant shareholder will not, save for the exceptions stated in Rule 13.18 of the GEM Listing Rules, dispose of or permit the registered holder to dispose of any of its direct and indirect interest in the relevant securities.

Pursuant to the GEM Listing Rules, the Acquisition constitutes a very substantial acquisition of the Company and the Stock Exchange has indicated that it will treat the Company as a new listing applicant if the Acquisition proceeds to Completion. Accordingly, CTF, which is a significant shareholder of the Company as defined under the GEM Listing Rules, is prohibited from disposing of or permitting the registered holder to dispose of any of its interest in the Company during the Restriction Period. However, if the Rights Shares are not taken up by the Shareholders, the public float for Shares may fall under 25% on completion of the Rights Issue. It may then be desirable or necessary, in order to bring public float up to 25% during the Restriction Period, for CTF to sell its Shares to Independent Third Parties.

Accordingly, the Company and CTF have applied for and obtained from the Stock Exchange a waiver from strict compliance with the requirements under Rule 13.17 of the GEM Listing Rules and that CTF may dispose of or permit the registered holder to dispose of its Shares within the Restriction Period for the sole purpose of restoring the minimum public float requirement under the GEM Listing Rules.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Dr. Cheng Kar Shun	12 Repulse Bay Road Hong Kong	Chinese
Mr. Lo Lin Shing, Simon	No. 26 Middle Gap Road Hong Kong	Chinese
Mr. To Hin Tsun, Gerald	Flat C–3 Springfield Garden S–9 Shouson Hill Road West Hong Kong	British
Mr. Choi Wing Kin	Flat B, 4th Floor Tower 13, Parc Oasis Yau Yat Chuen Kowloon Hong Kong	British
Mr. So Kam Wing	Flat E, 1st Floor, Block 3 Bayview Garden 633 Castle Peak Road Tsuen Wan, New Territories Hong Kong	Chinese
Non-executive Director		
Mr. Wu Wing Kin	Flat 9H, Block 8 Nam Fung Sun Chuen Quarry Bay Hong Kong	Chinese
Independent non-executive Directors		
Mr. Cheung Hon Kit	26B Shouson Hill Road Hong Kong	Chinese
Mr. Kwee Chong Kok, Michael	Belgravia Heights 4B 27 Tai Tam Road Hong Kong	Nederlandse
Mr. Wong Chi Keung	20A Melody Court 2C-D Kam Hong Street North Point Hong Kong	Chinese

Joint Sponsors

Taifook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Somerley Limited
10th Floor, The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
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20th Floor
Alexandra House
16-20 Chater Road
Hong Kong

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Conyers Dill & Pearman
Cricket Square
Hutchins Drive
George Town
Grand Cayman KY1-1111
British West Indies

As to the Philippines law:
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Bonifacio Global City
Taguig, Metro Manila
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As to Macau law:
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Advogados
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Rooms 2301-2302
Macau SAR

As to the PRC law:
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18th Floor, Guangdong Holdings Tower
No. 555 Dongfeng East Road
Guangzhou
PRC

Legal adviser to CTF	*As to Hong Kong law:* Iu, Lai & Li 20th Floor, Gloucester Tower The Landmark 11 Pedder Street, Central Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place 88 Queensway Hong Kong
Property valuers	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	CIMB-GK Securities (HK) Limited 25th Floor Central Tower 28 Queen's Road Central Hong Kong
Compliance adviser	Hantec Capital Limited 45th Floor, COSCO Tower 183 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Rooms 1207-8 New World Tower 1 16-18 Queen's Road Central Hong Kong
Websites	http://www.cyberonair.com http://www.ientcorp.com
Company secretary	Mr. Kwok Chi Kin, *CPA, FCCA*
Qualified accountant	Mr. Kwok Chi Kin, *CPA, FCCA*
Compliance officer	Mr. Choi Wing Kin
Authorised representatives	Mr. Lo Lin Shing, Simon No. 26 Middle Gap Road Hong Kong Mr. Kwok Chi Kin Flat A, 17th Floor Tower 23 South Horizons Ap Lai Chau Hong Kong
Members of audit committee	Mr. Cheung Hon Kit *(chairman)* Mr. Wong Chi Keung Mr. Wu Wing Kin
Members of remuneration committee	Mr. Wong Chi Keung *(chairman)* Mr. Kwee Chong Kok, Michael Mr. Wu Wing Kin

Principal bankers	Public Bank (Hong Kong) Limited Public Bank Centre 120 Des Voeux Road Central Hong Kong The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong Bank of China (Hong Kong) Limited Unit G1, Nan Fung Commercial Centre Wang Kwun Road Kowloon Bay Hong Kong
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Branch share registrar and transfer office in Hong Kong	Computershare Hong Kong Investor Services Limited Rooms 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

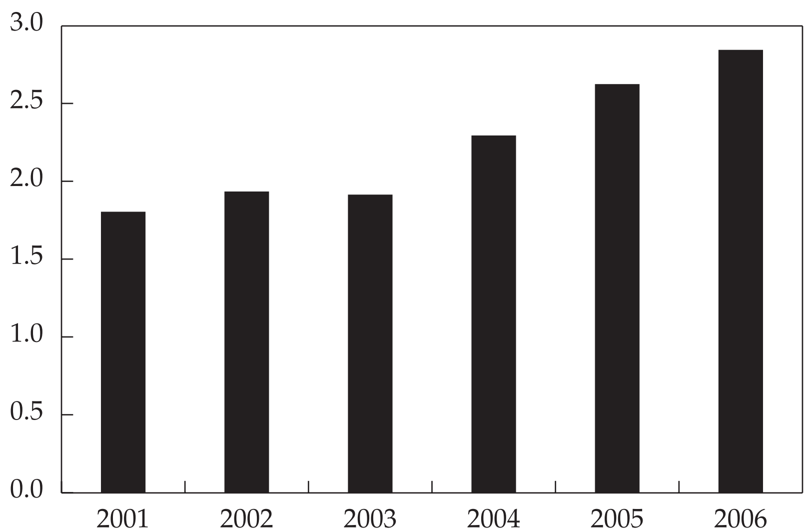
The information provided in this section is derived from various private and/or government publications. The official government publications have not been independently verified by the Company, the Joint Sponsors, their respective directors or advisers or any other parties involved in the new listing application. However, the Directors have taken reasonable care in the reproduction of information extracted from official government publications.

The Acquired Interests are mainly engaged in hotel operation and leasing of premises to a casino operator. Given that the performance of the Acquired Interests would, to a certain extent, be affected by the performance of the casinos operated at premises leased from the Acquired Interests in the Philippines and Macau, certain background information of the gaming business in the Philippines and Macau is provided to the Shareholders (in addition to information on tourism and the hotel industry in both jurisdictions) for a better understanding of the potentials of the Acquired Interests.

TOURISM AND HOTEL INDUSTRY IN THE PHILIPPINES

Tourism is recognised by the Philippine government as a major contributor of foreign income and a growth driver of the country's output. In 2001-2006, the average tourist arrival was approximately 2.23 million per year. In 2006, tourist arrival increased 8.4% from 2005 to 2.84 million. Having revived from the adverse impact from the health concern and political uncertainties that prevailed in 2003, the total visitors to Philippines rose 20.1% year-on-year to 2.29 million in 2004, according to the Department of Tourism, Philippines. The compound annual growth rate of the tourist arrival between 2001 and 2006 is approximately 9.6%.

Visitor arrivals to the Philippines (in million)

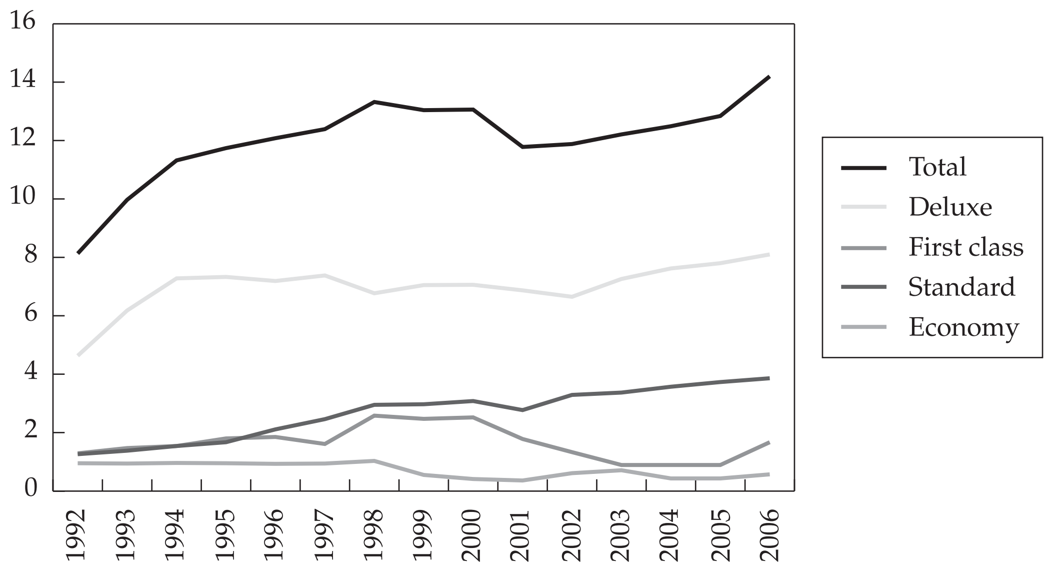


Source: Department of Tourism, Philippines

Tourists from East Asian countries (which include China, Hong Kong, Japan, Korea and Taiwan) have been the major source of tourists to the Philippines. In 2004, tourists from East Asian countries contributed 47.1% of the country's total, up from 44.0% in 2001. The compound annual growth rate of the East Asian tourists between 2001 and 2006 was 11.9%, while that of the total tourists to the Philippines was 1.1%.

In 2006, the average number of hotel rooms in Metro Manila, Philippines was 14,200, up 10.6% from 12,842 rooms in 2005. Out of these rooms, 8,103 were deluxe rooms, representing 57.1% of the total.

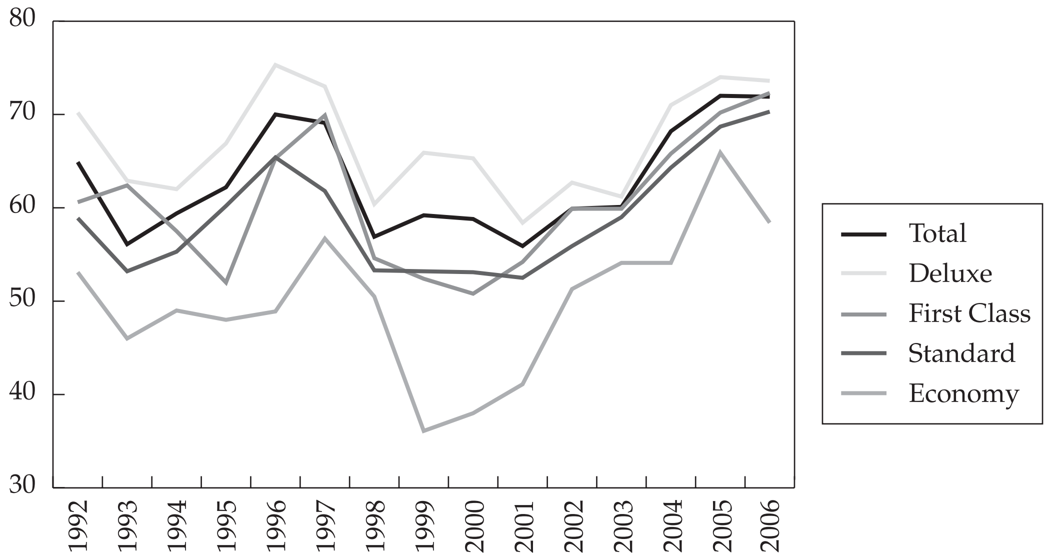
Hotel rooms in Metro Manila, Philippines by classes (in thousand)



Source: Department of Tourism, Philippines

The overall occupancy rate of hotel rooms in Metro Manila, Philippines was 71.9% in 2006. Occupancy rate of deluxe hotel rooms has been consistently higher than the overall hotel occupancy rate and has maintained as the highest of all the classes of hotel rooms, while that of the economy class has been the lowest. In 2006, the occupancy rate of the deluxe hotel rooms was 73.6%, while that of economy class room was 58.4%.

Occupancy rate of hotel rooms in Metro Manila, Philippines by classes (in percentage)



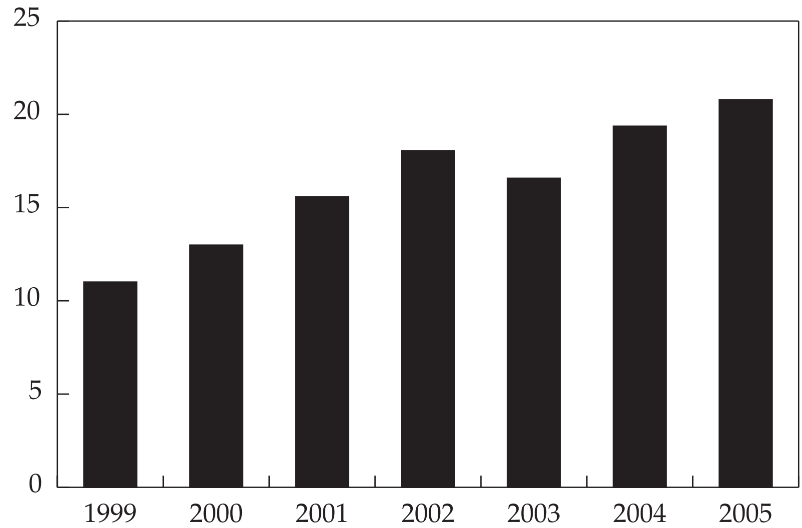
Source: Department of Tourism, Philippines

CASINO GAMING INDUSTRY IN THE PHILIPPINES

Except for an area in northern Philippines, Cagayan Special Economic Zone, gaming in the Philippines is exclusively operated by the Philippine government through its wholly-owned corporate entity, PAGCOR, which is also the regulator of the gaming industry in the country. Established in 1976, PAGCOR's objective is to oversee the operation of gaming casinos, to generate funds for the government's development projects, to promote tourism in the country and to help curb illegal gambling. At present, PAGCOR runs 13 casinos, of which 4 (inclusive of the casino at the Hotel Property) are in Metro Manila, as well as a few slot machine arcades. According to the Cagayan Economic Zone Act ("CEZA"), CEZA exercises the power to operate, within the Cagayan Special Economic Zone, on CEZA's own, either directly or through a subsidiary entity, or license to others, tourism-related activities, including games, amusements, recreational and sports facilities such as horse racing, dog racing, gambling casinos, golf courses, and others, under priorities and standards set by the CEZA. Such power of the CEZA may be exercised only within the Cagayan Special Economic Zone.

In 2005, the total gaming income of PAGCOR was Peso20,787 million, up 7.4% from Peso19,362 million in 2004. Between 1999 and 2005, the total gaming income of PAGCOR has grown by 88.9%, representing a CAGR of 11.2%.

PAGCOR's income from gaming operations (in billion Pesos)

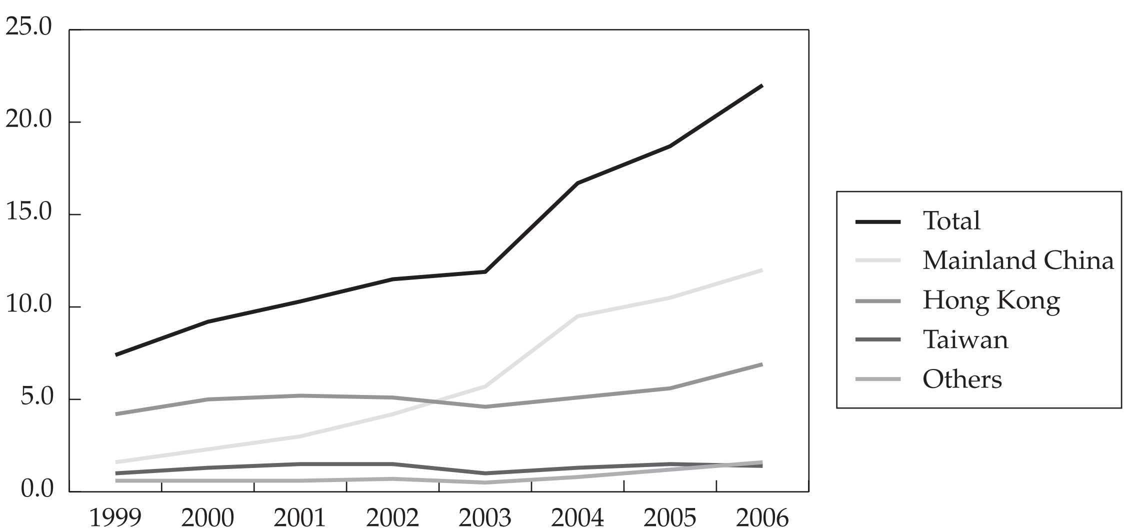


Source: Commission of Audit, Philippines

TOURISM AND HOTEL INDUSTRY IN MACAU

Macau hosted tourists of 22.0 million in 2006, up by 17.6% from 2005. Having been relieved from the adverse impact from the SARS outbreak that took place in 2003, tourism has recovered in 2004. Tourists to Macau have been on upward trend since 1999. Tourists increased from 7.4 million in 1999 to 22.0 million in 2006, representing a CAGR of 16.7%.

Visitor arrival to Macau by regions (in million)



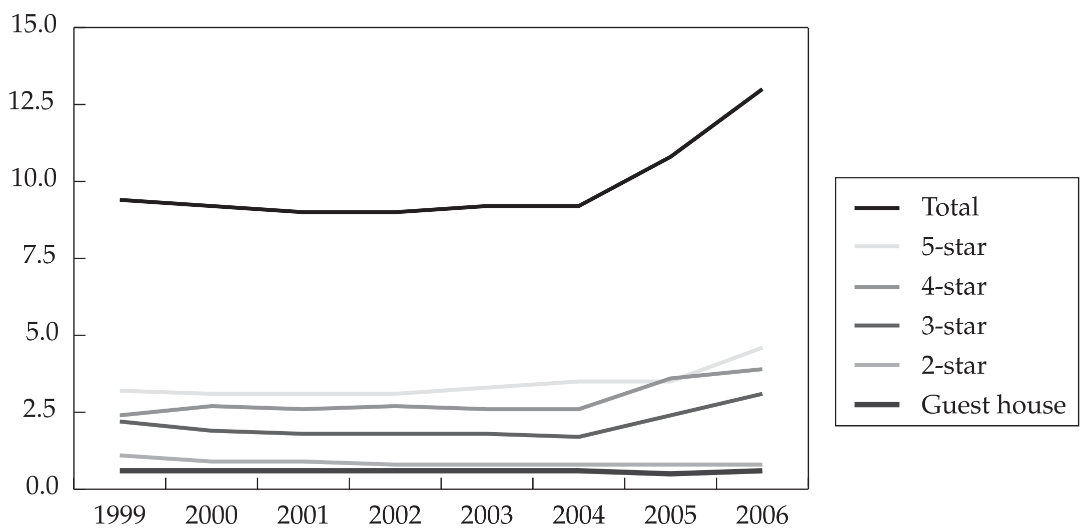
Source: The Statistics and Census Service, Macau

The top three contributors of Macau's tourists are from the PRC, Hong Kong and Taiwan, which contributed 54.5%, 31.6% and 6.5% respectively of Macau's total tourists in 2006. Together, these three sources accounted for 92.6% of Macau's total tourists. A major driver of the growth was the increase of tourists from the PRC. For the period between 1999 and 2006, tourists from the PRC increased from 1.6 million to 12.0 million, representing compound annual growth rate of 32.8%. In 2006, tourists from the PRC increased 14.6% over the previous year. The share of the PRC tourists to the total tourists of Macau has increased from 22.1% in 1999 to 54.5% in 2006.

Introduced in July 2003 by the PRC government, the Individual Visit Scheme ("IVS") allows residents from various specified cities in the PRC to visit Macau and Hong Kong as individual travellers. This relieved the previous restriction that requires tourists to join package tours. In 2003, the first year of the implementation of IVS, tourists from the PRC surpassed Hong Kong tourists to become the largest source of tourists to Macau.

While visitors to Macau continue to rise, the hotel rooms available in the city remained steady until 2004. At the end of 2006, there were 12,978 hotel and guest house rooms in Macau, representing 19.8% growth from 10,832 rooms as at the end of 2005. Out of the total rooms available for tourists in Macau in 2006, 4,572 rooms were provided by the 5-star hotels, representing approximately 35.2% of the total. Rooms in 4-star and 3-star hotels contributed 30.3% and 23.9% of the total rooms available in Macau respectively.

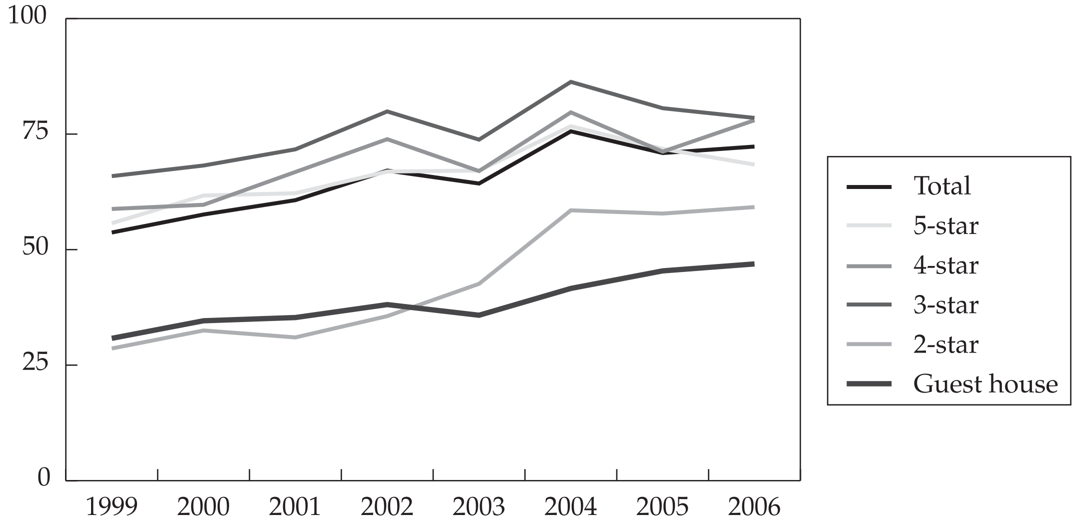
Rooms available for tourists in Macau (in thousand)



Source: The Statistics and Census Service, Macau

The occupancy rates of the hotel and guest house rooms in Macau has been maintaining at a high level between 2004 and 2006. Occupancy rate of the overall rooms increased from 53.7% in 1999 to 72.3% in 2006. The occupancy rate of 3-star hotels is consistently higher than the overall average. In 2006, occupancy rate of the 3-star hotels was 78.5%, which was followed by 78.0% of the 4-star hotels and 68.4% of the 5-star hotels.

Occupancy rate of rooms available for tourists in Macau (in percentage)



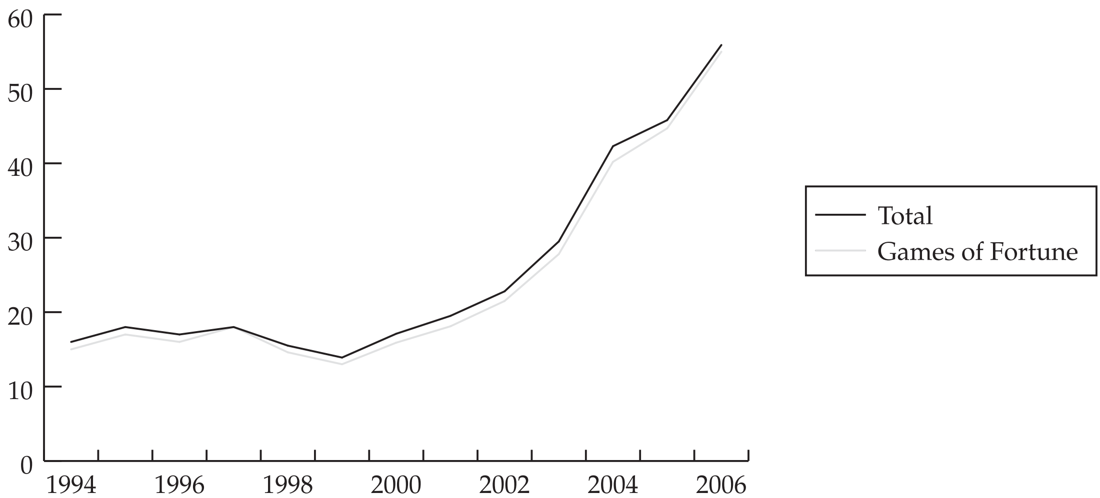
Source: The Statistics and Census Service, Macau

GAMING INDUSTRY IN MACAU

According to the Government of Macau and its Gaming Inspection and Coordination Bureau, gaming is one of Macau's oldest industries. Before 1937, no company was granted the monopoly franchise to run casino operations in Macau. Between 1962 and 2002, STDM owned the monopoly franchise of gaming operations in Macau. In February 2002, Macau government liberalised the gaming market by issuing three gaming licenses for casino operations in order to increase market competition and attractiveness of Macau's gaming industry, and to boost the public revenue. The three licensees which have been granted the gaming licenses are SJM, Wynn resorts (Macau) S.A. and Galaxy Casino, S.A..

In 2006, Macau's gaming industry had generated a total revenue of MOP55.9 billion. From 2001 to 2006, the gross revenue of the gaming industry in Macau increased from MOP19.5 billion to MOP55.9 billion, representing compound annual growth rate of 23.4%. In 2006, approximately 98.4% of the total revenue generated from the gaming industry in Macau came from the games of fortune, which were mainly carried out in the casinos, according to the Gaming Inspection and Coordination Bureau, Macau. The remaining revenue from other activities, including horse racing, greyhound racing and lotteries on sports such as football and basketball, accounted for approximately 1.6% of Macau's total revenue generated from the gaming industry in 2006.

Gross revenue from gaming industry in Macau (in MOP billion)



Source: Gaming Inspection and Coordination Bureau, Macau

Among the games of fortune, the highest revenue generating one is Baccarat. Baccarat and VIP Baccarat together generated revenue of MOP46.9 billion, accounting for 85.3% of the total revenue from the games of fortune. Altogether, games of fortune has recorded compound annual growth rate of 24.9% between 2001 and 2006.

MACAU REGULATORY REGIME

This section briefly outlines the principal laws and regulations in Macau which govern gambling activities or are relevant to the prevention of money laundering, in the context of gambling casinos operations in Macau. Given that the construction of the hotel complex on the Macau Property is only expected to be completed in 2008, there is no assurance that the principal laws and regulations set out below would be applicable to the casino to be operated in the hotel complex.

General Overview of the gaming industry prior to 2002

Up to March 2002, the gaming industry in Macau consisted of an exclusive concession granted to Sociedade de Turismo e Diversões de Macau, S.A.R.L. (hereinafter "STDM"). Article 27 of Law 6/82/M provided that the existing exclusive concession could be extended for two periods of 5 years each. The last renewal of STDM's concession was authorized by the Chief Executive Order n.° 259/2001, subsequent to the International Public Tender for the Concession for the Operation of Games of Fortune or Chance in Casino, legally justified by the high number of bidders and the complex analysis of the proposals. By Chief Executive Order n.° 26/2002, the provisional results of the Public Tender were published and (out of eighteen proposals submitted) the three proposals considered to be the most advantageous for Macau, were from Galaxy Casino, S.A., Wynn Resorts (Macau), S.A. and Sociedade de Jogos de Macau, S.A..

Core legislation on games of fortune or chance in casino

During 2001, the core gaming laws that currently regulate the operation of games of fortune or chance in casino were approved and published, namely: Law n.° 16/2001 (Gaming Law); Administrative Regulation n.° 26/2001, as amended by Administrative Regulation n.° 4/2002; Administrative Regulation n.° 6/2002 (Gaming Promotion Activity); and Law 5/2004 (Granting Credit for Gaming). Law n.° 16/2001 provides the legal framework for the operation of games of fortune or chance in casino. The Administrative Regulation n.° 26/2001 regulates the Public Tender for granting the concessions for the operation of games of fortune or chance in casino, namely regarding the procedure rules; the concession contracts and the probity requirements; the financial capacity of the bidders to a gaming concession, including the confirmation procedures. Administrative Regulation n.° 6/2002 regulates the conditions to become a gaming promoter and conduct the activity of gaming promotion related to games of fortune or chance in casino, namely the probity verification procedures and the licensing process required to become a gaming promoter.

Anti-money laundering regime

Macau has put in place an anti-money laundering legal framework which is designed to prevent and fight the processes of disguising or concealing properties or proceeds of illicit origin or derived from illicit activities. It comprises a set of domestic laws and guidelines/instructions given to different economic operators pursuant to it. Those laws and regulations are based upon the Financial Action Task Force ("FATF"), 40 recommendations and 9 Special Recommendations between 1990-2004 (collectively "the FATF Recommendations").

Macau is a member of the Asia Pacific Group on Money Laundering ("APG") and has in force, in different pieces of legislation, the FATF Recommendations. As far as anti-money laundering is concerned, quite a lot of official agencies play a role in Macau, including Gaming Coordination and Inspection Bureau ("DICJ"), Macau Trade and Investment Institute, Finance Services Bureau, Macau Lawyers Association and Justice Services Bureau.

The DICJ is responsible for implementing the AML legislation regarding the casino industry, which includes concessionaires, sub-concessionaires and gaming promoters and is also responsible for the supervision of the activities within the casinos, as well as the compliance by the aforesaid entities with AML laws and regulations.

The Public Prosecutor's office is the responsible department for leading the detection and investigation of criminal activities, including money laundering, proceeding with criminal prosecution, and initiating the processing of criminal cases.

Judiciary Police is the public department in charge of receiving any suspicious transaction reports, as well as conducting the primary investigation of money laundering activities. Judiciary Police has two divisions that primarily handle money laundering cases: financial crimes division and serious crimes division.

The legal provisions governing supervisory AML measures are built on international treaties and Macau internal legislation, which was recently updated with the enactment of AML law, Anti-terrorism Law and the Administrative Regulation 7/2006, which, as their precedents (in some of their rules), are in line with the FATF Recommendations and those guidelines of APG.

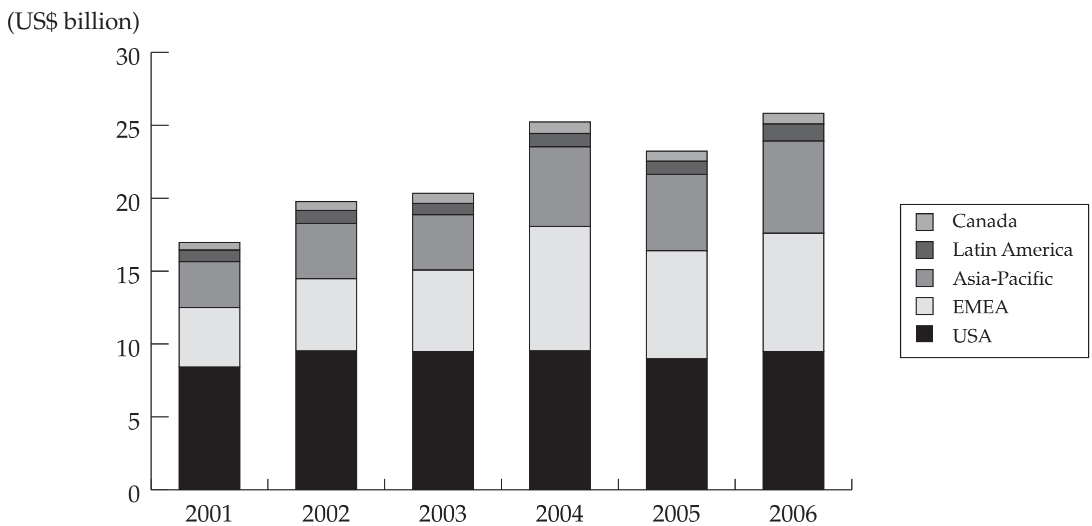
Together with the gaming laws and regulations, the aforesaid gaming entities shall comply with Law 2/2006 of 3 April 2006, the Administrative Regulation 7/2006 of 15 May 2006, which came into effect on 12 November 2006, and the Instruction of DICJ 2/2006 of 13 November 2006 which regulates the identification, report and prevention of anti-money laundering activities and terrorism financing crimes in the casinos.

THE FILM INDUSTRY

Box office

In 2006, the worldwide box office recorded US$25.8 billion, representing a year-on-year decline of 11.1%, according to Motion Picture Association (MPA). In 2001-06, the worldwide box office increased at a CAGR of 8.8%.

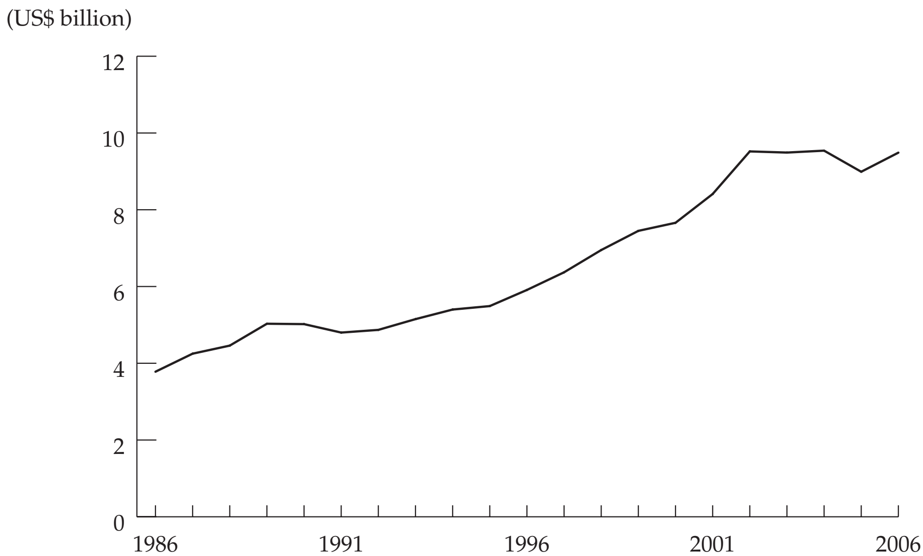
Worldwide box office



Source: Motion Picture Association

In 2006, the US box office contributed 36.8% of the worldwide total. This was followed by the Europe/Middle East/Africa (EMEA) region and Asia Pacific, which contributed 31.4% and 24.5% of the worldwide total respectively. The US box office rose 5.6% year-on-year to US$9.49 billion in 2006. Comparing the US$3.78 billion recorded in 1986, the US box office increased at a compound annual growth rate of 4.7% for the period between 1986 and 2006.

Box office in the US

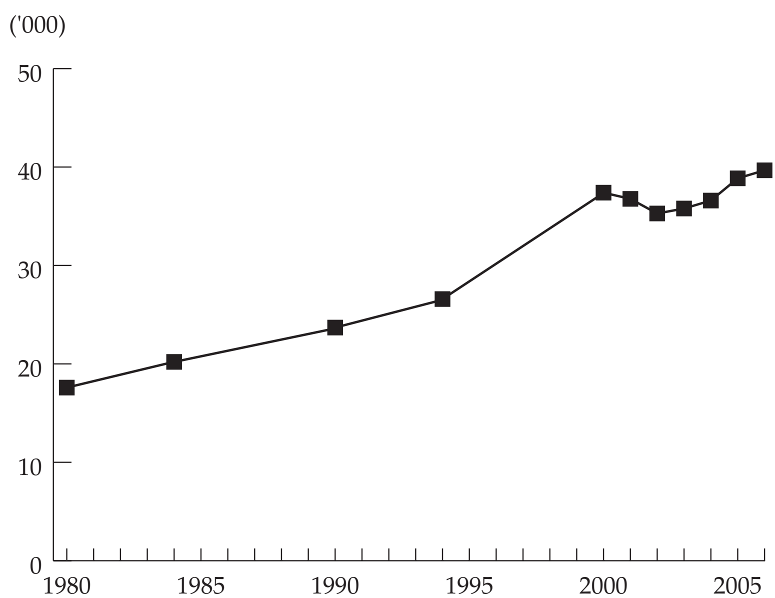


Source: Motion Picture Association

Screen

In 2006, there were 39,668 screens in the US. The number has been increased 12.4% since 2002. Comparing to the 17,590 screens in 1980, there has been a compound annual growth rate of 3.2% for the period between 1980 and 2006.

The total number of screens in the US

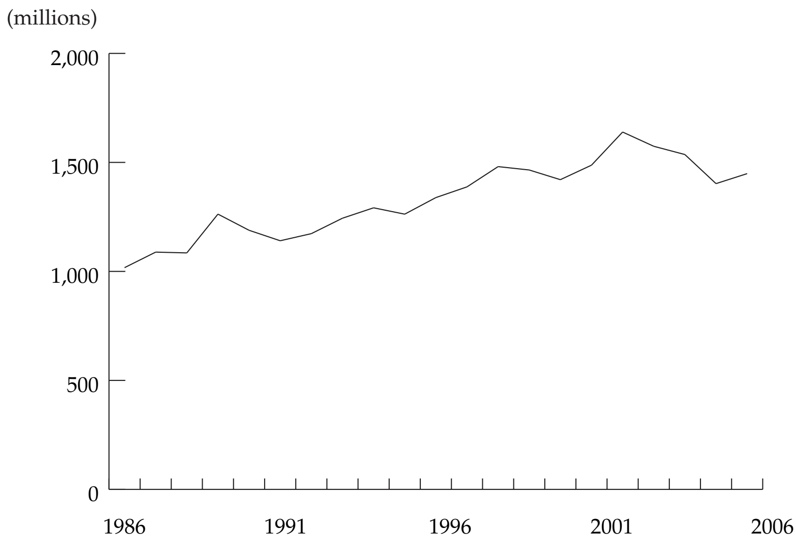


Source: Motion Picture Association

Admissions

In 2006, the number of movie admissions in the US was 1,449 million, which was 3.3% higher than that of 1,403 million in 2005. Comparing to 1986, the admissions have been on an upward trend at a compound annual growth rate of 1.8% for the period between 1986 and 2006.

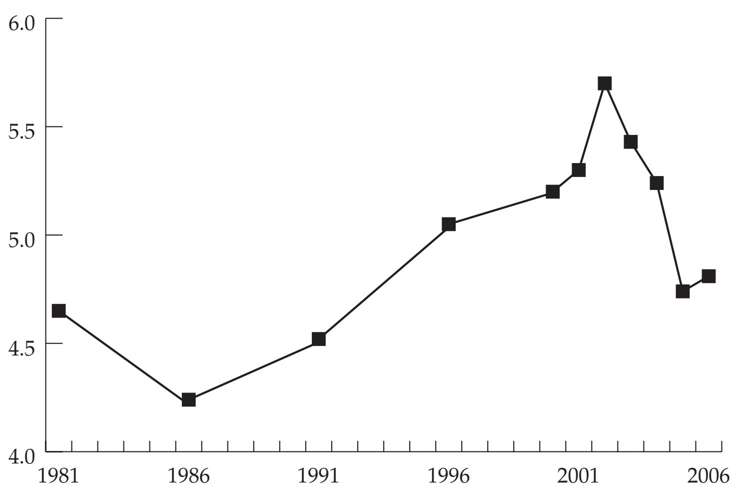
The number of movie admissions in the US



Source: Motion Picture Association

The admission per capita has also varied between 4.2 and 5.7 in 1981-2006. According to the data from MPA, admission per capita increased to over 5 for the period between 2000 and 2004 and returned to 4.7 and 4.8 in 2005 and 2006 respectively.

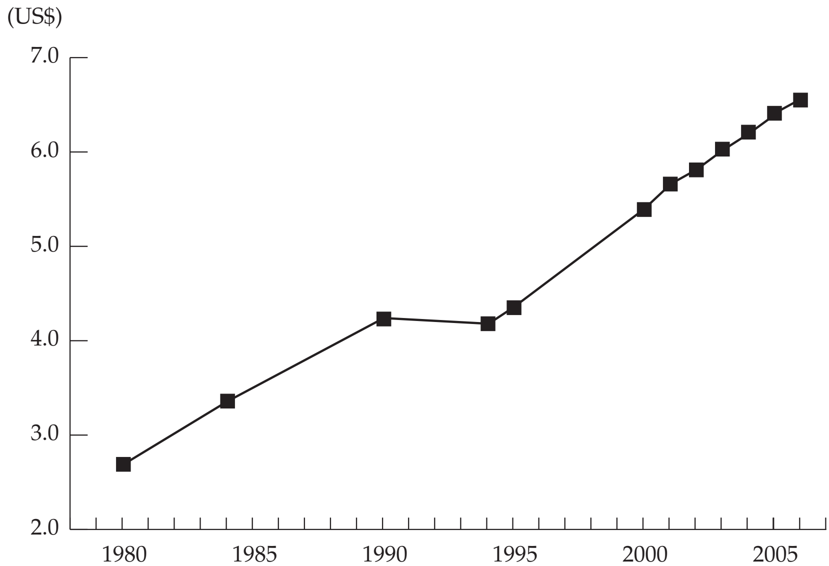
The admission per capita in the US



Source: Motion Picture Association

Since 1980, the admission price in the US has increased considerably by 143% from US$2.69 in 1980 to US$6.55 in 2006. The compound annual growth rate for the period is 3.48%. Between 1995 and 2006, the admission price has shown linear increase of approximately US$0.20 per year.

Average annual admission price in the US

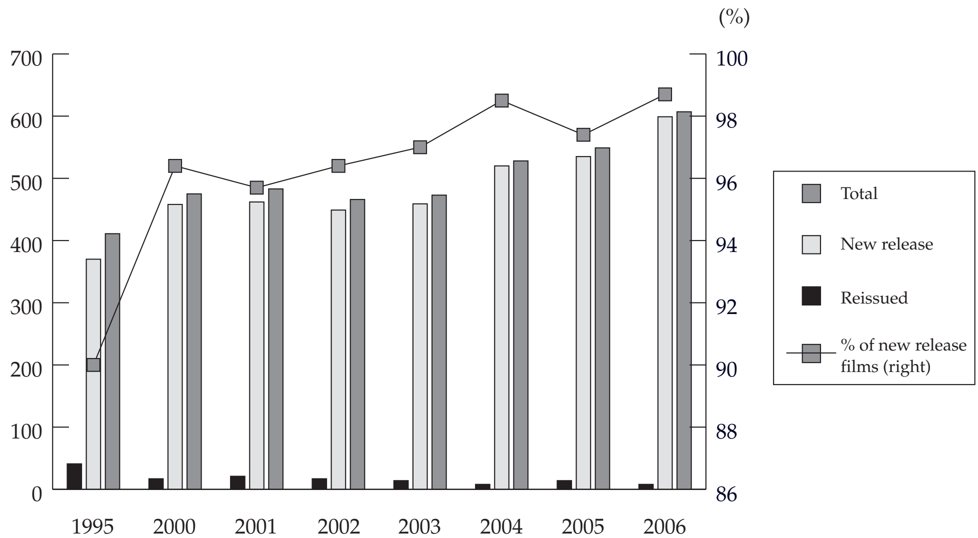


Source: Motion Picture Association

Film released

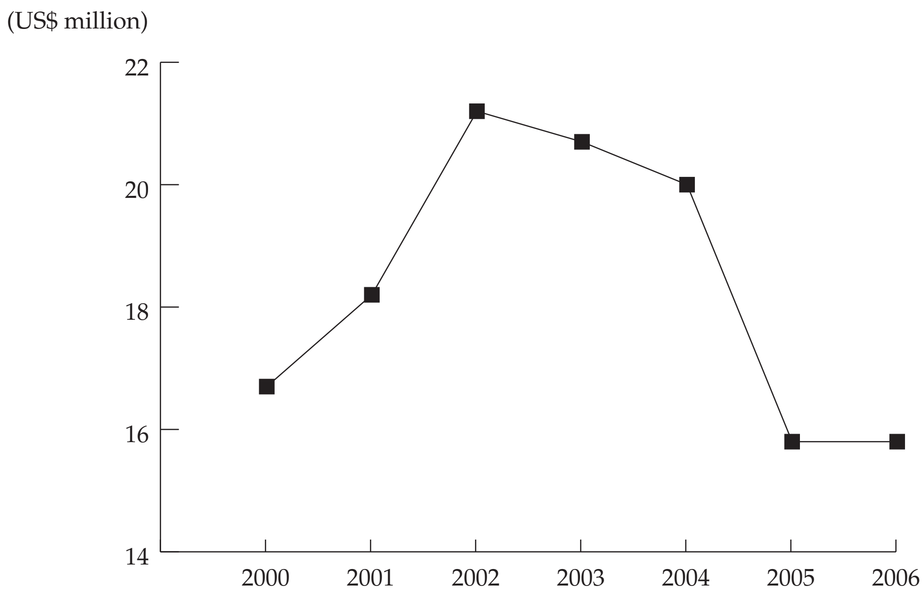
In 2006, there were 607 films released in the US. Between 2000 and 2006, the number of films released in the US has varied just slightly in the range of 466 to 609. Out of which, new release films have contributed more than 98.7% of the total film released in 2006. In fact, the contribution from new release films among all films released has increased from 95.7% in 2001 to 98.7% in 2006. In 2006, there were 599 new release films in the US. The average box office of the new release films has varied from 2001 and 2006 within the range of US$15.8 million to US$21.2 million.

Films released in the US



Source: Motion Picture Association

Average box office for the new release films in the US

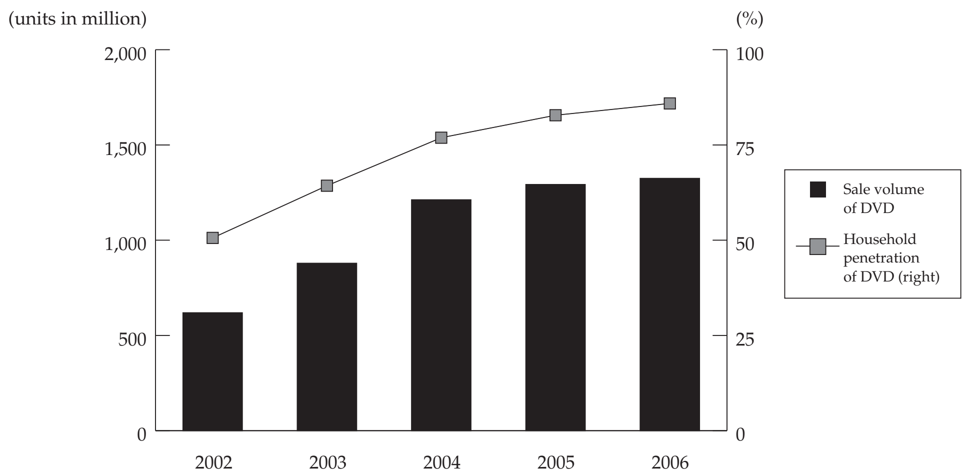


Source: Motion Picture Association

Digital video disc (DVD)

The DVD penetration in the US TV households has surged in the recent years. The penetration rate has increased from 50.6% in 2002 to 85.9% in 2006. In line with the growth in penetration rate, the sales volume of DVD has increased significantly. The sales volume increased from 619 million units in 2002 to 1,323 million units in 2006, representing a compound annual growth rate of 16.4%.

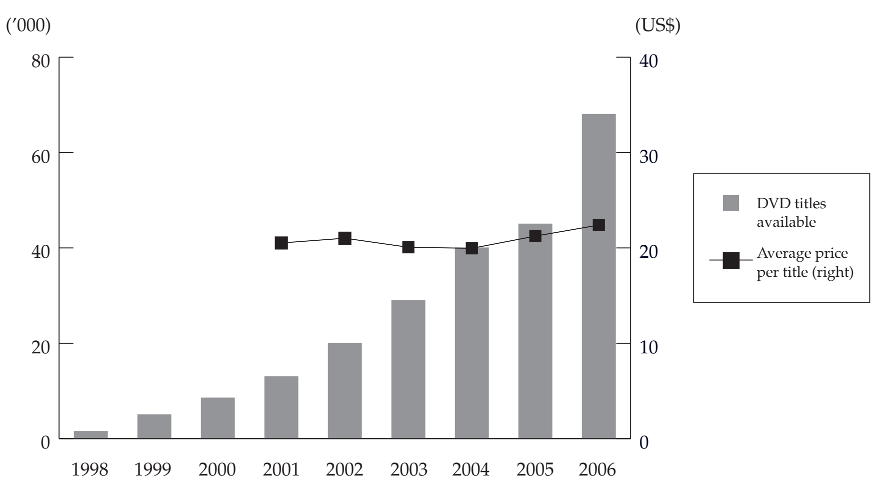
Sales volume and household penetration of DVD



Source: Motion Picture Association

With the emergence of the DVD households in the US, the number of DVD titles available has also been surging. The DVD titles available increased from 1,500 in 1998 to 68,000 in 2006, representing a compound annual growth rate of 61%. The average price per DVD title showed a mild increase from US$20.52 in 2001 to US$22.4 in 2006, representing a compound annual growth rate of 1.8%, over the five year period.

DVD titles available and average price



Source: Motion Picture Association

The casino located at the Hotel Property is operated by PAGCOR. MSPI, a member of the Acquired Group, is the lessor of the casino premises and does not participate in the operations of the casino. Pursuant to the lease agreement between MSPI as lessor and PAGCOR as lessee ("PAGCOR Lease"), the rental in respect of the casino premises is the higher of a base amount or 36.1% of the gross win (after deduction of local gaming tax) gained from the domestic peso gaming area of the casino.

A. REGULATORY BACKGROUND

This section briefly outlines the principal laws and regulations in the Philippines which govern gambling activities or are relevant to the prevention of money laundering, in the context of gambling casinos operations in the Philippines.

Gambling operations and PAGCOR

The PAGCOR Charter created PAGCOR and granted it with the legislative franchise and the dual role of operating and regulating gambling casinos in the Philippines. As stated in the PAGCOR Charter, the policy behind the creation of PAGCOR is to centralize and integrate the right and authority to operate and conduct games of chance into one corporate entity to be controlled, administered and supervised by the Philippine Government. The PAGCOR Charter authorises PAGCOR, subject to certain conditions, to enter into operating or management contracts with any registered and accredited company or qualified person possessing the knowledge, skill, expertise and facilities to ensure the efficient operation of gambling casinos. PAGCOR is a government-owned and controlled corporation ("GOCC") and is an attached agency of the Office of the President of the Philippines.

The PAGCOR Charter is currently due to expire on 10 July 2008. On 18 January 2005, the House of Representative of the Congress of the Philippines passed the House Bill No. 3409 to extend the PAGCOR Charter for 25 years renewable for another 25 years. On 7 February 2007, the Senate of the Philippines approved the bill on third reading. The bill will then be presented to the Bicameral Conference Committee to reconcile conflicting provisions of the version of the bill of the Senate and of the House of Representatives. Thereafter, the reconciled version of the bill will then be transmitted to the President of the Philippines for approval. The House Bill No. 3409 was transmitted and received by the Office of President of the Philippines on 4 June 2007. The President of the Philippines can either approve the bill and sign it into law or veto the bill and send it back to the Senate of the Philippines with a veto message. The bill becomes a law if, within 30 days after receiving it, the President of the Philippines fails to sign or veto the bill. The bill, even if vetoed by the President of the Philippines, will become a law if the Congress overrides the veto by a 2/3 vote of all its members.

PAGCOR is governed by a board of directors composed of five members, all of whom are appointed by the President of the Philippines. As an attached agency of the Office of the President, it is subject to the power of supervision by the President of the Philippines, and is otherwise subject to all relevant government departmental regulations and internal control checks and balances to which other GOCCs are subject. As a GOCC, it is covered by the Government Procurement Reform Act. Further, under the PAGCOR Charter, PAGCOR is required to have an independent auditor to be appointed by the COA or any government agency that the Office of the President of the Philippine may designate.

As a holder of a congressional franchise, PAGCOR's powers and privileges are subject to amendment, alteration, or repeal by the Philippine Congress, through legislation. The Philippine Congress has the power to conduct inquiries-in-aid-of-legislation as a means of overseeing activities that affect public welfare or invested with public interest, such as gambling. Any act of PAGCOR that is beyond the scope of its powers as defined by the PAGCOR Charter may be invalidated by the courts of the Philippines.

Under the PAGCOR Charter, all persons engaged in gambling activities together with their allied businesses must register and affiliate with PAGCOR. PAGCOR will issue a certificate of affiliation in favour of the gambling entity, upon compliance with the rules and regulations promulgated by PAGCOR in this regard.

PAGCOR also has the power to:

– enact and promulgate such rules and regulations as may be necessary to govern the gambling activities of the affiliated companies, including sanctions for violations thereof, and if public interest so warrants as determined by PAGCOR, it may suspend or terminate the operation or close the facilities of the affiliated or unaffiliated companies concerned; and

– call upon the law enforcement agencies of the government to enforce such closure orders.

Other laws and regulations governing gambling activities

In addition to the judicial powers of the Philippines Supreme Court and the PAGCOR Charter, gambling activities are also subject to other laws and regulations in the Philippines, including:–

• *Negative List of the Philippines Foreign Investments Act ("FIA Negative List")*

Under the FIA Negative List, foreign equity in an entity which is engaged in gambling activities cannot exceed 40% of the outstanding stock of that entity. Generally, the enforcement and monitoring of the FIA Negative List is undertaken by the Philippine Securities and Exchange Commission ("SEC"). Under the Philippines Foreign Investments Act, a corporation whose foreign equity exceeds the maximum amount imposed by law shall be subject to a fine in an amount not exceeding half of 1% of its total paid-in capital but not more than PhP5,000,000. The president and/or officials responsible for the violation will be subject to a fine of not exceeding PhP200,000. However, PAGCOR is authorised under the PAGCOR Charter to exercise all the powers, authority and the responsibilities vested in the SEC over PAGCOR's affiliated entities (persons or entities primarily engaged in gambling activities, together with their allied business, with contract or franchise from PAGCOR and to whom certificates of affiliation were issued by PAGCOR) , including but not limited to amendments to the articles of incorporation and other matters concerning the operation of the said affiliated entities.

- *Philippine Anti-Dummy Law*

  The Anti-Dummy Law prohibits and penalizes the circumvention of laws that prohibit foreign equity, or limit foreign equity to a certain percentage, in certain economic activities, including those set out in the FIA Negative List. A person who is found liable for breach may be penalized by imprisonment for not less than 5 nor more than 15 years and by a fine of not less than the value of the right, franchise or privilege but in no case less than PhP5,000.

- *Law Providing Stiffer Penalties on Illegal Gambling, Presidential Decree 1602 ("PD1602") and local ordinances*

  PD 1602, which superseded certain provisions of the Revised Penal Code of the Philippines relating to illegal gambling, defines and penalizes illegal gambling. Powers of enforcement of PD 1602 is vested in law enforcement agencies. PD 1602 imposes a penalty on persons engaged in illegal gambling, including the maintainer, conductor, banker, player, promoter, and the referee, umpire, judge or coach in case of game fixing, point shaving, and machination. The penalty is 8 to 10 years imprisonment if the one involved is a government official. Local governments are also empowered under the Local Government Code (Republic Act 7160) to pass and enforce ordinances and national laws that penalise unauthorised gambling activities within their jurisdictions.

Anti-money laundering

The Anti-money Laundering Act (Republic Act no. 9160 as amended) ("AMLA") penalizes money-laundering, which is defined as a crime whereby the proceeds of an unlawful activity are transacted, thereby making the proceeds appear to have originated from legitimate sources. Gambling activities can be a form of money laundering when (i) the amount to transacting, or attempting to transact properties, with knowledge that such properties represent, involve, or relate to the proceeds of unlawful activities; and (ii) the operator of the gambling activities performs, or fails to perform any act, which results in facilitating the money laundering offence, with knowledge that the properties involve the proceeds of any unlawful activities. "Unlawful activity" specifically refers to any of the following acts as defined and punished under Philippine law: (a) kidnapping for ransom; (b) violations of the Philippine Dangerous Drugs Act e.g. manufacturing and sale of illegal drugs; (c) violations of the Philippine Anti-Graft and Corrupt Practices Act; (d) plunder or the accumulation of ill-gotten wealth by public officers; (e) robbery and extortion; (f) jueteng and masiao punished as illegal gambling; (g) piracy; (h) qualified theft; (i) swindling; (j) smuggling; (k) violations of the Philippine Electronic Commerce Act; (l) hijacking, destructive arson and murder, including those perpetrated by terrorists against non-combatant persons and similar targets; (m) violations of the Philippine Securities Regulation Code, e.g. securities fraud; and (n) felonies or offences of a similar nature that are punishable under the penal laws of other countries.

Under the AMLA, "covered institutions" must report to the AML Council (as defined below) any "covered transactions" or "suspicious transactions".

"Covered institutions" are defined as: (a) banks and all other entities regulated by the Bangko Sentral ng Pilipinas (BSP); (b) insurance companies and all other institutions regulated by the Insurance Commission; and (c) securities dealers, brokers, salesmen, investment houses and other similar entities managing securities or rendering services as investment agent, advisor, or consultant, mutual funds, close and investment companies, common trust funds, pre-need companies and other similar entities, foreign exchange corporations, money changers, money payment, remittance, and transfer companies and other similar entities, and other entities administering or otherwise dealing in currency, commodities or financial derivatives based thereon valuable objects, cash substitutes and other similar monetary instruments or property supervised or regulated by Securities and Exchange Commission. A "covered transaction" is a transaction in cash or other equivalent monetary instrument involving a total amount in excess of P500,000.00 within one banking day. On the other hand, a "suspicious transaction" is a transaction with a covered institution, regardless of the amounts involved, where any of the following circumstances exists:- (a) there is no underlying legal or trade obligation, purpose or economic justification; (b) the client is not properly identified; (c) the amount involved is not commensurate with the business or financial capacity of the client; (d) taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the AMLA; (e) any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the covered institution; (f) the transaction is in any way related to an unlawful activity or offence under the AMLA that is about to be, is being or has been committed; or (g) any transaction that is similar or analogous to any of the foregoings.

A Congressional Oversight Committee was created to promulgate rules and oversee the implementation of the AMLA. The law also creates an Anti-Money Laundering Council ("AML Council") with powers to initiate investigations of money laundering activities and to cause the filing of complaints with the Department of Justice or the Ombudsman for the prosecution of money laundering offences, and to enlist the assistance of any branch, department, bureau, office, agency or instrumentality of the government, including government-owned and controlled corporations, including undertaking any and all anti-money laundering operations which may include the use of its personnel, facilities and resources for the more resolute prevention, detection and investigation of money laundering offenses and prosecution of offenders.

Thus, to effectively implement the AMLA, the AML Council can legally enjoin the assistance of PAGCOR in identifying and investigating activities in the casino that may be considered as money laundering, in addition to the law enforcement powers that are already being performed by the National Bureau of Investigation and the Philippines National Police.

Those who are convicted of money-laundering offences may be subject to terms of imprisonment of 7-14 years and a fine of not less than PhP3,000,000.00 and not more than twice the value of the monetary instrument or property involved in the offence. Those found guilty of transacting, or attempting to transact a monetary instrument or property, with knowledge that the instrument or property represents, involves, or relates to the proceeds of unlawful activity shall be punished by 7-14 years imprisonment and a fine of not less than PhP3,000,000.00 and not more than twice the value of the monetary instrument or property involved in the offence. Those who are convicted for failing to make a disclosure with the AML Council in respect of a particular monetary instrument or property, with knowledge that such disclosure is required under the AMLA, will be subject to an imprisonment from 6 months up to 4 years or a fine of PhP100,000.00 to PhP500,000.00, or both.

In respect of international conventions and treaties on money-laundering, the Philippines signed the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances on 20 December 1988, which came into force on 13 August 1996. The Philippines is also a member of the United Nations Convention against Transactional Organised Crime, which was adopted through resolution of the Philippine Senate on 24 October 2001.

The Philippine Constitution provides that "generally accepted principles of international law" are part of the "law of the land". In this regard, the Supreme Court of the Philippines has held that treaties or conventions to which the Philippines is a signatory have the force of law. Even treaties or conventions not signed by the Philippines have the force of law, in so far as they embody customary international law or generally accepted principles of international law. However, in case of a conflict between international law and municipal or local law (e.g., the AMLA), based on decided cases of the Philippine Supreme Court, the provisions of the AMLA will prevail over the provisions of treaties or conventions that seek to define the crime of money laundering, or seek to penalise specific acts of money laundering.

The Financial Action Task Force ("FATF") is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF has published Forty Recommendations in order to meet this objective. These Recommendations are the international standard for effective anti-money laundering measures. FATF regularly reviews its members to check their compliance with these Forty Recommendations (as well as the Nine Special Recommendations on Terrorist Financing) and to suggest areas for improvement through periodic mutual evaluations. The FATF also identifies emerging trends and methods used to launder money and suggests measures to combat them. The FATF periodically publishes reports on non-cooperative countries and territories ("NCCTs"), which include 25 criteria identifying detrimental rules and practices that impede international co-operation in the fight against money laundering. The Philippines is a member of the Asia/Pacific Group on Money Laundering which is an associated member of FATF and is not on the list of NCCTs.

B. THE OPERATIONS OF THE PAGCOR CASINO IN THE HOTEL

The following section is to assist the Shareholders in understanding how PAGCOR manages, operates and controls the gambling operations in the Philippines:

(i) The PAGCOR Casino

The PAGCOR Casino (the "Casino") is located in the Hotel and covers an area of approximately 17,650 sq.m. It is capable of accommodating approximately 125 table games and 630 slot machines. The Casino for local gaming consists of two levels of gaming halls plus an area in the basement and one floor plus a basement area with VIP tables. The main gaming hall on the ground floor is designed to cater for mass-market players, whereas the third floor and basement rooms with VIP tables cater for "high rollers".

As at 31 December 2006, the Casino operated 77 gaming tables offering Baccarat, Big & Small, Blackjack, Roulette, craps, Super 6 and other games which are considered popular in the Philippines. Baccarat is the most popular game especially for high rollers. There are also 622 slot machines which will be upgraded and/or replaced periodically to meet market demand.

The Philippines gaming industry principally relies on domestic players. However, efforts are being made to attract other customers such as tourists, travelers and overseas high rollers. For the year ended 31 December 2006, approximately 85% of the net winnings of the Casino was generated from domestic players.

The domestic customers patronizing the Casino can be divided into two main categories, namely mass-market customers and high rollers. In the Casino, mass-market customers, who are essentially walk-in customers, normally patronize the ground floor "open" area of the gaming hall. The gaming hall at the ground floor is complemented by other entertainment and leisure facilities. The Casino aims to appeal to this market sector by offering comfortable and spacious gaming areas and high quality food/beverage and dining services in the Hotel within the same building complex. However, the more profitable sector of PAGCOR's operation at the Casino is the high roller program.

Domestic high rollers are an important source of income to the Casino, contributing over 60% of net winnings for the year ended 31 December 2006. The Casino operates a non-negotiable chips program (the "NNC Program") which is the major form of marketing incentive for the high rollers. Under the NNC Program, a high roller uses non-negotiable chips (the "NN Chips"), which are purchased solely for wagering at the gaming tables but cannot be encashed. The high roller is entitled to a commission of 1.2% upon purchasing NN Chips by cash or exchanging cashable chips for NN Chips. In order to benefit from the commission, the high roller must use the designated counters and purchase or exchange a minimum of Peso 500,000 worth of NN Chips at any given time. The 1.2% commission comprises a 1% cashable chip bonus on the total amount of purchase of NN Chips and 0.2% cash coupons which can be redeemed only for the use of other facilities in the Hotel including, among other things, food and beverage. A high roller who bets NN Chips at the table wins cashable chips, whereas NN Chips would be yielded back to the casino at the table on a bet lost at the gaming tables wagered with NN Chips, and the NN Chips lost by the players at the gaming tables would eventually be yielded back to the NN Chip designated counters and/or treasury periodically in normal casino operation.

(ii) Organisation and management of PAGCOR at the Casino

The organisation structure of PAGCOR in the Casino is divided into five principal divisions which cover the administrative function, operational function, treasury function, security function and surveillance function.

The administrative division provides general support services to the casino operation including human resources management and development, customer services, sales and marketing, entertainment, payroll and employee benefits, health services, repairs and maintenance of gaming area and casino facilities, procurement and property management, development of software programs to improve and streamline operations, budget management, financial reporting and other miscellaneous services.

The operational division provides gaming services to customers and directs, controls, monitors and evaluates all activities relating to the table games and slot machine operations.

The treasury division ensures that the total branch capital consisting of cash, chips and tokens for slot machines are kept intact and that the contents of drop boxes, cash stackers and cash boxes are properly accounted for and verified.

The security division protects the assets, employees, customers and properties of the Casino. It also ensures proper compliance of the house rules and regulations, and corporate policies.

The surveillance division ensures the integrity of casino operations through the 24-hour operation by surveillance personnel monitoring operation visually on the casino floors or by closed circuit television equipment focusing on critical and sensitive areas in the Casino including, among other things, gaming tables, slot machines, money/tokens counting rooms, vaults, cage, entrances and exits and employees' locker rooms.

The management team of PAGCOR assigned to the Casino consists of a group of experienced personnel with substantial experience and knowledge of casino operations gained principally from their past experience as employees/personnel in other casinos operated by PAGCOR. As at 31 December 2006, PAGCOR had over 1,000 employees. The management team of PAGCOR in the Casino is headed by a senior branch manager. Job descriptions and a clear chain of responsibility are established in written form for the employees in the Casino.

Recruitment is handled by the head office of PAGCOR. Background checks including obtaining police clearance are performed on all new potential employees. All potential employees are required to pass a written examination to ensure they are qualified for the relevant position. They are also required to go through mental and medical evaluation. Training is provided to all newly recruited employees. Ongoing periodic evaluation is performed regularly and employees, including senior management, are rotated regularly and/or moved to other casinos operated by PAGCOR for training and security purposes and for job integrity assurance.

The responsibility for accounting falls under the administrative division. The accounting department is responsible for accounting and financial reporting functions. It prepares daily, weekly, monthly and annual reports for computation of the net winnings of the Casino. COA has placed permanent staff in the Casino to audit the revenue and expenditures on an ongoing basis. COA will from time to time also make recommendations to the management of PAGCOR as to overall financial and reporting aspects as and when COA deems necessary in the context of PAGCOR being a state-owned corporation. The accounting department is responsible for coordinating with COA to perform the audit of the accounting and financial records of PAGCOR in the Casino.

(iii) Daily operation of table games

A daily operation transaction cycle in the gaming area starts with the cage providing a specified amount of chips to each gaming table at the time it is first set up. Such table capital, which is the chip equivalent of money, is used as the basis of the gaming operations.

As table games proceed, the amount of table capital may be diminished by payment of winning wagers to players. In order to replenish table capital, a table refill procedure is carried out whereby fresh chips are transferred from the cage to the gaming tables. On the other hand, the gaming tables will accumulate excess chips as wagers lost by players during the course of operations. At a change of work shift and at regular intervals during each 24-hour period, the chips at the table trays are counted and all chips in excess of the original amount of table capital are dropped into the drop box for collection and yield to the treasury. In the event that the number of excess chips is equal to or greater than an amount specified by the management of PAGCOR, the chips are forwarded to the cage by way of the chip credit procedure.

The win/loss status of the gaming tables is monitored by the table refills, excess chips and the chip credit. Such estimation will be reconciled with the official win/loss status at the time the drop box count is performed in the money counting room, where the actual amounts of the contents of the drop box are verified.

(iv) Internal controls

A) Gaming operation

PAGCOR has put in place internal control measures which are to ensure that the daily operations in the Casino are in compliance with the PAGCOR Charter, the AMLA and other relevant laws and regulations.

Internal control of the gaming operations in the Casino covers the three areas of paper controls, physical safeguards and human controls.

Paper controls:

Paper controls of the Casino include forms and other documentation originated, checked, and followed through the process or system with appropriate approval steps or check points along the way. All cash and chips movement requires proper documentation and approval from different levels of the management. Appropriate kinds of record sheets are used by various departments for verification purposes in order to ensure that cash, chips and tokens are properly accounted for.

Physical safeguards:

The Casino is equipped with electronic surveillance and monitoring equipment which enable staff to visually monitor and record activities on the gaming tables, slot machines, money/tokens counting rooms, card shuffling rooms, vaults, cage, main treasury, entrances and exits and employees' locker rooms. This system serves to monitor, record and safeguard the integrity of gaming and non-gaming activities. Video evidence is provided for cases under investigation when necessary.

Drop boxes are used to accumulate and safeguard cash before the initial count of cash and the assumption of custody by the casino cashier. Controls including continued supervision and observation of personnel prior to the placement of cash in the drop boxes at the gaming tables are implemented.

Human controls:

The Casino implements continued supervision of transactions involving the purchase and redemption of chips, gaming transactions and preparation of financial and different operating reports. Duties of each division and personnel are clearly segregated. Checks and balances among each division and among individual staff and members in each division are in place.

Set out below are some of the internal control techniques adopted by the management of PAGCOR at the Casino in respect of table games:

(i) Chip refills and credits

- Only requests for transfers to or from table capital that meet the management's established criteria are approved.

- Transfers to or from table capital are accurately and promptly recorded.

- Prenumbered slips are used for refills or credits.

  - The slips used are in numerical sequence and checked by the accounting and audit division and missing numbers are investigated.

  - The slips are stamped with the date and the time.

  - All void/cancelled slips are clearly marked "void/cancelled" across the face of the slips and are signed by the cashier and the dealers concerned.

  - The refill or credit amount is transferred only when accompanied by a slip.

  - The chips and slips are taken to or from the cage by personnel of the security division.

  - The slip is signed by the cashier, the dealer and the pit supervisor after the amount of the refill or credit is reconciled to the amount on the slip.

(ii) Table capital

- Gaming chips are removed from the table capital only:

  – in exchange for credit slips from the cage; or

  – in payment of winning wagers.

- Table capital not in use is under adequate physical control.

- Chips are counted and stored in the drop box attached to the gaming table or stored in the cage.

(iii) Count procedures

- Physical safeguards present.

  – Surveillance monitoring of the drop and count processes.

  – Security involvement with the drop process.

  – Drop boxes and count rooms are controlled and restricted to appropriate personnel.

- The contents of drop boxes are counted daily.

  – Drop boxes are adequately secured until the contents are counted.

  – The contents of each drop box are counted by count teams consisting of employees with no incompatible functions.

  – Count teams are adequately supervised.

- Counts are recorded promptly and accurately.

  – Counts are recorded on count sheets posted to the master game report, which is sent to the accounting department.

  – Members of the count team sign the master game report.

- Receipts are transferred to the cage immediately following the count and reconciled to the recorded count.

B) Anti-money laundering policy

The assumed primary aim of the money launderer bringing questionable funds into a casino is to exchange the funds for chips in the casino, give the appearance of winnings or proceeds from gambling, and then cash out the chips in exchange for a cheque in the guise of winnings from the casino. In the event that the person in question is under future investigation, he would thus claim the cheque was issued by the casino as gambling winnings.

Set out below is the summary of procedures implemented by the PAGCOR management in the Casino to prevent money laundering activities:

Customer due diligence

- Full player identification is required and the Casino does not deal with anonymous accounts in case of VIP promoters or junket tour operators and high rollers who play at tables requiring minimum Peso 15,000 bets.

- The Casino is not engaged in non-face to face transactions for example through internet gaming.

Suspicious transactions

- Transactions involving Peso 500,000 or more are notified by supervisors of the cage to senior management.

- Even money bets by the same player, or a group identified as one player for betting purposes (so that a wager on the table is not made with two bets nullifying the financial consequences of each other) are not permitted.

- The surveillance department constantly monitors and reviews plays throughout the Casino and will alert senior management of all abnormal or unusual and/or suspicious activities from players and staff members.

- All suspicious transactions are brought to the attention of senior management who in turn report to the board of PAGCOR. The board of PAGCOR would independently notify the relevant authorities within the Philippines Government, including the AML Council.

- Table gaming, treasury (responsible for the cage) and surveillance operate as independent departments, each with separate responsibilities for monitoring, notification and recording of suspicious transactions for the purpose of anti-money laundering.

Record keeping

- All cage activities are recorded and filmed, including all exchanges by players of large notes into small notes, and purchasing and cashing chips.

- All suspicious transactions are recorded.

- All non-cash (e.g. check(s) or bank transfers) purchases or exchanges into chips are recorded.

Others

- PAGCOR settles all encashment of Peso cashable gaming chips in cash and not by cheque and thus eliminating the main facet of money laundering activities. Players with large amount of cash may, if they wish for security reasons, deposit their cash with a branch of the Landbank, a government-owned bank, in which event, normal legal reporting procedures would apply in the context of the anti-money laundering laws as enforced in the Philippines.

- Checks will only be issued by PAGCOR in exchange for chips if the winning amount can be verified by senior management of the Casino.

The Company has obtained the following confirmation with respect to the operations in the Casino managed by PAGCOR:

(i) confirmation from PAGCOR that they are in full compliance with all applicable laws and regulations for gaming operation at the Casino and all their obligations under the PAGCOR Lease. In particular, they have fully complied with all the terms of the PAGCOR Charter and their obligations under the AMLA in respect of all their activities conducted at the Casino;

(ii) confirmation from the Office of the Government Corporate Counsel, Department of Justice, Republic of the Philippines ("OGCC") that on the basis of their records as statutory counsel for PAGCOR, PAGCOR is in full compliance with the provisions of the PAGCOR Charter with respect to its gaming activities conducted at the Casino and has not violated the provisions of the AMLA. OGCC is a division of the Department of Justice of the Philippines Government specifically charges with the duty of looking after the legal affairs of all GOCC of the Philippines Government. PAGCOR is a GOCC; and

(iii) confirmation from the COA that PAGCOR has been in full compliance with the PAGCOR Charter in respect of all its gaming activities conducted at the Casino and that COA has no information or record of any infraction on the part of PAGCOR with respect to the AMLA. PAGCOR as a GOCC is subject to all relevant Philippines Government internal control checks and balances, including internal audit for regulatory compliance by COA.

Copies of the above confirmation are contained in part C to this section.

(v) Internal control measures implemented by MSPI

MSPI receives rental income from PAGCOR at a rate which is the higher of a relatively small base rental amount or, which is likely to be more relevant, 36.1% of the gross win (after deduction of local gaming tax) gained from the local or domestic peso gaming area of the Casino. It is therefore critical for MSPI to monitor the amount of such gross win. In order to verify the rental paid by PAGCOR, MSPI has the contractual right to inspect the accounts and records kept by PAGCOR and to appoint a representative to monitor and verify the accounting and treasury operations of the Casino. MSPI has reviewed the accounting and treasury operations of the Casino and is satisfied that the internal controls implemented by PAGCOR provide a reasonable basis for calculating the net win of the Casino, and therefore is able to verify the appropriate or proper rental amount due and payable by PAGCOR to it. This position is kept constantly under review.

The accounting department of MSPI comprises 3 staff who are knowledgeable of casino operations and administration. They are responsible for carrying out the procedures established to verify the rental payable by PAGCOR. On a daily basis, PAGCOR provides to MSPI reports containing information regarding (i) the calculation of commission of the NNC Program; (ii) the movement of table capital; and (iii) the calculation of net winnings of table games and slot machines. MSPI reviews and analyzes these reports. If it identifies any inconsistency which may affect the net winnings of the Casino, it will discuss the relevant matters with the management of PAGCOR and work out any adjustment, whenever necessary. As at the Latest Practicable Date, MSPI was not aware of any material deviation in the calculation of the net winnings.

C. Set out below is the text of (i) the letter dated 24 August 2006 from Office of the Auditor, COA to MSPI; (ii) the letter dated 28 August 2006 from PAGCOR to MSPI; and (iii) the letter dated 6 October 2006 from the OGCC to MSPI.

(i) Letter dated 24 August 2006 from Office of the Auditor, COA to MSPI

24 August 2006

Marina Square Properties, Inc.
Hyatt Hotel & Casino Manila
M. H. del Pilar Street
Malate, Manila

Thru: **Mr. Rafael A. Francisco**
President and Chief Operating Officer

Re: **Casino Filipino at the Hyatt Hotel and Casino, Manila**

Dear Sirs,

As you are aware, the Philippine Amusement and Gaming Corporation (PAGCOR) is a government-owned and controlled corporation (GOCC) and is subject to all relevant laws applicable to it.

We confirm that PAGCOR has been in full compliance of P.D. No. 1869 in respect of all its gaming activities conducted at the Casino Filipino Branch — Hyatt Hotel and Casino Manila.

As far as Casino Filipino Hyatt Manila is concerned, we have no information or record of any infraction on the part of PAGCOR with respect to R.A. 9160, the Anti-Money Laundering Law.

Very truly yours,
LUIS E. GIMENEZ
Supervising Auditor

(ii) Letter dated 28 August 2006 from PAGCOR to MSPI

28 August 2006

Marina Square Properties, Inc.
Hyatt Hotel and Casino Manila
1588 M.H. del Pilar cor. Pedro Gil Streets
Malate, Manila

Dear Sirs,

Agreement for lease between Marina Square Properties, Inc. ("MSPI") and Philippine Amusement and Gaming Corporation ("PAGCOR") dated 14th March, 2003 (the "PAGCOR Lease")

We refer to the PAGCOR Lease as above-captioned.

At your request, we provide confirmation below regarding our compliance with all applicable laws of the Republic of the Philippines ("the Republic") and some of our internal control measures implemented with respect to our operation of our casino ("Casino") at the location of Hyatt Hotel and Casino Manila being the subject premises of the PAGCOR Lease.

Compliance with the Lease

The PAGCOR Lease provides, amongst other things, that PAGCOR shall manage and operate the Casino (a) as to meet or exceed the quality standards of all other comparable casinos under the management and operation of PAGCOR and premier international casinos; (b) so as to maximize Gaming Gross Revenues; and (c) in compliance with all applicable Requirements of Law and Lease Regulations (as defined therein). In this context, "Requirements of Law" is defined to mean, "as to any Person, any law, statute, treaty, rule, regulation, or a final determination of a competent court or other Governmental Authority or stock exchange or any other regulatory authority with competent jurisdiction in a country, in each case applicable or binding upon such Person or any of its property or to which such Person or any of its property is subject or which is required to be complied with by such Person in connection with or arising out of the performance of this Agreement (or a transaction referred to herein)."

We hereby confirm that we have at all times complied with all the terms of the PAGCOR Lease as from its commencement date, including the specific provisions of the PAGCOR Lease as set out above.

Casino operations

In accordance with laws and regulations of the Republic, we have sole control over the operation of the Casino and are in full compliance with all applicable laws and regulations for gaming operation at the Casino and all our obligations under the PAGCOR Lease. In particular, we have fully complied with all the terms of Presidential Decree No. 1869 (being PAGCOR's exclusive franchise for, inter alia, casino gaming operation in the Republic) and our obligations under the Philippines Republic Act No. 9160 Anti-Money Laundering law in respect of all our activities conducted at the Casino.

At your request, we summarise below the procedures implemented by us at the Casino to prevent and eliminate money laundering activities, as may conceivably be carried out by any potential money launderer bringing questionable cash to the Casino to exchange for chips giving the appearance of gambling and then to cash out the chips in exchange for check(s) or other form of legitimate proceeds from gaming from the Casino, to wit:–

1) we require full player identification from all VIP promoters or junket tour operators and also all VIP players (i.e. those who play at tables requiring minimum Peso 15,000 bets) and in this respect, eventually when the necessary soft-ware in our back office is upgraded, we intend to considerably lower the threshold of Peso 15,000 for full player identification to include players of much smaller bets);

2) all cage activities (including all exchanges by players of large notes into small notes, purchase and cashing) are recorded and filmed, and transactions involving Peso 500,000 or more are notified supervisors of the relevant cage to senior management of the Casino;

3) all non-cash (e.g. check(s) or bank transfers) purchases or exchanges into chips are recorded;

4) even money bets by the same player, or a group identified as one player for betting purposes, are not permitted for table games where even money betting could otherwise be placed so that chips could be allowed to end up with a player or players giving the appearance of winnings at gaming;

5) checks will only be issued by PAGCOR in exchange for chips if the winning amount can be verified by senior management of the Casino;

6) surveillance department constantly monitors and reviews plays throughout the Casino and will alert senior management on all abnormal or unusual and/or suspicious activities from players and staff members;

7) table gaming, treasury (responsible for the cage) and surveillance operate as independent departments, each of them having separate responsibilities for monitoring, notification and recording of transactions which may be deemed suspicious for the prevention and elimination of any person or persons or group of persons within PAGCOR or otherwise conducting and/or assisting malpractices and/or the conversion of illicit funds within the Casino; and

8) all suspicious transactions are recorded and notified by the department making the observation and are notified to senior management at the Casino, who in turn report to the board of PAGCOR. PAGCOR's board then notifies the appropriate authorities within the Philippines Government, including the Anti-Money Laundering Council (established under the Anti-Money Laundering Law).

The Anti-Money Laundering Law clearly declares that the policy of the Republic, amongst other things, is to ensure that the Republic shall not be used as a money laundering site for the proceeds of any unlawful activity, and consistent with its foreign policy. The Republic extends cooperation in transnational investigations and prosecutions of persons involved in money laundering activities wherever committed and criminalises money laundering in the Republic. As a Philippine Government wholly-owned body directly reporting to the Office of the President, we support the Anti-Money Laundering Law and we comply with our obligations under that law.

You may if you deem necessary provide a copy of this letter to International Entertainment Corporation, its professional advisers and The Stock Exchange of Hong Kong Limited or other Hong Kong regulators.

Yours truly,
RAFAEL BUTCH A. FRANCISCO
President & Chief Operating Officer

(iii) Letter dated 6 October 2006 from the OGCC to MSPI

TO: MARINA SQUARE PROPERTIES, INC.
Pedro Gil cor. M. H. Del Pilar St.
Malate, Manila

CERTIFICATION

This is to certify and confirm that the Philippine Amusement and Gaming Corporation (PAGCOR) is a government-owned and controlled corporation organized and existing under Presidential Decree (P.D.) No. 1869, as amended, mandated to implement and pursue the State's policy and objectives on gaming activities and having the powers and functions provided under Section 3 of said P.D. 1869.

This is to certify further that PAGCOR's corporate existence is for a period of twenty-five years or until 2008, renewable for another twenty-five years.

This is to certify, furthermore, that on the basis of our records as statutory counsel for PAGCOR, PAGCOR is in full compliance with the provisions of P.D. 1869, as amended, with respect to its gaming activities conducted at the Casino Filipino located at the Hyatt Hotel and Casino Manila and has not violated the provisions of Republic Act No. 9160, otherwise known as the Anti-Money Laundering Law.

Given this 6th day of October 2006, in Quezon City, Metro Manila.

AGNES VST DEVANADERA
Government Corporate Counsel

BUSINESS OBJECTIVE

The primary business objective of the Enlarged Group is to become a leading player in the leisure and entertainment industries in order to strive for high returns on invested capital and maximize value for its investors.

The Directors believe that with its distinctive food and beverage concepts, strategic pricing, advanced in-room technology, loyalty marketing program, club-in-hotel concept and having the largest hotel casino facilities in Metro Manila, the Hotel can capture a significant market share and eventually become a market leader in Metro Manila. Also, the Hotel will aim to maintain its lead in average daily room rate as putting a premium on the new and innovative facilities of the Hotel will continue to be the key pricing strategy.

By producing and distributing a certain number of theatrical feature films annually, at reasonable budgeted levels with significant recognizable talent, the Enlarged Group will seek to establish itself as a credible leading independent production house, while maintaining overhead at a manageable level and maximizing the commercial viability of its productions.

In order to pursue the business objective, the Company has formulated the following business strategies: (i) leveraging on the business of the Hotel Group on the brand image of Hyatt®; (ii) continuous improvement in the quality of services and products to its customers; (iii) maintenance and expansion of the customer base; and (iv) seeking strategic affiliation with major U.S. studios and leading international distributors.

BUSINESS STRATEGIES

Leveraging on business of the Hotel Group on the brand image of Hyatt®

Having a quality brand name is one of the most important factors in determining the success of a hotel. Hyatt® is one of the world's most recognized hotel brands. Leveraging on the quality brand name Hyatt®, customers will have the assurance that the standards of the brand will be maintained and they can expect quality service at the Hotel.

As PAGCOR maintains its headquarters/executive offices and operates one of its Casino Filipino within the Hotel Property, players at this casino can be assured of quality service under PAGCOR brand. Additionally, players at the casino within the Hotel Property may also enjoy the facilities of the Acquired Group's high class hotel under the Hyatt® brand adjoining the casino. In turn, the Hotel can also leverage on the patronage and the constant flow of gaming customers at the adjoining premises.

Continuous improvement in the quality of services and products to its customers

The Acquired Group will keep abreast of the market development and trends in order to ensure the availability of the new services and products to its customers. The Acquired Group will also strive to expand its existing range of services and products by seeking and selecting new suppliers, both domestic and overseas, innovating its services and offers, updating its facilities and technologies, developing new revenue-generating areas, and attracting world-famous chefs, prestigious art institutions, premium retails and first-class leisure facilities. By reinforcing the Hyatt® brand standards, the Acquired Group aims to achieve customer satisfaction at all times during their stay in the Hotel.

Maintenance and expansion of the customer base

The Acquired Group will maintain its existing customers by acquiring, retaining and developing the market segments that are already identified, namely business individuals, business group, leisure individuals, leisure ad hoc, leisure regular, and scheduled airline crew. Focus will be on large corporate clients and casino players.

The Acquired Group will expand its customer base by expanding its sales force and carrying out different marketing programs including: (a) extending its geographical reach and expanding its network by making sales calls; (b) participating in major trade fairs thereby enhancing its awareness; (c) launching extensive advertising plan, including overseas sales trips, direct mail, advertising and promotions; and (d) cooperating with well-known corporations such as airlines and credit card companies.

Seeking strategic affiliations with major U.S. studios and leading international distributors

Through strategic affiliations with respected film veterans and independent filmmakers, the Enlarged Group seeks to establish itself as a leading and credible creative source of mainstream feature film production house. Furthermore, the Enlarged Group will continue to cultivate and develop close working relationships with talented producers, directors, and screenwriters, with a view to strengthening its brand identity as a leading creative organisation and its credibility and stature within the creative community. The pre-licensing of feature films through leading distributors is an essential element in helping to reduce financial risk exposure, and provides an important source of financing to the Enlarged Group.

IMPLEMENTATION

In light of the business objective and strategies of the Acquired Group, the Acquired Group will seek to attain the following milestone events from the Latest Practicable Date to 31 March 2010.

ACQUIRED GROUP

Latest Practicable Date to 30 September 2007	Six months ending 31 March 2008	Six months ending 30 September 2008	Six months ending 31 March 2009	Six months ending 30 September 2009	Six months ending 31 March 2010
Game/service development					
Negotiate with other close by hotels to provide shuttle bus services to Makati					
	Cover the pool deck partially to develop outdoor events and maximize utilization of the outside area	Develop a quality entertainment/ bar area/center with live entertainments			
System improvement					
Complete installation and expansion of public area wireless internet access					
Complete wireless application for micros handheld terminals at the poolbar	Implement wireless applications for micros handheld terminals at the function rooms	Continue the application of wireless applications for other outlets as may be required by operations			

Latest Practicable Date to 30 September 2007	Six months ending 31 March 2008	Six months ending 30 September 2008	Six months ending 31 March 2009	Six months ending 30 September 2009	Six months ending 31 March 2010
	Improve network security	Continue to improve network security through set up of server to control interest access and limit web sites which the users can visit	Continue to improve network security using the latest technology as may be required by operations		
Implement workflow applications using Lotus Notes as the platform as may be required by operations	Implement workflow applications using Lotus Notes as the platform as may be required by operations	Implement workflow applications using Lotus Notes as the platform as may be required by operations	Implement workflow applications using Lotus Notes as the platform as may be required by operations	Implement workflow applications using Lotus Notes as the platform as may be required by operations	Implement workflow applications using Lotus Notes as the platform as may be required by operations
Implement remote access to email and network servers					
	Implement business intelligence tools like data warehousing and data mining	Explore outlets' database to get information about food and beverage guests	Complete the implemention of business intelligence tools		

New computer equipment acquisition

Regular upgrade of business center and public relation hardware and software to keep up with the latest technology	Regular upgrade of business center and public relation hardware and software to keep up with the latest technology	Regular upgrade of business center and public relation hardware and software to keep up with the latest technology	Upgrade or replace old desktop computers		
				Acquire network attached storage device and high-speed tape drive for data storage	Upgrade server disk array and memory
				Purchase hardware and software modules for Voice over IP implementation	Acquire network attached storage device and high speed tape drive for data storage

STATEMENT OF BUSINESS OBJECTIVE

Latest Practicable Date to 30 September 2007	Six months ending 31 March 2008	Six months ending 30 September 2008	Six months ending 31 March 2009	Six months ending 30 September 2009	Six months ending 31 March 2010
Marketing activities					
Estimated marketing budget will be approximately Peso 15 million	Estimated marketing budget will be approximately Peso 15 million	Estimated marketing budget will be approximately Peso 22 million	Estimated marketing budget will be approximately Peso 22 million	Estimated marketing budget will be approximately Peso 24 million	Estimated marketing budget will be approximately Peso 24 million
Set up fairs in Tokyo, Osaka, Nagoya and Fukuoka	Set up fairs in Tokyo, Osaka, Nagoya and Fukuoka	Set up Hyatt® fairs in Hong Kong, Singapore, Beijing and Shanghai	Set up fairs in Hong Kong, Singapore, Beijing and Shanghai	Set up fairs in Tokyo, Osaka, Nagoya and Fukuoka	Set up fairs in Hong Kong, Singapore, Beijing and Shanghai
		Make sales calls in Taipei, Seoul, Hong Kong, Bangkok, Kuala Lumpur and Singapore	Make sales calls in Taipei, Seoul and Hong Kong	Make sales calls in Bangkok, Kuala Lumpur and Singapore	Make sales calls in Taipei, Seoul and Hong Kong
		Set up trade shows in Dubai	Set up trade shows in Berlin	Set up trade shows in London and US	Set up trade shows in Berlin and Dubai
	Set up travel and trade shows in Manila		Set up travel and trade shows in Manila		Set up travel and trade shows in Manila
Explore local sales business in Batangas, Laguna, Cavite, Cebu and Davao		Set up local sales business in Subic and Clark			
Form partnership with airline, credit card and telecommunication companies	Form partnership with airline, credit card and telecommunication companies	Form partnership with airline, credit card and telecommunication companies	Form partnership with airline, credit card and telecommunication companies	Form partnership with airline, credit card and telecommunication companies	Form partnership with airline, credit card and telecommunication companies
	Set up roadshow with Philippines Department of Tourism and PAGCOR		Set up roadshow with Philippines Department of Tourism and PAGCOR		Set up roadshow with Philippines Department of Tourism and PAGCOR

Latest Practicable Date to 30 September 2007	Six months ending 31 March 2008	Six months ending 30 September 2008	Six months ending 31 March 2009	Six months ending 30 September 2009	Six months ending 31 March 2010
Macau operation					
Commence construction of the structure of podium floors	Start commence fitting out work of the casino	Complete structure of basement and podium floors Complete renovation of the basement floors Continue fitting out work of casino Commence construction of hotel floors Commence construction of the residential floors Commence fitting out work of hotel floors	Residential units available for occupation Complete fitting out work of the casino Obtain temporary occupancy permit of the casino Soft opening of the hotel	Complete renting of the commercial areas	

EXISTING GROUP

Latest Practicable Date to 30 September 2007	Six months ending 31 March 2008	Six months ending 30 September 2008	Six months ending 31 March 2009	Six months ending 30 September 2009	Six months ending 31 March 2010
Media business					
Attend film festivals	Attend film festivals	Attend film festivals	Attend film festivals	Attend film festivals	Attend film festivals
Continue to recruit staff to develop the business in Asia	Continue to recruit staff to develop the business in Asia	Continue to recruit staff to develop the business in Asia	Continue to recruit staff to develop the business in Asia	Continue to recruit staff to develop the business in Asia	Continue to recruit staff to develop the business in Asia
Seek to form strategic alliances with media companies in major cities in the PRC and Asia	Seek to form strategic alliances with media companies in major cities in the PRC and Asia	Continue to explore the strategic partnership in major cities in the PRC and Asia	Continue to explore the strategic partnership in major cities in the PRC and Asia	Continue to explore the strategic partnership in major cities in the PRC and Asia	Continue to explore the strategic partnership in major cities in the PRC and Asia
	Produce music concerts in Hong Kong	Produce music concerts in Hong Kong and in the major cities in the PRC	Produce music concerts in Hong Kong and in the major cities in the PRC	Produce music concerts in the major cities in the PRC and Asia	Produce music concerts in the major cities in the PRC and Asia

INTERNATIONAL ENTERTAINMENT CORPORATION
國 際 娛 樂 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

Executive Directors:
Dr. Cheng Kar Shun
Mr. Lo Lin Shing, Simon
Mr. To Hin Tsun, Gerald
Mr. Choi Wing Kin
Mr. So Kam Wing

Non-executive Director:
Mr. Wu Wing Kin

Independent non-executive Directors:
Mr. Cheung Hon Kit
Mr. Kwee Chong Kok, Michael
Mr. Wong Chi Keung

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Rooms 1207-8
New World Tower 1
16-18 Queen's Road Central
Hong Kong

29 June 2007

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
TREATED AS A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
FORTUNE GATE OVERSEAS LIMITED
AND POSSIBLE ISSUE OF CONVERTIBLE NOTE
AND
POSSIBLE RIGHTS ISSUE TO RAISE ABOUT HK$1,415 MILLION
FROM QUALIFYING SHAREHOLDERS AT
HK$1.5 PER RIGHTS SHARE
AND
INCREASE IN AUTHORISED SHARE CAPITAL**

INTRODUCTION

On 23 November 2004, the Company conditionally agreed to acquire the Sale Shares and the Sale Loans from Cross-Growth at an aggregate consideration of HK$850 million (subject to adjustments) and, in addition to making cash payment of HK$450 million (subject to adjustments), to issue the Convertible Note to satisfy part of the Purchase Price. As announced on 17 March 2005, the Company exercised the Purchase Option on 17 March 2005 and the Purchase Price was increased by HK$363.2 million (subject to adjustment) to HK$1,213.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. On 26 June 2007, the Company, Cross-Growth and CTF entered into the Supplemental Agreement whereby they agreed, inter alia, to exclude FHPI as a member of the Acquired Group under the Reorganisation and to adjust the Purchase Price downward by HK$15 million to HK$1,198.2 million (subject to adjustments).

THE ACQUISITION AGREEMENT

Date

The Original Agreement was dated 23 November 2004 and was amended by the Supplemental Agreement.

Parties

Vendor:	Cross-Growth, a company incorporated in the BVI whose principal business activity is investment holding. It is beneficially owned by CTF
Purchaser:	The Company
Guarantor:	CTF, the holding company of Cross-Growth and the holding company of Mediastar, as the guarantor of the obligations of Cross-Growth CTF is principally engaged in the business of property investment and investment holding. CTF, through its subsidiaries and associated companies, invests in various sectors ranging from property investment, property management, public utilities, logistics, telecommunications, infrastructure and hotels etc. As at the date of the Announcement, CTF through Mediastar, its wholly-owned subsidiary, held a total of 120,000,079 Shares, representing about 58.6% of the then issued share capital of the Company As at the Latest Practicable Date, CTF through Mediastar, its wholly-owned subsidiary, held a total of 120,000,079 Shares, representing about 50.9% of the issued share capital of the Company

Assets to be acquired

The Sale Shares represent the entire issued share capital of the Acquired Company held by the CTF Group at Completion. Immediately prior to Completion, the following will be transferred to the Acquired Company as a result of the Reorganisation: (i) the 51% equity interest in the Hotel Group and the associated loans due from the Hotel Group to the CTF Group; and (ii) the 40% equity interest in ATD and the related shareholder's loans (representing the investment cost to Cheung Hung for its 40% attributable interest in ATD). Upon Completion, the Company will own 51% attributable interest in the Hotel Group (which is the owner of the Hotel) and 40% attributable interest in ATD.

As at the Latest Practicable Date, CTF indirectly owned 73% attributable interest in the Hotel Group and Cheung Hung, an associate of the CTF Group, owned 40% attributable interest in ATD. Up to 31 December 2006, the original purchase cost incurred and the additional investment made/to be made by the CTF Group for the 73% attributable interest in the Hotel Group amounted to approximately HK$806.8 million and the original purchase cost paid/to be paid by Cheung Hung for its 40% attributable interest in ATD amounted to approximately HK$363.2 million.

Cross-Growth and CTF have undertaken under the Acquisition Agreement to effect the Reorganisation before Completion (in the manner approved by the Company).

Consideration

Pursuant to the Supplemental Agreement, the initial Purchase Price has been revised downwards by HK$15 million to HK$1,198.2 million, subject to adjustments. The Purchase Price will be paid as to HK$400 million by the issue of the Convertible Note and as to the balance of HK$798.2 million (subject to adjustments) in cash, which will be raised from the Rights Issue. The Convertible Note will be issued by the Company at the direction of Cross-Growth to one or more wholly-owned subsidiaries of CTF.

The Purchase Price (subject to the adjustments described below) is to be paid at Completion. The amounts payable or receivable by the Company as a result of the adjustments described below will be settled after the amount of the various adjustments have been calculated and agreed between Cross-Growth and the Company. If the total additional amounts payable by the Company as a result of such adjustments exceeds HK$100 million, then the Company may defer payment of the excess, provided that the Company must reduce the unpaid excess by a minimum of HK$10 million per annum and interest is to accrue on the unpaid excess at the Hong Kong dollars prime rate (as announced by The Hongkong and Shanghai Banking Corporation Limited) per annum. Subject to the approval of the Acquisition by the Independent Shareholders, the Directors expect that the price adjustments could be determined and fully settled on or before 31 July 2008.

The Purchase Price will be adjusted on the following bases:–

- Cross-Growth will ensure that the minimum investment (net of repayments) in the Hotel Group up to Completion based on current specifications (including the acquisition cost of the Hotel Property) attributable to the Hotel Interest will not be less than HK$578.8 million, and the Purchase Price will be adjusted downwards by the amount of any shortfall;

- if additional investments are made prior to Completion to fund the Hotel Group as a result of modifications to current specifications (provided that any such additional investments in excess of HK$39 million in aggregate shall have been agreed by the Company), then the Purchase Price will be increased by the amount of such additional investment (net of repayments) attributable to the Hotel Interest;

- if in addition to the above investments, further investments are made before Completion to fund the Hotel Group, the entire amount of such further investment attributable to the Hotel Interest will initially be paid by Cross-Growth and will be reflected by a corresponding increase in the Purchase Price;

- if the Hotel Group records a net profit after provision of taxation under Hong Kong GAAP (after taking into account all prior losses and after adjustment to remove the effect of any non-cash items relating to fixed assets and pre-operating cost items and the effect (other than tax effects of the exclusion of FHPI from the Hotel Group)) from its inception up to Completion, the Purchase Price will be increased by an amount equal to such net profit attributable to the Hotel Interest;

- if the Hotel Group records an overall net loss (after taking into account all prior year losses and after adjustment to remove the effect of any non-cash items relating to fixed assets and pre-operating cost items and the effect (other than tax effects of the exclusion of FHPI from the Hotel Group)) from its inception up to Completion, the Purchase Price will be reduced by an amount equal to the total loss attributable to the Hotel Interest; and

- if any additional investment (in terms of equity or advances) made by Cheung Hung attributable to the 40% interest in ATD before Completion (to fund working capital and the additional land premium which may be payable for any government approved increase in gross floor area for the Macau Property in excess of the area under the current plan), with the consent of the Company, then the Purchase Price will be increased by the amount of additional investment.

The Company is required to account to CTF for any amounts refunded to it (net of expenses) in respect of any tax paid by the Hotel Group for its disposal of FHPI prior to Completion.

The Purchase Price was arrived at after arm's length negotiations among the parties by reference to:–

- the estimated total investment cost of the Hotel Group incurred and to be incurred up to Completion on the basis of current development plans (being approximately HK$1,135 million as at the date of the Announcement);

- an indicative valuation of the Hotel Property of about HK$1,388 million as at 31 October 2004 made by Sallmanns (Far East) Limited, an independent valuer; and

- the original purchase cost paid or to be paid by Cheung Hung for the Macau Interest.

Based on the current specifications, the aggregate of the expected total investment cost and the surplus of the valuation of the Hotel Property amounts to approximately HK$1,877 million (the "Adjusted Value of the Hotel Group"). The revised Purchase Price before the exercise of the Purchase Option of HK$835 million, which is determined with reference to the Adjusted Value of the Hotel Group, represents a discount of about 12.8% to the 51% of the Adjusted Value of the Hotel Group.

The initial consideration for the Macau Interest is HK$363.2 million (subject to adjustment) which is determined with reference to and is equivalent to the purchase cost of the Macau Interest paid by Cheung Hung. As at 31 December 2006, the principal assets and liabilities of ATD consisted of the Macau Property, pledged bank deposits and bank balances, bank borrowings, amounts due to shareholders, deposits received on sales of properties and construction cost payables. This consideration is also equivalent to a discount of approximately 51% to the 40% of the appraised value of the Macau Property as at 30 April 2007 of approximately HK$738.8 million.

Conditions Precedent

Completion is conditional upon the fulfillment (or waiver, in certain cases as stated below) of the following Conditions Precedent:–

1. the Company being satisfied with its due diligence review of the legal and financial affairs of the Acquired Group and ATD in all material respects;

2. the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Conversion Shares and approving in principle the new listing application filed by the Company as a result of Completion;

3. the Shares remaining listed on the Stock Exchange at all times prior to and on Completion and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 15 trading days (other than any suspension pending clearance of the Announcement) and no indication having been received on or before the date of Completion from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or in connection with the terms of the Acquisition Agreement or for any other reason;

4. the Independent Shareholders approving the Acquisition Agreement, the Rights Issue, the Capital Increase and the transactions contemplated thereunder, including the issue of the Convertible Note and the allotment of the Conversion Shares;

5. the completion of the Rights Issue taking place;

6. the Reorganisation having been completed to the sole satisfaction of the Company;

7. approvals, permissions, consents and/or waivers from the relevant government and/or regulatory bodies and/or third party financiers as required to give effect to the transactions contemplated under the Acquisition Agreement being obtained; and

8. the fair market value of the Hotel Property as stated in the valuation report attached as Appendix VII to this circular is not less than HK$1,250 million.

The Company may waive in writing compliance with the Conditions Precedent described in paragraphs 1, 6 and 8 above.

If the Conditions Precedent are not fulfilled or waived (as provided in the Acquisition Agreement) in writing on or before 31 December 2007 (or such later date as may be agreed by Cross-Growth and the Company in writing), the Acquisition Agreement will terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise, save in respect of any prior breach of the Acquisition Agreement.

As at the Latest Practicable Date, the Conditions Precedent described in paragraphs 1 and 8 had been fulfilled.

Completion

The Acquisition Agreement provides that Completion shall take place on the third business day following the day on which the last of the Condition Precedent is satisfied or waived.

Other terms

Under the Acquisition Agreement, Cross-Growth and CTF have undertaken that for so long as CTF remains (whether directly or indirectly) a controlling shareholder (as defined in the GEM Listing Rules) of the Company, neither of them nor their respective subsidiaries shall carry on (whether directly or indirectly) any tours, entertainment and leisure related business which competes with the business activities carried on by the Acquired Group and ATD in the Philippines and Macau respectively (save for those disclosed in this circular and in respect of holdings of less than 10% of the voting shares in publicly listed and traded companies), provided that they shall be entitled to invest in potentially competing projects, if and to the extent that such investment opportunity has first been offered to and rejected by the Company in writing.

CTF has further given an undertaking in the Acquisition Agreement that it will not dispose of its direct and indirect interest in the Shares that it had as at the date of the

Acquisition Agreement and as at Completion at any time before the expiry of six calendar months after Completion, provided that this shall not preclude any disposal for the purpose of facilitating any placing of Shares by the Company or maintaining public float of the Shares, subject in both cases to compliance with the GEM Listing Rules.

The Convertible Note

The Convertible Note will be issued only on Completion. In seeking the Independent Shareholders' approval of the Acquisition, their approval of the issue of the Convertible Note will also be sought. The Convertible Note will contain the terms set out below.

Principal amount:

The total principal amount of the Convertible Note will be HK$400,000,000.

Interest:

The Convertible Note will bear interest at the rate of 1% per annum and the length of each interest period in relation to the Convertible Note shall be one year.

Repayment date:

The final date of repayment will be the business day last preceding the third anniversary of the date of issue of the Convertible Note. The Convertible Note does not provide for any right of early redemption by the Company (except in the case of events of default).

Conversion:

The outstanding principal amount of the Convertible Note may be convertible into Conversion Shares in amounts or integral multiples of HK$4,000,000 on any business day on which banks in Hong Kong are open for business excluding Saturdays after the date of issue of the Convertible Note until the business day immediately prior the final repayment date. If, however, the issue of any Conversion Shares on conversion will result in the public float in the Shares falling below the minimum level prescribed under the GEM Listing Rules, the relevant conversion notice in relation to the conversion of the Convertible Note will be deemed to relate only to those Conversion Shares which could be issued without causing the public float in the Shares on such conversion to become less than the minimum percentage permitted by the GEM Listing Rules. Accordingly, no Conversion Shares will be issued to cause a shortfall in public float in the Shares. The initial Conversion Price was agreed after arm's length negotiations with reference to the market price of the Shares at the time of the entering into of the Original Agreement. The initial conversion price of HK$2 per Conversion Share represents:

1. a premium of about 7.0% to the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date;

2. a premium of about 27.4% to the theoretical ex-rights price of about HK$1.57 per Share based on the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date and assuming 4 Rights Shares are issued for every Share as at the date of the Announcement;

3. a premium of about 11.1% to the average closing price of about HK$1.80 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Dealing Date;

4. a discount of about 69.1% to the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

5. a discount of 20% to the theoretical ex-rights price of about HK$2.50 per Share based on the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date and assuming four Rights Shares are issued for every existing Share;

6. a discount of about 66.7% to the average closing price of about HK$6.01 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Practicable Date; and

7. a premium of about 2.6% to the net asset value per Share of about HK$1.95 based on the unaudited pro forma consolidated balance sheet of the Enlarged Group.

The Conversion Price is subject to customary adjustments for future reorganisation of share capital of the Company (including consolidation or sub-division of Shares), for equity issues which involve the issue of Shares at a price or an effective consideration which is less than 80% of the then market price of the Shares and for any issue or modification of other convertible securities. No adjustments may, however, be made so as to reduce the Conversion Price of each Conversion Share at any time to less than the nominal value of a Share at that time. The issue of the Convertible Note is subject to various conditions, including the completion of the Rights Issue. Upon the Completion, based on the initial conversion price of HK$2 per Conversion Share, the Convertible Note may be converted into 200,000,000 Conversion Shares, representing approximately 14.5% of the total number of 1,379,157,235 Shares as enlarged by the Rights Issue and the issue of the Conversion Shares. The Directors are of the opinion that the overall dilution effect is not massive.

However, taking into account the Convertible Note itself will give rise to a dilution effect (Conversion Shares represent about 85% of the issued share capital of the Company as at the Latest Practicable Date) to its existing shareholders, the Company will disclose by way of an announcement all relevant details of the conversion of the Convertible Note in the following manner:

(i) the Company will make a monthly announcement ("Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

a. whether there is any conversion of the Convertible Note during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

b. the amount of outstanding Convertible Note after the conversion, if any;

c. the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

d. the total issued share capital of the Company as at the commencement and the last day of the relevant month.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be); and

(iii) if the Company forms the view that any issue of Conversion Shares will trigger the disclosure requirements under Rule 17.10 of the GEM Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Note as mentioned in (i) and (ii) above.

Shares to be issued upon conversion:

The Conversion Shares to be issued upon conversion of the Convertible Note will rank pari passu in all respects with the Shares in issue at the date of conversion.

Assuming that the entire principal amount of the Convertible Note is converted at the initial Conversion Price of HK$2 per Conversion Share, a total of 200,000,000 Shares will be issued. These Shares represent about 84.8% of the issued share capital of the Company as at the Latest Practicable Date, and about 14.5% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by the Conversion Shares and 943,325,788 Rights Shares (assuming no new Shares are issued before the Record Date). As at the Latest Practicable Date, Mediastar, a wholly-owned subsidiary of CTF, was the controlling Shareholder. At Completion and assuming the Convertible Note is converted in full, Mediastar and its associates will remain to be the controlling Shareholder. Details of the shareholding structure of the Company are set out in the sub-paragraph headed "Changes to the shareholding of the Company" below.

The Convertible Note and the Conversion Shares to be issued by the Company are subject to the Independent Shareholders' approval at the EGM.

Voting rights of holder of the Convertible Note:

Holder of the Convertible Note will not have any right to attend or vote at meetings of the Company by virtue of its being the holder of the Convertible Note. The initial holder of the Convertible Note will be Cross-Growth or its nominee.

Transferability:

The Convertible Note may not be transferred without the prior written consent of the Company. Further, any transfer is subject to compliance with, amongst other things, conditions, approvals, requirements and other provisions of or under the Stock Exchange (including the requirement to obtain the consent of the Stock Exchange to such transfer), their rules and regulations, the approval for the listing of the Conversion Shares to be issued upon conversion. If the Convertible Note is to be transferred to a wholly-owned subsidiary of the holder of the Convertible Note, the Company shall not unreasonably withhold its consent to such transfer.

Listing of the Convertible Note:

No listing of the Convertible Note will be sought on the Stock Exchange or any other stock exchanges.

THE RIGHTS ISSUE

Pursuant to the Underwriting Agreement, the Company proposes to make the Rights Issue to raise gross proceeds of approximately HK$1,415 million principally to finance the Acquisition.

Issue statistics

Basis of the Rights Issue	:	Four Rights Shares for every existing Share held as at the Record Date
Number of existing Shares in issue	:	235,831,447 Shares
Number of Rights Shares	:	943,325,788 Rights Shares
Subscription price per Rights Share	:	HK$1.5 each
Underwriter	:	CTF
Mediastar's entitlement	:	480,000,316 Rights Shares

On the assumption that there is no change in the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date, the nil-paid Rights Shares (being 943,325,788 nil-paid Rights Shares) which will be provisionally allotted to raise about HK$1,415 million represent (i) 400% of the issued share capital of the Company as at the Latest Practicable Date; (ii) 80% of the Company's issued share capital as enlarged by the issue of 943,325,788 Rights Shares; and (iii) 68% of the Company's issued share capital as enlarged by the issue of 943,325,788 Rights Shares and the issue of the 200,000,000 Conversion Shares pursuant to the exercise of the right under the Convertible Note.

Qualifying Shareholders

If the Rights Issue proceeds, the Company will send the Prospectus Documents to the Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must:

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

2. is not an Excluded Shareholder.

The Company will announce before the Rights Issue commences the date by which the Shareholders must lodge any transfers of existing Shares (together with the relevant share certificates) with the Company's branch registrar in Hong Kong, in order for the transferee to be registered as member of the Company on the Record Date.

Record Date

The Record Date is on 2 August 2007 and the trading arrangements for the nil-paid Rights Shares will be fixed by the Directors later and further announcement will be made by the Company. The Rights Issue will proceed only after the Independent Shareholders have approved the same, the issue of the Convertible Note and the Acquisition.

The Company will issue a separate prospectus for the Rights Issue in compliance with the Companies Ordinance as soon as practicable after the approval of the Acquisition and the Rights Issue by the Independent Shareholders.

Subscription price for the Rights Shares

The subscription price for the Rights Shares is HK$1.5 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. Such subscription price represents:

1. a discount of about 19.8% to the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date;

2. a discount of about 4.5% to the theoretical ex-rights price of about HK$1.57 per Share based on that closing price of HK$1.87 per Share as quoted on the Stock exchange on the Last Dealing Date and assuming 4 Rights Shares are issued for every Share existed as at the date of the Announcement;

3. a discount of about 16.7% to the average closing price of about HK$1.80 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Dealing Date;

4. a discount of about 76.9% to the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

5. a discount of 40% to the theoretical ex-rights price of about HK$2.50 per Share based on the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date and assuming four Rights Shares are issued for every existing Share;

6. a discount of about 75.0% to the average closing price of about HK$6.01 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Practicable Date; and

7. a discount of about 23.1% to the net asset value per Share of about HK$1.95 based on the unaudited pro forma consolidated balance sheet of the Enlarged Group.

The subscription price for the Rights Shares is determined by the Directors after (i) taking into account the market price per Share at the time of the entering into the Underwriting Agreement on 23 November 2004, the potential dilution effect of the issue of the Rights Shares and the desirability of having its minority Shareholders taking up Rights Shares; and (ii) arms' length negotiations with CTF as underwriter. The Directors consider the terms of the Rights Issue and the subscription price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Trading of Rights Shares

Dealings in the Rights Shares in both their nil-paid and fully-paid forms registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong. Further announcement will be made by the Company regarding the trading arrangements for the Rights Shares (in both nil-paid and fully-paid forms) after the same have been determined by the Directors.

Status of the Rights Shares

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

Rights of the Excluded Shareholders

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will make enquiries regarding the feasibility of extending the Rights Issue to the Excluded Shareholders. If based on the advice received from the relevant legal advisers, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Excluded Shareholders on account either of the legal restrictions under the laws of the places of their registered addresses or the requirements of the relevant regulatory bodies or stock exchanges in those places, the Rights Issue will not be made available to the Excluded Shareholders. The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but the Company will not send any PAL and EAF to the Excluded Shareholders. As indicated on the Hong Kong branch register of members of the Company on the Latest Practicable Date, all Shareholders have registered addresses in Hong Kong. Further announcement will be made by the Company before commencement of the Rights Issue in relation to the basis upon which any such overseas Shareholders are regarded as Excluded Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK$100 or less for its own benefit.

Application for excess Rights Shares

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

Applications for excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis but will give preference to topping-up odd lots to whole board lots. Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the branch register of the Company in Hong Kong. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to the beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Conditions of the Rights Issue

The Rights Issue is conditional upon each of the following events taking place:

1. the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such grant;

2. the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong respectively on or prior to the date of posting of the Prospectus Documents in compliance with the requirements of the Companies Ordinance, the Companies Law and the GEM Listing Rules;

3. the obligations of CTF under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof;

4. all Conditions Precedent (other than that which relates to the Rights Issue) having been fulfilled or waived in accordance with the terms of the Acquisition Agreement;

5. the approval of the Rights Issue and the Capital Increase by the Independent Shareholders;

6. the Capital Increase becoming effective; and

7. the posting of the Prospectus Documents to the Qualifying Shareholders.

If the conditions of the Rights Issue are not fulfilled on or before 31 December 2007 (or such later date as the Company and CTF may agree), neither CTF nor the Company shall have any rights or be subject to any obligations arising from the Underwriting Agreement save that the Company shall pay or reimburse CTF all reasonable costs, fees and other expenses properly incurred by CTF in connection with its obligations under the Underwriting Agreement.

Since the proposed Rights Issue would result in an increase in the issued share capital of the Company by more than 50%, by virtue of Rule 10.29 of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which CTF, Mediastar and their respective associates will abstain from voting in favour of the proposed resolution approving the Rights Issue.

Assuming that the Rights Issue is made on the basis of the issued share capital of the Company of 235,831,447 Shares as at the Latest Practicable Date, the estimated expenses of the Rights Issue and the Acquisition are about HK$40 million, which will be borne by the Company. The estimated net proceeds of the Rights Issue will be about HK$1,375 million. The Company plans to use about HK$798.2 million out of the net proceeds to finance the Acquisition and the remaining balance of about HK$576.8 million as working capital of the Group. The balance allows a buffer for payments which the Company may be required to make on adjustment of the Purchase Price and any sums remaining will be set aside as working capital of the Group. The Directors consider the Rights Issue to be necessary and appropriate as it provides funds for the Company to complete the Acquisition.

As the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

Listing and Dealings

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

Underwriting arrangements

(i) Underwriting Agreement

Pursuant to the Underwriting Agreement, CTF has agreed to underwrite approximately HK$695.0 million worth of Rights Shares (at the subscription price of HK$1.5 per Rights Share). Based on 235,831,447 Shares in issue as at the Latest Practicable Date, 943,325,788 Rights Shares would be issued pursuant to the Rights Issue and 463,325,472 Rights Shares (excluding the Rights Shares to be provisionally allotted to and accepted by Mediastar as Shareholder pursuant to the Rights Issue) would be underwritten by CTF. The Company entered into the Underwriting Agreement to secure necessary funding for, amongst other things, the Acquisition. Given that the Company had not been able to secure third party underwriters who were prepared to accept an underwriting commitment for an indefinite period of time (it not being possible for the Company to ascertain the time it needs to obtain all requisite approvals for its deemed new listing application as a result of the Acquisition) in November 2004 when the Original Agreement was signed, and in order to demonstrate CTF's commitment to the long-term prospects of the Company, the Company and CTF agreed to the appointment of CTF as the underwriter of the Rights Issue.

(ii) Commission

The Company will pay CTF an underwriting commission of 2 per cent. of the aggregate subscription price of the Rights Shares (other than the Rights Shares provisionally allotted to Mediastar pursuant to the Rights Issue) underwritten by it. The Directors consider that the underwriting commission accords with the market rates.

(iii) Termination and force majeure

The Underwriting Agreement will be terminated if the conditions of the Rights Issue set out above are not fulfilled and/or waived by CTF on or before 31 December 2007.

CTF may also terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company if there is (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or (ii) any local, national or international event or change (whether or not forming part of series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, and in the opinion of CTF (acting reasonably), any such event would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or would make it inadvisable or inexpedient to proceed with the Rights Issue.

CAPITAL INCREASE

As at the date of this circular, the authorised share capital of the Company is HK$500,000,000 divided into 500,000,000 Shares, of which 235,831,447 Shares are in issue and fully paid or credited as fully paid. On the assumption that no further Shares will be issued after the despatch of this circular, the 943,325,788 Rights Shares to be issued pursuant to the Rights Issue will exceed the existing authorised share capital of the Company.

In the circumstances, the Board proposes to implement the Capital Increase which will involve an increase in the authorised share capital of the Company from HK$500,000,000 to HK$2,000,000,000 by the creation of 1,500,000,000 Shares.

Effect of the Capital Increase

Upon the Capital Increase becoming effective, the authorised share capital of the Company will be increased to HK$2,000,000,000 divided into 2,000,000,000 Shares. The Shares will rank pari passu in all respects with each other. Other than the expenses to be incurred in relation to the Capital Increase, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the relative interests or rights of the Shareholders. The Capital Increase itself will not have any material adverse effect on the financial position of the Group.

Conditions of the Capital Increase

The Capital Increase is conditional upon:

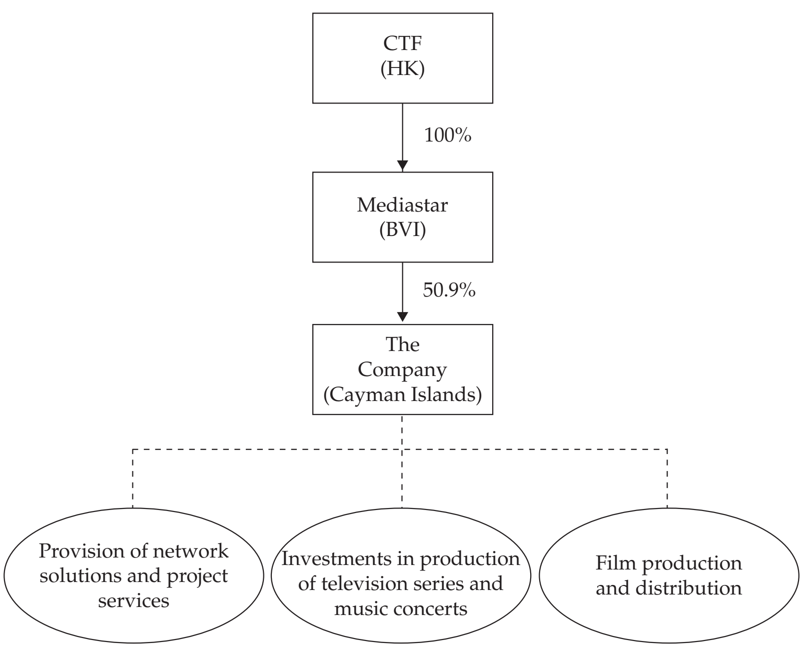
(i) the passing of the necessary resolution(s) by the Shareholders to approve the Capital Increase at the EGM; and

(ii) the obtaining of all necessary approvals and consents from the regulatory authorities or otherwise as may be required in respect of the Capital Increase.

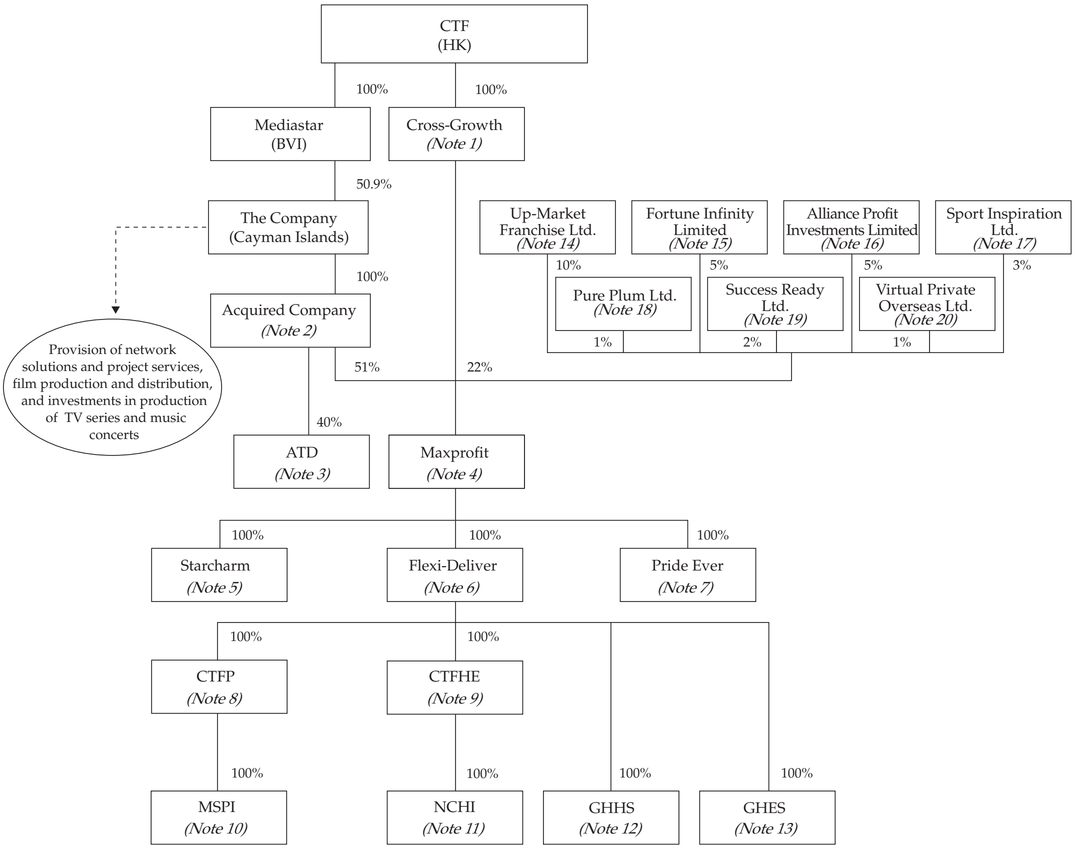
SHAREHOLDING STRUCTURE

The following diagrams illustrate the corporate and shareholding structure of the Company and its principal subsidiaries as at the Latest Practicable Date and immediately after Completion (assuming no changes to the share capital of and shareholding in each of the relevant companies other than those contemplated in the Acquisition Agreement):–

As at the Latest Practicable Date



Immediately after Completion of the Acquisition (assuming no changes other than those contemplated in the Acquisition Agreement)



Notes:

1. Cross-Growth was incorporated in the BVI on 27 July 2001. Its principal activity is investment holding.

2. The Acquired Company was incorporated in the BVI on 8 November 2004. Its principal activity is investment holding.

3. ATD was incorporated in Macau on 7 September 2000. Its principal activity is property investment.

4. Maxprofit was incorporated in the BVI on 8 November 2004. Its principal activity is investment holding.

5. Starcharm was incorporated in the BVI on 18 October 2004. Its principal activity is the provision of financial assistance to the members of the Hotel Group.

6. Flexi-Deliver was incorporated in the BVI on 8 May 2002. Its principal activity is investment holding.

7. Pride Ever was incorporated in the BVI on 9 July 2002. Its principal activity is the provision of financial assistance to the members of the Hotel Group.

8. CTFP was incorporated in the Philippines on 3 October 2002. Its principal activity is investment holding.

9. CTFHE was incorporated in the Philippines on 7 October 2002. Its principal activity is investment holding.

10. MSPI was incorporated in the Philippines on 11 October 2002. Its principal activity is casino property investment.

11. NCHI was incorporated in the Philippines on 11 October 2002. Its principal activity is hotel property investment.

12. GHHS was incorporated in the Philippines on 3 February 2005. It has not yet commenced any business activity.

13. GHES was incorporated in the Philippines on 10 February 2005. It has not yet commenced any business activity.

14. Up-Market Franchise Ltd. is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. To Hin Tsun, Gerald, a Director and a director of the Acquired Company.

15. Fortune Infinity Limited is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. Ng Hoi Yue, an Independent Third Party.

16. Alliance Profit Investments Limited is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. Doo Wai Hoi, William. Mr. Doo is currently the vice-chairman of New World China Land Limited and New World Mobile Holdings Limited, the deputy chairman of NWS Holdings Limited and Taifook Securities Group Limited, and a director of Lifestyle International Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange. Mr. Doo is appointed by the government of the PRC as a member of Executive Committee of Shanghai Committee of Chinese People's Political Consultative Conference. He has served as Governor of the Canadian Chamber of Commerce in Hong Kong since 1995. He has been appointed as a Justice of Peace by the Hong Kong Government in 2004. Mr. Doo is the brother-in-law of Dr. Cheng Kar Shun.

17. Sport Inspiration Ltd. is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. Doo Wai Hoi, William.

18. Pure Plum Ltd. is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. To Hin Tsun, Gerald, a Director and a director of the Acquired Company.

19. Success Ready Ltd. is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. Chan Kam Ling, a director of the Acquired Company.

20. Virtual Private Overseas Ltd. is incorporated in the BVI. Its principal activity is investment holding and it is beneficially wholly owned by Mr. Chan Kam Ling, a director of the Acquired Company.

Changes to the shareholding of the Company

The changes to the interest in the Company of the CTF Group and its associates, the Directors and the shareholdings of the public Shareholders in the Company immediately before and after Completion, the Capital Increase, the Rights Issue and full conversion of the Convertible Note (based on the assumptions set out below) could be illustrated as follows:–

Shareholders	Shareholding as at the Latest Practicable Date	Shareholding at Completion assuming that none of the Rights Shares (apart from the CTF Group's pro rata entitlement to the Rights Shares) need to be taken up by the CTF Group	Shareholding at Completion assuming that none of the Rights Shares (apart from the CTF Group's pro rata entitlement to the Rights Shares) need to be taken up by the CTF Group and the Convertible Note is converted in full	Shareholding at Completion assuming that all Rights Shares are taken up by the CTF Group	Shareholding at Completion assuming that all Rights Shares are taken up by the CTF Group and the Convertible Note is converted in full
Mediastar and its associates	120,000,079	600,000,395	800,000,395	1,063,325,867	1,263,325,867
	(50.9%)	(50.9%)	(58.0%)	(90.2%)	(91.6%)
Young China Investments Limited *(Note)*	19,000,000	95,000,000	95,000,000	19,000,000	19,000,000
	(8.1%)	(8.1%)	(6.9%)	(1.6%)	(1.4%)
Directors and their associates	1,743,600	8,718,000	8,718,000	1,743,600	1,743,600
	(0.7%)	(0.7%)	(0.6%)	(0.1%)	(0.1%)
Other public Shareholders	95,087,768	475,438,840	475,438,840	95,087,768	95,087,768
	(40.3%)	(40.3%)	(34.5%)	(8.1%)	(6.9%)
Total	235,831,447	1,179,157,235	1,379,157,235	1,179,157,235	1,379,157,235
Public float	114,087,768	570,438,840	570,438,840	114,087,768	114,087,768
	(48.4%)	(48.4%)	(41.4%)	(9.7%)	(8.3%)

Note: Young China Investments Limited and its ultimate beneficial owner are independent of and not connected with the Company and its connected persons. Accordingly, Young China Investments Limited is regarded as a public Shareholder.

As at the Latest Practicable Date, the Company did not have any other outstanding convertibles or options.

The above table has been prepared on the following assumptions:–

1. the Rights Issue is made on the basis of four Rights Shares for every existing Share held, which will result in a total of 943,325,788 Rights Shares being issued;

2. the Convertible Note has been fully converted at the initial Conversion Price of HK$2 per Conversion Share, which will result in a total of 200,000,000 Conversion Shares being issued; and

3. the shareholdings of the Shareholders as at the Record Date and immediately before and after Completion and full conversion of the Convertible Note are the same as that which exists at the Latest Practicable Date, except for the issue of the Rights Shares and the Conversion Shares in the circumstances described in the table and the assumptions set out above.

The Company, CTF and Mediastar undertake that they will make prior arrangements, including but not limited to making necessary placing arrangements, before Completion to ensure the minimum public float of the Shares prescribed under the GEM Listing Rules is maintained at all time including, immediately after the issue of the Rights Shares. **The Stock Exchange has stated that it will closely monitor the trading in the Shares on the Stock Exchange. If less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that:**

– **a false market exists or may exist in the trading in the Shares; or**

– **there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend dealings in the Shares.

INFORMATION ABOUT THE GROUP

The Group is principally engaged in the provision of project services, network solutions and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

The audited net asset value of the Group (excluding minority interests) was approximately HK$287.5 million and HK$177.7 million as at 31 March 2006 and 31 March 2007, respectively. The following table shows the audited turnover and losses of the Group for the two years ended 31 March 2007:

	For the year ended 31 March	
	2006	**2007**
	(Audited)	**(Audited)**
	HK$'000	*HK$'000*
Turnover	274,311	137,310
Loss for the year	(195,061)	(110,813)

INFORMATION ABOUT THE ACQUIRED INTERESTS

The Acquired Company was incorporated in the BVI on 8 November 2004 to facilitate the Acquisition. It has no business activities, operations, assets or liabilities since its incorporation up to the Latest Practicable Date other than entering into transactions to effect the Reorganisation.

The Acquired Company will immediately after completion of the Reorganisation own 51% interest in the Hotel Group and 40% interest in ATD. The remaining 49% interest in the Hotel Group will be beneficially owned as to 22%, 11%, 8%, 5% and 3% by CTF, Mr. To Hin Tsun, Gerald, Mr. William Doo Wai Hoi, an Independent Third Party, and Mr. Chan Kam Ling respectively. Mr. To Hin Tsun, Gerald and Mr. Chan Kam Ling are currently directors of the Hotel Group. Mr. William Doo Wai Hoi is the brother-in-law of Dr. Cheng Kar Shun, the chairman of the Company. The remaining 60% equity interests in ATD is held by Independent Third Parties. In order not to impose extra financial burden on the Group, instead of acquiring all of CTF's interests in the Hotel Group, the Company decided to acquire 51% of the entire interest in the Acquired Company, through which the Company will be able to exercise majority control in the operation of the Acquired Group at a cost acceptable to the Group.

The Hotel Group was established by the CTF Group and the other shareholders for the sole purpose of acquiring the Hotel Property, which acquisition was completed in early 2003. Subsequent to the Reorganisation, MSPI, CTFP, NCHI, CTFHE, GHES and GHHS which are all incorporated in the Philippines will become wholly owned subsidiaries of Flexi-Deliver.

The Hotel Group directly and/or indirectly owns the legal and beneficial interest and/or otherwise leasehold interest of the building complex at Pedro Gil Street, Malate, Manila, currently known as "Hyatt Hotel and Casino Manila" with a total floor area of approximately 92,875 sq.m., comprising (i) 66 suites and 312 deluxe rooms, (ii) a casino, (iii) entertainment areas, (iv) office floors, and (v) car parking and other areas. The Hotel is managed and operated as a super deluxe Hyatt hotel. The casino commenced operation in February 2004 whereas the hotel under the name "Hyatt Hotel and Casino Manila" commenced to receive guests in September 2004 upon the completion of its primary fit out. The casino has a gross floor area of approximately 17,650 sq.m. and is operated and managed by PAGCOR. PAGCOR has the exclusive right, privilege and authority to establish, operate and maintain gambling casinos within the territorial jurisdiction of the Philippines except for an area in northern Philippines Cagayan Special Economic Zone. While the Hotel Property provides the casino facilities, those facilities are not operated by the Acquired Group. Instead, they are leased to PAGCOR which engages in and is responsible for the operation of the gaming activities at the casino.

The 40% interest in ATD is held by Cheung Hung, the CTF Group's associate which acquired the Macau Interest in August 2004 at a cost of approximately HK$363.2 million. ATD's principal asset is the Macau Property. The Macau Property, comprising a land with an area of approximately 7,128 sq.m. located at Novos Aterros do Porto Exterior (新口岸外港填海區), Macau, is currently under development and construction. Approval has been obtained for the development of a hotel, residential and commercial complex on the Macau Property. According to the current development plan, a deluxe hotel (comprising about 400 rooms) and residential complex with a casino, will be built on the site. Nevertheless, ATD has no intention to engage in the operation of the casino facilities to be established therein. Pre-sale of the residential units has commenced in late 2006 and as at the Latest Practicable Date, approximately 69% of the residential units were sold.

Upon Completion, the Acquired Company will become a wholly-owned subsidiary of the Company and ATD will become an associated company of the Company. Accordingly, the results of the Hotel Group and ATD will be consolidated and equity accounted for respectively in the consolidated financial statements of the Company.

The principal activity of the Hotel Group is hotel operation and the holding of its investment in related businesses and properties. The Hotel Group currently does not operate any casino in either Philippines or Hong Kong. In addition, ATD does not intend to engage in the operation of any casino therein or otherwise in Macau or Hong Kong. Accordingly, immediately after Completion, the Enlarged Group will not be conducting any gambling activity in Hong Kong. The gambling activities in the property comprised in the Acquired Interests take place outside Hong Kong and all gaming transactions will therefore be conducted outside Hong Kong. The operation of the Enlarged Group will not therefore be subject to the Gambling Ordinance. The Company will use all its reasonable endeavour to ensure that throughout the holding of its investment in the Acquired Interests, the operation of the Acquired Interests will comply with all applicable laws in the relevant jurisdiction. Shareholders are reminded that, in accordance with the Stock Exchange guidelines on gambling business, if the operation of the Enlarged Group involves gambling business which does not comply with applicable laws in the relevant jurisdiction, the Stock Exchange may, subject to the circumstances of the case, direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, Shares on the Stock Exchange under Rule 9.01 of the GEM Listing Rules.

Financial information of the Acquired Company

Based on the accountants' report of the Acquired Company as set out in Appendix IV to this circular (which does not include the results of ATD as the Acquired Company will only acquire 40% of the equity interest in ATD pursuant to the Reorganisation, which does not meet the definition of business combination under common control in the principles of merger accounting), the audited combined net assets of the Acquired Company (excluding minority interests) was approximately HK$7.6 million, HK$6.9 million and HK$89.9 million as at 31 December 2004, 31 December 2005 and 31 December 2006, respectively. The following table shows the audited combined turnover and (loss) profit for the three years ended 31 December 2006 of the Acquired Company as extracted from the accountants' report set out in Appendix IV to this circular:–

	For the year ended		
	31 December 2004 (audited)	**31 December 2005 (audited)**	**31 December 2006 (audited)**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	54,571	198,911	319,224
(Loss) profit before taxation	(45,651)	(55,331)	17,953
(Loss) profit for the year from continuing operations	(43,964)	(47,531)	28,854
Discontinued operations			
Loss for the year from discontinued operation	(9,240)	(7,886)	(8,847)
(Loss) profit for the year	(53,204)	(55,417)	20,007

Financial information of ATD

Based on the accountants' report of ATD as set out in Appendix V to this circular, the audited net (liabilities) assets of ATD was approximately HK$(7.3) million, HK$0.3 million and HK$18.4 million as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively. The following table shows the audited turnover and (loss) profit of ATD for the three years ended 31 December 2006 as extracted from the accountants' report of ATD set out in Appendix V to this circular:–

	For the year ended		
	31 December 2004 (audited)	**31 December 2005 (audited)**	**31 December 2006 (audited)**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	–	–	–
Other income	–	–	442
General and administrative expenses	(6,539)	(94)	(213)
Finance costs	–	–	–
(Loss) profit before taxation	(6,539)	(94)	229
Income tax expense	–	–	–
(Loss) profit for the year	(6,539)	(94)	229

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following table shows the unaudited pro forma income statement of the Enlarged Group as if the Acquisition had been completed on 1 April 2006 and the unaudited pro forma balance sheet of the Enlarged Group as if the Acquisition had been completed on 31 March 2007 extracted from Appendix VI to this circular:

	The Group year ended 31.03.2007	Acquired Group year ended 31.12.2006	Total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Continuing operations						
Turnover	137,310	319,224	456,534	–		456,534
Cost of sales	(204,609)	(155,890)	(360,499)	(51,986)	*1*	(412,485)
Gross (loss) profit	(67,299)	163,334	96,035			44,049
Other income	16,872	14,515	31,387	–		31,387
Selling and distribution costs	(12,786)	–	(12,786)	–		(12,786)
General and administrative expenses	(41,512)	(52,804)	(94,316)	–		(94,316)
Other expenses	–	(3,824)	(3,824)	–		(3,824)
Finance costs	(4,828)	(103,268)	(108,096)	(12,058)	*2a, 2b*	(120,154)
Share of profit of an associate	–	–	–	92	*3*	92
(Loss) profit before taxation	(109,553)	17,953	(91,600)			(155,552)
Taxation (charge) credit	(1,260)	10,901	9,641	18,195	*1*	27,836
(Loss) profit for the year from continuing operations	(110,813)	28,854	(81,959)			(127,716)
Discontinued operation						
(Loss) profit for the year from discontinued operation	–	(8,847)	(8,847)	–		(8,847)
(Loss) profit for the year	(110,813)	20,007	(90,806)			(136,563)
Attributable to:						
Equity holders of the parent	(110,813)	10,204	(100,609)	(29,200)	*4*	(129,809)
Minority interests	–	9,803	9,803	(16,557)	*5*	(6,754)
	(110,813)	20,007	(90,806)			(136,563)

Notes:

1. The adjustment represents the depreciation charged and the reversal of deferred tax liabilities during the year ended 31 December 2006 arising from the valuation of the properties under the Acquired Interests excluding ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of the Acquired Interests excluding ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for investment property and buildings, there is no other fair values changes to the assets and liabilities of the Acquired Interests excluding ATD at the Completion. This adjustment will have continuing effect on the Group in the subsequent financial years.

2. The adjustment includes:

2.a. The effective interest expenses of approximately HK$52,559,000 arising form the Convertible Note of HK$400,000,000 under the assumption that there is no change in the fair value of the Convertible Note at 1 April 2006 and at 31 December 2006, being the latest practicable date to value the Convertible Note. It is also assumed that there is no change in the fair value of the derivative component of the Convertible Note from the Completion on 1 April 2006 to 31 March 2007. This adjustment will have continuing effect on the Group in the subsequent financial years.

2.b. The elimination of the imputed interest of approximately HK$40,501,000 recorded in the combined income statement of the Acquired Group arising from the Sale Loans with the assumption that the Company has already acquired the Sale Loans at the beginning of the financial year. This adjustment will have continuing effect on the Group in the subsequent financial years.

3. The adjustment represents the share of result of 40% equity interest in ATD for the year ended 31 December 2006, based on the accountants' report of ATD as set out in Appendix V to this circular. This adjustment will have continuing effect on the Group in the subsequent financial years.

4. The amount represents the sum of adjustments stated in Notes 2a, 2b, 3 above and 51% of the adjustment in Note 1 as the Company will acquire 51% equity interest of the Acquired Interests upon the Completion.

5. The amount represents 49% of the adjustment in Note 1, 49% being the minority interest of the Acquired Interests upon the Completion.

	The Group as at 31.3.2007 HK$'000	Acquired Group as at 31.12.2006 HK$'000	Total HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Non-Current Assets						
Property, plant and equipment	1,473	563,578	565,051	177,453	2a	742,504
Investment property	–	404,996	404,996	966,244	2a	1,371,240
Interest in associated company	–	–	–	585,007	2d	585,007
Pledged bank deposits	–	351,718	351,718	–		351,718
Other assets	–	13,447	13,447	–		13,447
	1,473	1,333,739	1,335,212			3,063,916
Current Assets						
Inventories	1,581	2,836	4,417	–		4,417
Film costs	59,089	–	59,089	–		59,089
Available-for-sale financial assets	13,786	–	13,786	–		13,786
Trade receivables	5,759	29,973	35,732	–		35,732
Other receivables, deposits and prepayments	34,761	9,862	44,623	(12,869)	1c	31,754
Amounts due from related companies	41	140	181	–		181
Pledged bank deposit	13,853	–	13,853	–		13,853
Bank balances and cash	180,538	94,335	274,873	465,211	1a, 1b	740,084
	309,408	137,146	446,554			898,896
Current Liabilities						
Trade payables	92,859	5,830	98,689	–		98,689
Other payables and accrued charges	24,219	17,821	42,040	–		42,040
Tax liabilities	1,260	–	1,260	–		1,260
Amounts due to related companies	1,330	5,421	6,751	–		6,751
Preference dividend payable	673	–	673	–		673
Derivatives	–	–	–	184,000	3	184,000
Bank borrowings	12,853	34,811	47,664	–		47,664
	133,194	63,883	197,077			381,077
Net Current Assets	176,214	73,263	249,477			517,819
Total Assets Less Current Liabilities	177,687	1,407,002	1,584,689			3,581,735
Non-Current Liabilities						
Bank borrowings	–	172,474	172,474	–		172,474
Amounts due to related companies	–	1,028,530	1,028,530	(563,613)	2b	464,917
Convertible note	–	–	–	216,000	3	216,000
Other liabilities	–	187	187	–		187
Deferred tax liabilities	–	29,528	29,528	400,293	2a	429,821
	–	1,230,719	1,230,719			1,283,399
	177,687	176,283	353,970			2,298,336

	The Group as at 31.3.2007 HK$'000	Acquired Group as at 31.12.2006 HK$'000	Total HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Capital and Reserves						
Share capital	235,831	–	235,831	943,326	*1b*	1,179,157
Share premium and reserves	(58,144)	89,904	31,760	636,773	*1b, 2c*	668,533
Equity attributable to equity holders of the Company	177,687	89,904	267,591			1,847,690
Minority interests	–	86,379	86,379	364,267	*4*	450,646
Total equity	177,687	176,283	353,970			2,298,336

Notes:

1.a. The adjustment represents the net effect from (i) the payment of cash consideration of HK$922,647,000, being the cash settlement portion of the purchase price of the Acquisition as adjusted in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to this circular; and (ii) the payment of the estimated expenses in relation to the Acquisition and issuance of Convertible Note of approximately HK$13,231,000. In arriving at the above numbers, it is assumed that the Company will settle all cash consideration (including adjustment to purchase price) on Completion.

1.b. The adjustment represents increase in share capital of HK$943,326,000 as a result of the Rights Issues, increase in share premium of HK$471,663,000 and the net off with the estimated expenses in relation to Rights Issue of approximately HK$13,900,000 credited to share premium reserve account. In arriving at the above numbers, the Company has assumed that there is no Excluded Shareholders for the Rights Issue.

1.c. The total estimated expenses in relation to the Acquisition and issuance of Convertible Note and Rights Issue of approximately HK$40,000,000 included HK$12,869,000 expenses already paid by the Company as at 31 March 2007 and recorded as prepayments.

2.a. The adjustment represents the fair value adjustment and the deferred tax liabilities on property of the Acquired Interest excluding ATD as at 31 December 2006 arising from the valuation of the properties under the Acquired Interests excluding ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of the Acquired Interests excluding ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for the investment property and buildings, there is no other fair values changes to the assets and liabilities of the Acquired Interests excluding ATD at the Completion.

2.b. The adjustment represents the elimination of the Sale Loans acquired by the Company.

2.c. The adjustments represents the discount on the Acquisition of the Acquired Interests of approximately HK$179,010,000 credited to shareholders contribution reserve.

2.d. The adjustment represents the equity accounting of ATD, taking into account of the fair value changes in the property of ATD and the related deferred tax liabilities as at December 2006 arising from the valuation of the properties under ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for the property under development for sale, there is no other fair value changes to the assets and liabilities of ATD as at the Completion.

3. The adjustment represents the issuance of Convertible Note of HK$400,000,000 for the Acquisition. The Convertible Note was taken up in the pro forma financial information in accordance with Hong Kong Accounting Standard 39. The fair value of the derivatives component of the Convertible Note at Completion was assumed to be the same as that at 31 December 2006, being the latest practicable date to value the Convertible Note by an independent professional valuer, and amounted to approximately HK$184,000,000.

4. The amount represents 49% of the adjustment in Note 2.a., 49% being the minority interest of the Acquired Interests upon the Completion.

REASONS FOR AND BENEFITS OF THE ACQUISITION, THE CAPITAL INCREASE, THE RIGHTS ISSUE AND THE ISSUE OF CONVERTIBLE NOTE

The Company is an investment holding company. The Group is principally engaged in the provision of project services, network solutions, the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres and investments in production of television series and music concerts.

As stated in the circular of the Company dated 6 April 2004, the Directors intended to seek new business opportunities which would expand or complement the current activities of the Group. It is the intention of the Directors to explore the leisure and entertainment markets for opportunities in those sectors they perceive to have potential growth in the long run. The objective is to strive for better return to the Shareholders. The Directors believe that the benefits of a broadened revenue base for the Group will reinforce the growth strategy of the Company and diversify the geographical coverage of the Company's business interests. The net proceeds to be derived from the Rights Issue and the issue of the Convertible Note will be used to finance the Acquisition and to provide additional working capital to the Enlarged Group. The Directors believe that the benefits will be derived from the following:

Broadening the revenue base of the Group

As reported in the Company's interim report for the six months ended 30 September 2004, the Company recorded unaudited consolidated turnover and loss of approximately HK$5.7 million and HK$6.7 million respectively. In pursuit of its strategy to explore the business opportunities with potential growth in the long run, on 20 July 2004, the Company took a further step into the entertainment industry and announced its investment in a motion picture titled "Lovewrecked". In December 2004, the Group completed the acquisition of M8, which represented a further step into the entertainment industry. The Directors considered that the investment in the motion picture and M8 would enable the Group to increase its earning base and enhance its profitability. The Directors considered that the entering of the Acquisition Agreement was consistent with the long term strategy of the Group which would enhance the Group's earning base and profitability.

The Acquired Group had been incurring losses for the period from 8 May 2002 to 31 December 2004. Such losses were largely attributable to the fact that the construction and fitting out of the casino facilities within the Hotel Property were only substantially completed in early 2004 while the construction and fitting out of the hotel rooms within the Hotel Property were only substantially completed in early 2005. As a result, the Acquired Group was only able to record rental revenue from PAGCOR in respect of the casino facilities at the Hotel Property since February 2004 when part of the casino facilities were open while it was only able to record hotel revenue since September 2004 when certain hotel rooms were open to guests as a soft opening. For the year ended 31 December 2006, the Acquired Group recorded a turnover of approximately HK$319 million. The Directors believe that the Acquisition would substantially improve the revenue base of the Enlarged Group.

Reinforcing the growth strategy of the Group

According to an Asia Pacific Newsletter issued by the World Tourism Organisation in 2006, Asia and Pacific recorded another year of good growth in international tourist arrivals in 2005. This, amongst other things, reinforced the Company's confidence in the growth and development potential of entertainment businesses and therefore, it decided to effect the Acquisition. The Acquisition is in line with the Group's strategy to participate in the potentially lucrative business opportunities in the gaming and leisure industry to enhance the Group's profitability.

Diversifying the geographical coverage of the Group's business

Currently, the Group has business presence in Hong Kong, the PRC, Canada and the United States. As a result of the Acquisition, the Group will be able to extend its geographical reach to the Philippines and Macau. This will not only allow the Group to benefit from the economic growth of Macau and the Philippines but will also reduce any impact arising from poor performance of any particular economy.

FUTURE PLANS AND PROSPECTS

After Completion, the Directors intend to conduct a further detailed review of the existing businesses of the Group with a view to expanding the Enlarged Group's leisure and entertainment business operations and enhancing its long term profitability and long term growth potential. Please refer to the section headed "Statement of business objective" in this circular for details of the Group's business plans and strategies. This may include continued development of existing markets or expansion into new markets (both in terms of location and industry segment), as appropriate, where the Directors perceive potential growth in the long run. The Directors may in the future scale down or adjust areas of operations where appropriate.

In addition, the Directors will conduct a detailed review of its financial structure and the composition of its assets and liabilities and may consider further re-engineering such structure and composition in an optimal way.

Meanwhile, the Directors may also consider diversifying the Company's entertainment business and income source. The Directors will conduct a review of businesses and projects held by the Enlarged Group and the Independent Third Parties and determine the possibility of acquisition of these businesses and projects by the Enlarged Group in the future.

DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive Directors

Dr. Cheng Kar Shun, aged 60, was appointed as an executive Director in July 2004. Dr. Cheng is the managing director of New World Development Company Limited, the chairman and managing director of New World China Land Limited, NWS Holdings Limited and Taifook Securities Group Limited and the independent non-executive director of HKR International Limited, all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of CTF, Future Growth Limited and Mediamaster Limited, which are the wholly owned subsidiaries of the Company. Dr. Cheng is the chairman of the Advisory Council for the Better Hong Kong Foundation and a committee member of the Tenth Chinese People's Political Consultative Conference of the PRC. In 2001, he was awarded the Gold Bauhinia Star by the Government of Hong Kong.

Dr. Cheng previously held directorships as executive director of New World Mobile Holdings Limited (resigned on 1 February 2007) and New World TMT Limited (whose listing status on the Stock Exchange was withdrawn with effect from 21 February 2006).

Save as disclosed above, Dr. Cheng does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in the Shares within the meaning of Part XV of the SFO.

There is no service contract between Dr. Cheng and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Dr. Cheng received a director's fee of HK$500,000 for the year ended 31 March 2007. The remuneration of the Directors is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions.

There is no information relating to Dr. Cheng that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. Lo Lin Shing, Simon, aged 51, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of CME and IMM since 1986. Mr. Lo is the chairman of Mongolia Energy Corporation Limited (former known as New World CyberBase Limited) and New World Mobile Holdings Limited. He is also the deputy chairman of Taifook Securities Group Limited and a non-executive director of Macau Prime Properties Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange. He is a director of Mediamaster Limited, IEC Production Limited, Future Growth Limited and Lucky Genius Limited, which are the wholly owned subsidiaries of the Company.

Mr. Lo previously held directorship as a non-executive director of Beijng Beida Jade Bird Universal Sci-Tech Company Limited (resigned on 4 April 2007).

Mr. Lo does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He has a corporate interest of 364,800 Shares within the meaning of Part XV of the SFO.

There is no service contract between Mr. Lo and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Lo received a director's fee of HK$500,000 for the year ended 31 March 2007.

There is no information relating to Mr. Lo that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. To Hin Tsun, Gerald, aged 58, was appointed as executive Director in June 2006. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. He is currently the senior and managing partner of Messrs. T. S. Tong & Co., Solicitors and Notaries. Mr. To is a non-executive director of Taifook Securities Group Limited, Monogolia Energy Corporation Limited (formerly known as New World CyberBase Limited) and NWS Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange.

Mr. To previously held directorships as non-executive director of The Kwong Sang Hong International Limited (whose listing status on the Stock Exchange was withdrawn with effect from 3 February 2005) and executive director of New World Mobile Holdings Limited (resigned on 1 February 2007).

Apart from the abovementioned, Mr. To has co-investments with CTF which include interest in the Hotel Group and from time to time acts as solicitor and business consultant for certain directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in the Shares within the meaning of Part XV of the SFO.

There is no service contract between the Company and Mr. To. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. To received a director's fee of HK$376,712 for the year ended 31 March 2007.

There is no information relating to Mr. To that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. Choi Wing Kin, aged 45, was appointed as executive Director in May 2001. He was the founder and an executive director of Cyber On-Air Limited (a wholly owned subsidiary of the Company). He has over 20 years' experience in information technology and telecommunications industry. Professionally, Mr. Choi possesses a Chartered Engineer qualification from the Engineering Council (UK) and is a member of The Institution of Electrical Engineers (UK) and a member of The Hong Kong Institution of Engineers (HK). He has a Bachelor of Science degree in Electronics and Computer Science from the Chinese University of Hong Kong. He is a director of COAGL, Cyber On-Air Limited, Cyber On-Air Services Limited, China On-Air Inc., 廣州創博數碼科技有限公司, Cyber On-Air Inc., 上海創博數碼科技有限公司, China On-Air Limited, Cyber On-Air (Asia) Limited, Cyber On-Air Multimedia Limited, Anbo Global Company Limited and 廣東安博信息服務有限公司, which are the wholly owned subsidiaries of the Company.

Mr. Choi does not hold any directorship in any listed public companies in the preceding 3 years from the date of this circular.

Mr. Choi does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He has a personal interest of 1,329,600 Shares within the meaning of Part XV of the SFO.

There is no service contract between Mr. Choi and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Choi received a director's fee of HK$100,000 for the year ended 31 March 2007.

There is no information relating to Mr. Choi that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. So Kam Wing, aged 47, joined the Group in January 2002 as vice president of technical operations and was appointed as an executive Director in October 2002. He is responsible for direction steering and management of the overall daily operation of the Group in Hong Kong and Asia Pacific region. Mr. So obtained several academic qualifications including Master of Science in E-Commerce for Executives and Higher Diploma in Marine Electronics from Hong Kong Polytechnic University, Graduate Diploma in Management in The Hong Kong University of Science and Technology, Professional Diploma in Telecommunication Technology from Hong Kong Management Association. Mr. So has over 15 years of experience in the field of telecommunications. He is a director of COAGL, Cyber On-Air Limited, Cyber On-Air Services Limited, 廣州創博數碼科技有限公司, 上海創博數碼科技有限公司, China On-Air Limited, Cyber On-Air (Asia) Limited, Cyber On-Air Multimedia Limited, Anbo Global Company Limited and 廣東安博信息服務有限公司, which are the wholly owned subsidiaries of the Company.

Mr. So does not hold any directorship in any listed public companies in the preceding three years from the date of this circular.

Mr. So does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He has a personal interest of 49,200 Shares within the meaning of Part XV of the SFO.

There is no service contract between Mr. So and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. So received a director's fee of HK$100,000 for the year ended 31 March 2007.

There is no information relating to Mr. So that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Non-executive Director

Mr. Wu Wing Kin, aged 51, was appointed as a non-executive Director in May 2001. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Wu is presently the general manager of Phillip Securities (HK) Ltd. and Phillip Commodities (HK) Ltd. and is also an ordinary member of the Hong Kong Securities Institute. He has more than 20 years of working experience in the financial, securities and futures industries.

Mr. Wu previously held directorship as an executive director of China Cyber Port (International) Company Limited (formerly known as Chinainfo Holdings Limited and HK6 Holdings Limited) (resigned on 8 June 2004).

Mr. Wu does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in Shares within the meaning of Part XV of the SFO.

There is no service contract between Mr. Wu and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Wu received a director's fee of HK$120,000 for the year ended 31 March 2007.

There is no information relating to Mr. Wu that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Independent non-executive Directors

Mr. Kwee Chong Kok, Michael, aged 60, was appointed as an independent non-executive Director in September 2004. He is also a member of the remuneration committee of the Company. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Gradate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States. Mr. Kwee is the chairman and chief executive officer of PAMA Group Inc. He is also an independent non-executive director of The Sun's Group Limited, the issued shares of which are listed on the Stock Exchange. He served as a member of the Hong Kong Advisory Committee on Legal Education and Hong Kong Financial Secretary's Economic Advisory Committee from 1995 and 2004.

Mr. Kwee does not hold any directorship in any listed public companies in the preceding three years from the date of this circular.

Mr. Kwee does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in Shares within the meaning of Part XV of the SFO.

There is no service contract between Mr. Kwee and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Kwee received a director's fee of HK$110,000 for the year ended 31 March 2007.

There is no information relating to Mr. Kwee that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. Cheung Hon Kit, aged 53, was appointed as an independent non-executive Director in May 2001. He is also a member of the audit committee of the Company. Mr. Cheung has over 28 years of experience in real estate development and property investment. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked in key executive position in various leading property development companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and the managing director of Wing On Travel (Holdings) Limited and the chairman and an executive director of Macau Prime Properties Holdings Limited and an independent non-executive director of Innovo Leisure Recreation Holdings Limited, all of which are companies whose issued shares are listed on the Stock Exchange.

Mr. Cheung previously held directorships as an executive director of PYI Corporation Limited (former known as Paul Y. – ITC Construction Holdings Limited) (resigned on 8 September 2005), a non-executive director of Hanny Holdings Limited (resigned on 1 September 2005), and an independent non-executive director of Towngas China Company Limited (former known as Panva Gas Holdings Limited) (resigned 23 May 2007) and Paul Y. Engineering Group Limited (formerly known as Skynet (International Group) Holdings Limited) (resigned on 17 January 2005).

Mr. Cheung does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in Shares within the meaning of Part XV of SFO.

There is no service contract between Mr. Cheung and the Company. The term of his office as director of the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Cheung received a director's fee of HK$110,000 for the year ended 31 March 2007.

There is no information relating to Mr. Cheung that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Mr. Wong Chi Keung, aged 52, was appointed as an independent non-executive Director in September 2004. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Wong holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong was also a responsible officer for advising on securities, corporate finance and asset management activities for Legend Capital Partners, Inc. under the SFO. He is the managing director of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Ting Group Holdings Limited, Fu Ji Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies whose issued shares are listed on the Stock Exchange.

Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (resigned on 5 October 2004), and an independent non-executive director of China Treasure (Greater China) Investments Limited (resigned on 18 January 2006).

Mr. Wong does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders (as respectively defined in the GEM Listing Rules) of the Company. He does not have any interests in Shares within the meaning of Part XV of SFO.

There is no service contract between Mr. Wong and the Company and his term of service with the Company will be subject to rotation and retirement pursuant to the Articles and the GEM Listing Rules. Mr. Wong received a director's fee of HK$120,000 for the year ended 31 March 2007.

There is no information relating to Mr. Wong that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules.

Senior management

Mr. Lee Sammy Sean, aged 48, is the chairman of M8. He joined the M8 Group in July 2002. Mr. Lee is a lawyer by training and is experienced in business transaction structuring and corporate consulting.

Mr. Tse Cho Tseung, aged 53, joined the Group as chief operating officer in November 2005. Mr. Tse is responsible for overall general operation of the Group. He holds a Diploma in Accounting from The Hong Kong Baptist University and has over 25 years of experience in accounting and finance, construction, property development and investment, and trading business.

Mr. Kwok Chi Kin, aged 30, joined the Group as chief financial officer and was appointed as Qualified Accountant and Company Secretary in May 2004. He is responsible for the finance and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is a Certified Public Accountant in Hong Kong and a fellow member of The Association of Chartered Certified Accountants. He has about 8 years of auditing experience and accounting experience in listed companies in Hong Kong.

At present, the Company does not intend to change the majority of the composition of the Board and the senior management of the Company upon Completion.

Audit committee

The Company has established an audit committee for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls, with written terms of reference in compliance with the requirements of the GEM Listing Rules.

The current audit committee comprises two independent non-executive Directors, namely Mr. Cheung Hon Kit (chairman of the audit committee) and Mr. Wong Chi Keung, and a non-executive Director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review the Company's annual report, interim reports and quarterly reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items which may be needed to be reflected in such reports. The audit committee will also be responsible for reviewing and supervising the financial reporting process and the internal control procedures of the Group.

Remuneration committee

The Board has established a remuneration committee which has three members, comprising two independent non-executive Directors, Mr. Wong Chi Keung and Mr. Kwee Chong Kok, Michael, and a non-executive Director, Mr. Wu Wing Kin. The primary duties of the remuneration committee are, inter alia, to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The remuneration of Directors and senior management of the Company is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions.

Staff

As at 31 March 2007, the Group had 25 employees in Hong Kong and 14 employees in the United States, and the Acquired Group had a total of approximately 394 employees.

The Company operates retirement benefits scheme for its employees in Hong Kong, details of which are set out in Appendix III to this circular.

COMPLIANCE ADVISER

The Company intends to appoint Hantec Capital Limited as its compliance adviser pursuant to Rule 6A.23 of the GEM Listing Rules with effect from the date of Completion. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases; and

(3) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

Subject to Completion, the term of the appointment will commence on the date of Completion and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of Completion.

FURTHER ACQUISITIONS OR DISPOSALS OF ASSETS BY THE GROUP

The Stock Exchange has stated that if the Company remains as a listed company, any further acquisitions or disposals of assets by the Company or its subsidiaries will be subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its Shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as a new application for listing and subject to the requirements for new applicants as set out in the GEM Listing Rules.

CONNECTED TRANSACTIONS

Ongoing transactions

The following transactions have been carrying out by the Group and its connected persons (as defined in the GEM Listing Rules) and are expected to continue following the completion of the Acquisition.

Tenancy agreement

The Group has entered into a tenancy agreement with New World Tower Company Limited ("NWTCL") for the lease of two units on 12th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong. NWTCL, a wholly-owned subsidiary of New World Development Company Limited, is regarded as a connected person of the Company under the GEM Listing Rules and the entering into of the tenancy agreement constituted continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

The lease of the said two units covers the period from 15 January 2007 to 14 November 2009. The maximum aggregate annual value of the transaction (including the rent, air-conditioning and management charges) under the said tenancy agreement is approximately HK$680,400.

As the maximum amount of the annual rental payable under the tenancy agreement is less than HK$1,000,000 and is less than 2.5% of the applicable percentage ratios of the Company as specified in Rule 19.07 of the GEM Listing Rules, the transaction is therefore exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.33 of the GEM Listing Rules.

Discontinued transactions

A. The following transactions have taken place between the Group and connected persons (as defined in the GEM Listing Rules) of the Company during the Track Record Period and have either been terminated or have completed prior to the Latest Practicable Date.

Tenancy agreements

The Group has entered into three tenancy agreements with NWTCL for (i) the lease of Rooms 1502-3, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong from 24 May 2004 to 23 May 2006 at a monthly rent of HK$43,524 (including air-conditioning and management charges); (ii) the lease of Rooms 1504-5, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong from 15 February 2005 to 23 May 2006 at a monthly rent of HK$40,091 (including air-conditioning and management charges); and (iii) the lease of Rooms 1502-5, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong (collectively the "Premises") from 24 May 2006 to 23 May 2008 at a monthly rent of HK$124,047 (including air-conditioning and management charges) respectively. NWTCL, a wholly-owned subsidiary of New World Development Company Limited, is regarded as a connected person of the Company under the GEM Listing Rules and the entering into of the tenancy agreements constituted continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. The Directors consider that these transactions were entered into on normal commercial terms and in the ordinary and usual course of business of the Group and the terms are fair and reasonable and in the interests of the Shareholders as a whole. Details of these transactions have been set out in the announcements of the Company dated 10 August 2004, 24 February 2005 and 23 May 2006 respectively. For the year ended 31 March 2006 and 31 March 2007, the Group recorded total rentals (including air-conditioning and management charges) under the aforesaid leases amounting to approximately HK$1,003,000 and HK$1,086,000 respectively. The lease of the Premises was terminated by mutual agreement and the Group surrendered the Premises to the landlord on 14 February 2007.

B. The following transactions have taken place between the Acquired Group and connected persons (as defined in the GEM Listing Rules) of the Company and have either ceased or have completed prior to the Latest Practicable Date.

Project management

For the two years ended 31 December 2005, the Acquired Group employed Hip Hing Construction Company Limited ("Hip Hing") as the project manager in relation to the renovation and construction of the Hotel Property. Hip Hing, an associate of CTF, is regarded as a connected person of the Acquired Company under the GEM Listing Rules and therefore such transaction constituted connected transaction under Chapter 20 of the GEM Listing Rules for the Acquired Company. For the year ended 31 December 2004, the Acquired Group recorded a project management fee of approximately HK$20.0 million in relation to the project management services provided by Hip Hing. For the year ended 31 December 2005, the Acquired Group recorded another sum of approximately HK$6.0 million as project management fee. The total management fee was calculated with reference to the renovation and construction cost incurred for works done at the Hotel Property. The directors of the Acquired Company are of the view that this transaction has been entered into in the ordinary and usual course of business of the Acquired Group and on commercial terms. The project management services has already ceased as the relevant works have been completed.

Purchase of construction materials

For the year ended 31 December 2004, the Acquired Group purchased certain construction materials from certain associates of CTF for the renovation and construction of the Hotel Property. Such purchases constituted connected transactions for the Acquired Company under Chapter 20 of the GEM Listing Rules. For the two years ended 31 December 2004 and 31 December 2005, the Acquired Group recorded total purchases of construction materials from the associates of CTF of approximately HK$1.8 million and HK$0.1 million respectively. In addition, the Acquired Group had also obtained certain landscape consultancy services from an associate of CTF. For the two years ended 31 December 2004 and 31 December 2005, the Acquired Group recorded landscape service fees of approximately HK$84,000 and HK$17,000 respectively. The directors of the Acquired Company are of the view that these transactions have been entered into in the ordinary and usual course of business of the Acquired Group and on commercial terms. The directors of the Acquired Company expect that the relevant transactions will not continue as the relevant construction works have been completed.

Tenancy agreement

The Acquired Group entered into a tenancy agreement with NWTCL for the lease of Unit 1902A, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong. NWTCL, an associate of CTF, is regarded as a connected person of the Acquired Company under the GEM Listing Rules and the entering into of the tenancy agreement constituted a connected transaction for the Acquired Company under Chapter 20 of the GEM Listing Rules. The lease covered the period from 16 October 2003 to 15 October 2005 and the monthly rental was HK$20,165 (including air-conditioning and management charges). The unit was occupied by the Acquired Group as an administrative office. For the year ended 31 December 2004 and 31 December 2005, the Acquired Group recorded total rentals of approximately HK$275,000 and HK$62,000 respectively. The lease was terminated on 31 March 2005 by mutual agreement.

Connected transactions

Provision of installation service

On 18 April 2007, the Group has entered into a project service agreement ("Project Service Agreement") with New World Telecommunications Limited for the provision of installation service of indoor cellular stations in a property in Hong Kong. New World Telecommunications Limited, an associate of CTF, is regarded as a connected person of the Company under the GEM Listing Rules and the entering into of the Project Service Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

The total service fee payable under the Project Service Agreement is approximately HK$2,282,000. The Directors consider that this transaction is in the ordinary and usual course of business of the Group and on normal commercial terms and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of this transaction have been set out in the announcement of the Company dated 18 April 2007.

As each of the applicable percentage ratios as specified in Rule 19.07 of the GEM Listing Rules is less than 2.5%, this transaction is subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements.

GENERAL

Since the aggregate audited combined total asset value of the Acquired Company exceeds 100% of that of the Company and the Purchase Price exceeds 100% of the market capitalisation of the Company at the time of entering into the Original Agreement, the Acquisition constitutes a very substantial acquisition of the Company pursuant to the GEM Listing Rules. Given that the Original Agreement was entered into within 24 months of CTF becoming the controlling Shareholder, the Stock Exchange indicated that it would treat the Company as a new listing applicant if the Acquisition proceeds to Completion.

As Cross-Growth is beneficially and wholly owned by CTF and CTF is the beneficial owner of Mediastar, the controlling Shareholder, the Acquisition and the issue of the Convertible Note also constitute connected transactions for the Company, which are subject to the approval of the Independent Shareholders at the EGM pursuant to Rule 20.52 of the GEM Listing Rules. The Rights Issue will increase the issued share capital of the Company by more than 50%. Thus, the Rights Issue is also subject to the approval of the Shareholders at the EGM pursuant to Rule 10.29 of the GEM Listing Rules. Mediastar, CTF and their respective associates will abstain from voting on the proposed resolutions approving the Acquisition, the issue of the Convertible Note and the Rights Issue at the EGM.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the Rights Issue and the exercise of the conversion right under the Convertible Note.

The Acquired Interests meet the requirements under Rule 11.12(1) of the GEM Listing Rules and the Enlarged Group meets all the other basic conditions set out in Chapter 11 of the GEM Listing Rules. A new listing application in respect of the Acquisition has been made to the Listing Committee of the Stock Exchange. **Such application may or may not be approved by the Listing Committee of the Stock Exchange and completion of the Acquisition is also subject to other conditions. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

No part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought. Taifook Capital is the financial adviser to the Company in respect of the Acquisition and Taifook Capital and Somerley are the Joint Sponsors to the Company's new listing application.

Pursuant to Rule 17.29 of the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company may be issued or form the subject of any agreement to such an issue within 6 months from the date of Completion. Accordingly, no conversion of part or all of the Convertible Note is allowed within 6 months from Completion.

Pursuant to Rule 13.17 of the GEM Listing Rules, the Company shall procure, amongst other things, that every significant Shareholder undertakes to the Company and the Stock Exchange that for a period commencing on the date by reference to which disclosure of the shareholding of the significant Shareholder is made in the listing document and ending on the date which is 6 months from the listing date (the "Restriction Period"), such significant Shareholder will not, save for the exceptions stated in Rule 13.18 of the GEM Listing Rules, dispose of or permit the registered holder to dispose of any of its direct and indirect interest in the relevant securities.

Pursuant to the Underwriting Agreement, CTF agreed to act as the underwriter to the Rights Issue. As CTF is a significant Shareholder as defined under the GEM Listing Rules, such restriction on disposal of Shares pursuant to Rule 13.17 of the GEM Listing Rules will apply to CTF as a result of the deemed new listing.

If the Rights Shares are not taken up by the Shareholders, the public float for Shares may fall under 25% on Completion. It may be desirable or necessary, in order to bring public float up to 25% during the Restriction Period, for CTF to sell its Shares to Independent Third Parties. The Company, CTF and Mediastar undertake they will make prior arrangements before Completion to ensure the minimum public float of the Shares prescribed under the GEM Listing Rules is maintained immediately after the issue of the Rights Shares.

Accordingly, the Company and CTF have applied for and obtained from the Stock Exchange a waiver from strict compliance with the requirements under Rule 13.17 of the GEM Listing Rules so that CTF may dispose of or permit the registered holder to dispose of certain Shares within the Restriction Period for the sole purpose of restoring the public float to meet the minimum requirement under the GEM Listing Rules.

The Stock Exchange has stated that it will closely monitor the trading in the Shares on the Stock Exchange. If less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading in the Shares; or**

- **there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend dealings in the Shares.

VOTING ON POLL

Pursuant to article 66 of the Articles, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

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

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

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

By virtue of the Articles, unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman of such meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number, or proportion of the votes recorded for or against the resolution.

In compliance with the GEM Listing Rules, the Company will procure the chairman of the EGM to demand for voting on poll, pursuant to article 66(a) of the Articles, for the ordinary resolutions set out in the notice of the EGM in relation to the Acquisition, the issue of the Convertible Note and the Rights Issue.

EGM

The EGM will be held at 11:00 a.m. on 1 August 2007 at Room 605, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong. Notice of the EGM is set out on pages EGM-1 to EGM-4 of this circular. At the EGM, ordinary resolutions will be proposed to approve the Acquisition, the Rights Issue, the Capital Increase and the issue of Convertible Note by way of poll. As far as the Company is aware after having made all reasonable enquiries, as at the Latest Practicable Date, Mediastar, CTF and their respective associates were altogether beneficially interested in 120,000,079 Shares (representing approximately 50.9% of the issued share capital of the Company), being the number of Shares in respect of which Mediastar, CTF and their respective associates will control or will be entitled to exercise control over the voting right at general meeting of the Company. Mediastar, CTF and their respective associates will abstain from voting on the proposed ordinary resolutions to approve the Acquisition, the Rights Issue, the issue of the Convertible Note and the Capital Increase at the EGM in respect of all their Shares. No voting trust or other agreement or arrangement or understanding (other than an outright sale) has been entered into by or binding upon Mediastar, CTF and/or any of their respective associates; and there was no obligation or entitlement of Mediastar, CTF or any of their respective associates as at the Latest Practicable Date, whereby Mediastar, CTF and/or their respective associates has/have or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/their Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed. Shareholders are requested to complete the enclosed form of proxy and return the same to the Company's branch share registrar in Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time for the holding of the EGM or any adjournment thereof whether or not they intend to be present at the EGM. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish.

RECOMMENDATION

The Independent Board Committee comprising Messrs. Cheung Hon Kit, Kwee Chong Kok, Michael and Wong Chi Keung has been established to consider the Acquisition, the Rights Issue and the issue of Convertible Note and to advise the Independent Shareholders as to the fairness and reasonableness of the respective terms of the Acquisition Agreement, the Rights Issue and the Convertible Note and as to the manner in which the Independent Shareholders should vote at the EGM. Messrs. Cheung Hon Kit, Kwee Chong Kok, Michael and Wong Chi Keung are eligible for appointment as members of the Independent Board Committee since (a) they are not personally interested in the Acquisition; (b) they have not carried out any executive functions in the Company or any of its subsidiaries; and (c) as at the Latest Practicable Date, none of them was interested in more than 1% of the issued share capital of the Company (as disclosed in the section headed "Directors of the Company and Senior Management of the Group" of this letter). CIMB-GK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition Agreement, the Rights Issue and the Convertible Note. The text of the letter from CIMB-GK containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders, together with the principal factors taken into account in arriving at its recommendation, is set out on pages 125 to 154 of this circular.

The Acquisition, having been negotiated on an arm's length basis, is on normal commercial terms (or better for the Company). Having considered, among other things, (i) the 51% interest in the Hotel Group being priced at a discount to the adjusted value of the Hotel Group; (ii) 40% interest in ATD being priced at cost to Cheung Hung; (iii) the terms of the Convertible Note being comparable to those issued under similar types of transaction in the market; (iv) the perceived growth and development potential of the Hotel Group and ATD in the respective markets they are situated; (v) the potential benefit of the Acquisition to the Group; and (vi) the financial performance of the Acquired Company, the executive Directors consider that the Acquisition, the Rights Issue and the issue of Convertible Note are in the interests of the Company and the Shareholders as a whole and recommend that they vote in favour of all the ordinary resolutions set out in the notice of the EGM. The Independent Board Committee, having taken into account the advice of CIMB-GK, considers that the respective terms of the Acquisition Agreement, the Rights Issue and the Convertible Note are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are also in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of the EGM to approve the Acquisition, the Rights Issue and the issue of the Convertible Note.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the sections headed "Risk factors", "Industry overview", "Additional information relating to the casino located in the Hotel" and the appendices to and the notice of the EGM set out in this circular.

Yours faithfully,
For and on behalf of the Board
International Entertainment Corporation
Dr. Cheng Kar Shun
Chairman

INTERNATIONAL ENTERTAINMENT CORPORATION
國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

29 June 2007

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
TREATED AS A REVERSE TAKEOVER AND
AN APPLICATION FOR NEW LISTING AND
CONNECTED TRANSACTION INVOLVING
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
FORTUNE GATE OVERSEAS LIMITED
AND POSSIBLE ISSUE OF CONVERTIBLE NOTE
AND
POSSIBLE RIGHTS ISSUE TO RAISE ABOUT HK$1,415 MILLION
FROM QUALIFYING SHAREHOLDERS AT
HK$1.5 PER RIGHTS SHARE
AND
INCREASE IN AUTHORISED SHARE CAPITAL**

INTRODUCTION

We refer to the circular dated 29 June 2007 ("Circular") issued by the Company to its Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires. We, being the three independent non-executive Directors who are independent of the Acquisition, the Rights Issue and the issue of the Convertible Note, have been appointed by the Board to constitute the Independent Board Committee to advise you as Independent Shareholders whether in our view the respective terms of the Acquisition Agreement, the Rights Issue and the Convertible Note are in the interests of the Company and the Independent Shareholders as a whole. CIMB-GK has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The respective terms of the Acquisition Agreement, the Rights Issue and the Convertible Note are summarised in the section headed "Letter from the Board" in the Circular. The advice of CIMB-GK to the Independent Board Committee and the Independent Shareholders is in a detailed letter set out on pages 125 to 154 of the Circular.

RECOMMENDATION

The Independent Board Committee has discussed with the Company's management the reasons for the Acquisition, the Rights Issue and the issue of the Convertible Note and has also discussed with CIMB-GK the bases of its advice. Taking into account the principal factors and reasons considered and highlighted in this letter and the recommendation given by CIMB-GK, the Independent Board Committee considers that the respective terms of the Acquisition Agreement, the Rights Issue and the Convertible Note are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are also in the interests of the Company and the Shareholders as a whole and concurs with the recommendation given by CIMB-GK that the respective terms of the Acquisition, the Rights Issue and the Convertible Note are fair and reasonable and that you vote in favour of the ordinary resolutions set out in the notice of the EGM in relation to the Acquisition Agreement, the Rights Issue and the issue of the Convertible Note.

Yours faithfully,
THE INDEPENDENT BOARD COMMITTEE
Cheung Hon Kit, Kwee Chong Kok, Michael, Wong Chi Keung
Independent Non-executive Directors

The following is the text of the letter from CIMB-GK, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of incorporation in this circular.

CIMB

CIMB-GK Securities (HK) Limited

25/F, Central Tower
28 Queen's Road Central
Hong Kong

29 June 2007

To the Independent Board Committee and the Independent Shareholders of International Entertainment Corporation

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION,
CONNECTED TRANSACTION,
POSSIBLE ISSUE OF CONVERTIBLE NOTE
AND
POSSIBLE RIGHTS ISSUE**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the respective terms of the Acquisition Agreement, the Convertible Note and the Rights Issue, details of which are contained in a circular (the "Circular") issued by the Company to the Shareholders dated 29 June 2007, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. Cross-Growth is wholly owned by CTF which is the holding company of Mediastar, the controlling Shareholder holding approximately 50.9% of the Company's issued share capital, and hence it is a connected person of the Company. The Acquisition and the issue of the Convertible Note also constitute connected transactions for the Company under the GEM Listing Rules and are subject to the approval of the Independent Shareholders at the EGM by a vote to be taken on poll. Concurrent with the Acquisition, the Company also announced the proposed Rights Issue whereby the proceeds thereof would be utilized to partly finance the Acquisition. Given the basis of four Rights Shares for every existing Share, the Rights Issue requires the approval of the Independent Shareholders at the EGM. Completion of the Acquisition and the Rights Issue are inter-conditional upon each other. CTF and its associates will abstain from voting in relation to the proposed resolutions approving the Acquisition, the issue of the Convertible Note and the Rights Issue.

The Independent Board Committee comprising Messrs. Cheung Hon Kit, Kwee Chong Kok, Michael and Wong Chi Keung, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as regards the respective terms of the Acquisition, the Convertible Note and the Rights Issue.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. The Directors have declared in a responsibility statement set out in Appendix IX to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or the Acquired Interests or CTF or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in respect of the respective terms of the Acquisition, the Convertible Note and the Rights Issue, we have considered the following principal factors and reasons:

1. Financial information on the Group

The present principal businesses of the Group are the provision of project services, network solutions, the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres and investments in production of television series and music concerts.

Since the listing of the Shares in July 2000, the Group had reported losses from its business operations. The consolidated net loss of the Group for the recent three financial years ended 31 March 2007 amounted to approximately HK$29.9 million, HK$195.1 million and HK$110.8 million, respectively.

For the year ended 31 March 2005, the Group had effected capital restructuring and fund raising exercises during the year so as to improve its capital base and cashflow position. Following completion of the capital restructuring and the fund raising exercises effected in mid-2004, the Group further expanded its media business by acquiring M8, an independent picture production and distribution group in North

America in December 2004 with an aim to increase the Group's earnings base. As a result of all these efforts, the Group's losses narrowed to approximately HK$29.9 million for the year ended 31 March 2005 as compared to a net loss of approximately HK$35.6 million recorded in the previous year.

For the year ended 31 March 2006, the net loss of the Group widened significantly from approximately HK$29.9 million to approximately HK$195.1 million, which was stated in the 2006 annual report of the Company to mainly due to the write-downs on some of the film costs, the increase in the general and administrative costs, selling and distribution costs and impairment loss recognised for the goodwill arising on acquisition of subsidiaries during the year.

For the year ended 31 March 2007, the Group's turnover was approximately HK$137.3 million, representing a decrease of approximately 49.9%, as compared with approximately HK$274.3 million for the last year. The net loss of the Group narrowed from approximately HK$195.1 million to approximately HK$110.8 million for the year ended 31 March 2007, which as stated in the result announcement of the Company was mainly due to the decrease in write-downs of film costs, the decrease in the marketing expenses for film production, decrease in distribution expenses and decrease in allowance for bad and doubtful debts during the year.

2. Rationale for the Acquisition

We note that it is the stated business strategy of the Group to seek new business opportunities which would expand or complement the current activities of the Group with an objective to strive for better return to the Shareholders. In November 2004 and 26 June 2007, the Company entered into the Original Agreement and the Supplemental Agreement to acquire an effective 51% interest in the Hotel Group for the initial Purchase Price of HK$835 million (subject to adjustments), and had been granted the Purchase Option to acquire the Macau Interest for HK$363.2 million (subject to adjustment). The Directors believe that the Acquisition is in line with the Group's business strategy to broaden the revenue and earnings base of the Group, and to further expand the Group's entertainment business. To finance the Acquisition, the Company will issue the Convertible Note and effect the Rights Issue on the basis of four Rights Shares for every existing Share held on the Record Date.

From our discussion with the management of the Hotel Group, we understand that the Hotel is the latest super deluxe international hotel in Manila. The Directors believe that in addition to the uniqueness of being the latest five-star deluxe and contemporary hotel opening in Manila in recent years, the other competitive edges of the Hotel are its location, facilities, high quality customer services (as managed by Hyatt International Group), authentic cuisine and casino. As noted from the section headed "Industry Overview" in the Circular, according to the Department of Tourism, Philippines, in 2001-2006, the average number of tourist arrival to the Philippines was approximately 2.23 million per year. In 2006, the total number of visitors to the Philippines amounted to approximately 2.84 million, representing an increase of 8.4% as compared to 2005. The compound annual growth rate of the tourist arrival in the Philippines between 2001 and 2006 is approximately 9.6%. Based on the same source of information, in 2006, the average number of hotel rooms in Metro Manila, Philippines was 14,200, increased by approximately 10.6% as compared to 2005. The overall occupancy rate of hotel rooms in Metro Manila in 2006 was approximately 71.9%, with occupancy rate of deluxe class hotels increased to approximately 73.6%. For the gaming industry, we also note that pursuant to the COA, Philippines, the annual total gaming revenue of PAGCOR amounted to approximately Peso20,787 million in 2005. The total gaming income of PAGCOR recorded a compound annual growth rate of approximately 11.2% from 1999 to 2005.

Given the prospects of the hotel industry in Macau, on 17 March 2005, the Company exercised the Purchase Option to acquire the Macau Interest for HK$363.2 million (subject to adjustment). The major asset of ATD is the Macau Property. We have been advised by the Directors that based on the current development plan, the Macau Property will be developed into a deluxe residential, hotel (with casino) and entertainment complex.

In terms of market prospects of Macau, we note that the number of tourists continued to increase in recent years and reached approximately 22.0 million in 2006, representing a compound annual growth rate of approximately 16.7% since 1999. The overall occupancy rate of the hotel rooms in Macau also increased from approximately 53.7% in 1999 to approximately 72.3% in 2006. As regards the gaming industry, we note that in 2006, Macau's gaming industry generated a total revenue of approximately MOP55.9 billion, representing a compound annual growth rate of approximately 23.4% from 2001 to 2006.

Given the respective business prospects of the tourism and gaming industry in the Philippines and in Macau, the Directors believe that the Acquisition will enable the Group to take advantage of the economic and tourism growth in these two markets, and represents an opportunity to improve the Group's business performance as well as to extend its international presence.

Notwithstanding the fact that the Original Agreement was entered into in November 2004, having considered the above factors, particularly the financial performance of the Group's existing business in recent years, the stated business objectives of the Group, and the industry prospects of the hotel and gaming businesses in the Philippines and Macau, we concur with the views of the Directors that the Acquisition is still in the interests of the Company and the Shareholders as a whole. Shareholders should also note that the future business performance of the Acquired Interests relates to future events, and consequently, we express no opinion as to how closely the actual performance of the Acquired Interests corresponds with the industry and growth prospects of the general tourism and gaming industries in the Philippines and Macau.

3. The Acquisition

(a) Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire the following:

i) the Sale Shares, represent the entire issued share capital of the Acquired Company held by the CTF Group at Completion, which, upon Completion, will own 51% equity interest in the Hotel Group and 40% equity interest in ATD; and

ii) the Sale Loans, which, upon Completion, will represent the aggregate of 51% of the associated loans due from the Hotel Group to the CTF Group, and the investment costs to Cheung Hung its 40% attributable interest in ATD.

The Acquired Company was incorporated in the BVI on 8 November 2004 to facilitate the Acquisition. It has no business activities, operations, assets or liabilities since its incorporation up to the Latest Practicable Date other than entering into the transactions to effect the Reorganisation as stipulated in the Acquisition Agreement.

The Company has also exercised the Purchase Option on 17 March 2005 to acquire the Macau Interest for HK$363.2 million (subject to adjustment), which will also be financed by the net proceeds from the Rights Issue. The Acquired Company will, upon Completion, own 51% equity interest in the Hotel Group and 40% equity interest in ATD. The Acquired Company is the owner of the Hotel which is being operated by the Hyatt International Corporation group, an independent third party, as a super deluxe hotel. The Acquired Group owns and/or leases properties which are used or to be used for hotel, casino and ancillary leisure and entertainment operations. The Hotel has commenced to receive guests in September 2004 whilst casino which is located inside the Hotel is operated and managed by PAGCOR pursuant to the PAGCOR Charter and has commenced operation in February 2004.

The principal asset of ATD is the Macau Property, which comprises a current vacant site with an area of approximately 7,128 sq.m. located at Novos Aterros do Porto Exterior (新口岸填海區), Macau. As stated in the section headed "Letter from the Board" in the Circular, approval has been obtained for the development of a super deluxe hotel (with 400 rooms and casino facilities), residential and commercial complex on the Macau Property. ATD does not intend to operate any casino in Macau or Hong Kong. As at the Latest Practicable Date, ATD had already commenced the construction of the podium for the property.

(b) *Form of consideration*

The Purchase Price of HK$1,198.2 million, subject to adjustments, will be payable as to:

- HK$400 million by the issue of the Convertible Note bearing annual interest of 1%. The Convertible Note may be converted in whole or in part during its term into Conversion Shares at an initial Conversion Price of HK$2.0 per Conversion Share. Full conversion of the Convertible Note at the initial Conversion Price would result in an issue of 200 million new Shares; and

- HK$798.2 million (subject to adjustments) in cash, which will be satisfied by the net proceeds from the Rights Issue.

Pursuant to the Acquisition Agreement, the initial Purchase Price is subject to the adjustment events relating to the Hotel Group, details of which are set out in the sub-section headed "Consideration" in the section headed "Letter from the Board" in the Circular, and in the sub-section headed "Adjustment to the Purchase Price" below.

4. The Acquired Interests

(a) *Background*

The CTF Group acquired its 73% attributable interest in the Hotel Group in 2003. Subsequently, further construction of additional floors on the Plaza, structural alternations, external improvement works and other internal partition works have been conducted to the Hotel Property. In February 2004, the internal alternation and fit out of the Plaza were completed which became the gaming and administrative areas of PAGCOR and the dining areas of the Hotel. In September 2004, the renovation of the hotel floors was partially completed and certain floors were open to guests as a soft opening of the Hotel. As stated in the section headed "Letter from the Board" in the Circular, as at 31 December 2006, the original purchase cost incurred and the additional investment made by the CTF Group for its 73% attributable interest in the Hotel Group amounted to approximately HK$806.8 million.

Cheung Hung, an associate of the CTF Group, acquired the Macau Interest in August 2004 for approximately HK$363.2 million. ATD's principal asset is the Macau Property. Approval has been obtained for the construction of a hotel, residential and commercial complex on the Macau Property. According to the current development plan, the Macau Property will be developed into a deluxe residential, hotel (with casino) and entertainment complex.

(b) Business and financial performance

The Acquired Interests is principally engaged in hotel investment. The Acquired Group is the owner of the Hotel, a luxury casino hotel in the Philippines consisting of 32-floor luxury hotel tower with 378 guest rooms and a gaming facility of approximately 17,650 sq.m., capable of accommodating approximately 125 tables games and 630 slot machines. The Acquired Company was incorporated on 8 November 2004 to facilitate the Acquisition. It has no business activities, operations, assets or liabilities since its incorporation up to the Latest Practicable Date other than entering into the transactions to effect the Reorganisation. Upon Completion, the major assets of the Acquired Company will be the 51% and 40% equity interest in the Hotel Group and ATD respectively. The principal assets of the Acquired Group are the direct and/or indirect ownership of the legal and beneficial interest and/or otherwise leasehold interest of a luxury five-star hotel with casino and ancillary leisure and entertainment operations located in Manila, Philippines. The casino is operated and managed by the Philippines government through PAGCOR and has commenced operation in February 2004 whilst the Hotel has also commenced to receive guests in September 2004.

The principal asset of ATD is the Macau Property, which is currently under construction and development. According to the proposed development plan, the Macau Property will be developed into a complex comprising high-end residential units; super deluxe hotel with casino facilities; commercial units with parking spaces. ATD has commenced the pre-sale of the residential units in late 2006 and as at 31 May 2007, approximately 70% of the residential units were sold. As at the Latest Practicable Date, ATD had commenced the construction of the podium for the property. Based on the proposed development plan, the total construction costs of the Macau Property is estimated to be about MOP2 billion. The construction costs are financed by a combination of bank loans and proceeds from the pre-sale of the residential units. Accordingly, the Directors do not expect the Enlarged Group will have to make further financial contribution to ATD after Completion. ATD will apply for the relevant licence for the operation of the hotel after completion of construction of the building. The casino facilities will be operated by a casino concession holder who will be responsible for applying for the relevant licence for the operation of a casino in the premises. On 12 November 2004, ATD and SJM entered into a cooperation agreement whereby SJM would operate a casino in the hotel complex to be constructed by ATD on the Macau Property. According to the cooperation agreement, ATD will be responsible for the marketing and introduction of the high roller guests, maintenance of the casino facilities and the payment of utilities charges while SJM will be responsible for provision of gaming equipment and labour, the managment treasury, security of the casino (including VIP rooms). In return, ATD will be entitled to receive for the use of the premises by SJM 40% (based on a setting of 60 tables) of the gross win (subject to number of tables and further negotiation but no less than 30%) generated from the casino to be operated by SJM in the Macau Property.

The existing principal stream of income of the Acquired Group is the rental income from PAGCOR and the hotel rooms. The Acquired Group's lease with PAGCOR provides for rental to be collected by reference to the turnover of local gaming at the casino which PAGCOR operates on the Acquired Group's premises. The Acquired Group commenced receiving rent from PAGCOR in February 2004.

As advised by the Company, the future principal streams of income of ATD will be i) sale of residential units, ii) rental income from leasing of premises to a casino concession holder; and iii) rental income from hotel rooms.

The table below sets out a summary of audited financial data of the Acquired Group prepared under GAAP in Hong Kong for the three years ended 31 December 2006 as extracted from the accountants' report on the Acquired Company set out in Appendix IV to the Circular:

	For the year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Turnover	54,571	198,911	319,224
(Loss)/profit before taxation	(45,651)	(55,331)	17,953
(Loss)/profit for the year form continuing operations	(43,964)	(47,531)	28,854
(Loss)/profit for the year	(53,204)	(55,417)	20,007

For the year ended 31 December 2004, there was an increase in the loss from operations due to the increase in depreciation charges for the addition of leasehold properties and entertainment equipment of the Hotel Group and the increase in staff costs as the Hotel commenced operations during the year. For the year ended 31 December 2005, as the Acquired Group's business was still at its development stage, the net loss of the Acquired Group amounted to approximately HK$55.4 million as compared to HK$53.2 million recorded in the previous corresponding period. For the year ended 31 December 2006, the turnover of the Acquired Group amounted to approximately HK$319.2 million which was derived from leasing of the casino facilities and operating the Hotel. The increase of the turnover was a combined result of the marketing efforts for a casino-equipped hotel. The net profit of the Acquired Group increased to approximately HK$20.0 million for the year ended 31 December 2006 as compared to a loss of approximately HK$55.4 million in 2005. The substantial improvement in profitability was due to the increase in the rental income from the casino, the foreign exchange gains and interest income as well as the gain on disposal of discontinued operation. The audited consolidated net asset value of the Acquired Group was approximately HK$176.3 million as at 31 December 2006.

The following table shows the audited turnover and (loss)/profit for the three years ended 31 December 2006 of ATD as extracted from the accountants' report of ATD set out in Appendix V to the Circular:–

	For the year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	–	–	–
Other income	–	–	442
(Loss)/profit before taxation	(6,539)	(94)	229
Net (loss)/profit	(6,539)	(94)	229

As the Macau Property was still under construction and development for the three years ended 31 December 2006, no turnover was recorded for ATD during this period. The loss of ATD was mainly due to general and administrative expenses whilst the net profit recorded for the year ended 31 December 2006 was derived from interest income. As at 31 December 2006, the audited net assets of ATD amounted to approximately HK$18.4 million.

Please refer to the section headed "Business of the Acquired Interests" set out in Appendix II to the Circular for further financial information relating to the Acquired Interests.

5. The Purchase Price

(a) The purchase price for the Hotel Group

The initial Purchase Price (before exercise of the Purchase Option) of HK$835 million, subject to adjustments, has been agreed between the parties with reference to:

i) the total investment cost of the Hotel Group incurred and to be incurred by the CTF Group up to Completion based on the current development plans (being approximately HK$1,135 million); and

ii) an indicative valuation of the Hotel Property of approximately HK$1,388 million as at 31 October 2004 made by Sallmanns.

(b) Adjusted value of the Hotel Group

As noted from the valuation report set out in Appendix VII to the Circular, the valuation of the Hotel Property (the "Hotel Property Valuation") as at 30 April 2007 amounted to approximately HK$1,877 million. Based on the current specifications for the construction, renovation and fitting out of the Hotel Property, the aggregate of the expected total investment cost and the surplus of the valuation of the Hotel Property over the expected total book cost (including shareholder's loans) of the Hotel Property amounts to approximately HK$1,877 million (the "Adjusted Value of the Hotel Group"), which is equivalent to the Hotel Property Valuation. In arriving at their opinion of the Hotel Property, we note that Sallmanns has valued the Hotel Property as a fully operational and going concern hotel having regard to its historical performance and the future trading potential to be achieved after consultation with the Acquired Group. Sallmanns confirmed that it has not attributed any value to FHPI in arriving at the Hotel Property Valuation. Furthermore, we have been advised by Sallmanns that based on the existing conditions of the Hotel Property and as advised by the management of the Hotel Property, Sallmanns understands that no material development costs will be further incurred to the Hotel Property after 30 April 2007, the date of its valuation.

Given the above and the fact that the purchase price for the Acquired Group of HK$835 million has been principally determined with reference to the Adjusted Value of the Hotel Group, which is equivalent to the Hotel Property Valuation, and the Purchase Price represents a discount of approximately 12.8% to the 51% attributable interest of the Adjusted Value of the Hotel Group, we are of the view that the Purchase Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(c) The Purchase Option for the Macau Interest

As the Company has exercised the Purchase Option to acquire the Macau Interest, the Purchase Price has increased by HK$363.2 million from HK$835.0 million to approximately HK$1,198 million (subject to adjustments). The initial consideration for the Macau Interest of HK$363.2 million has been determined with reference to and is equivalent to the purchase cost of the Macau Interest paid by Cheung Hung. We note that Sallmanns has valued the Macau Property of about HK$1,847 million (the "Macau Property Valuation") as at 30 April 2007 whose report is set out in Appendix VII to the Circular. We understand from Sallmanns that it has taken into account the construction costs and professional fees relevant to the stage of construction as at the date of its valuation, the remainder of the costs and fees to be expended to complete the developments of the Macau Property, and assuming that all the land premium for the Macau Property has been fully paid.

As at 31 December 2006, the net asset value of ATD amounted to approximately HK$18.4 million. Given that the principal asset of ATD is the Macau Property, we have adjusted the net asset value of ATD as at 31 December 2006 to take account of the Macau Property Valuation by adding the difference between i) the sum of the book cost of property, plant and equipment and property under development for sale of ATD as at 31 December 2006 (HK$372.7 million) and ii) the Macau Property Valuation, to the net asset value of ATD as at 31 December 2006. Following such adjustment, the adjusted net asset value of ATD amounted to approximately HK$1,493 million, and 40% of which is equivalent to approximately HK$597.1 million. The exercise price of the Purchase Option of HK$363.2 million represents a discount of approximately 39.2% to the 40% attributable interest in such adjusted net asset value of ATD. We also note that the consideration for the Macau Property will be adjusted upwards on an actual cost basis by additional amount of investment made by the CTF Group attributable to the 40% interest in ATD before Completion so as to finance the working capital of ATD and the additional land premium which may be payable for any government approved increase in gross floor area for the Macau Property in excess of the area under the current plan, with the consent of the Company. The Directors understand from the CTF Group that as of 31 December 2006, approximately HK$50.0 million has been paid as part of the land premium for the Macau Property. The land premium for the Macau Property has yet to be paid in full. Based on the existing cash on hand, the banking facility made available to ATD and the proceeds from the pre-sale of the residential units, the Directors do not expect that the Enlarged Group will have to make further financial contribution to ATD after Completion.

Given the above, we consider the exercise price of the Purchase Option to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(d) Adjustment to the Purchase Price

We note that the events leading to the adjustment to the Purchase Price are mainly related to additional investment cost incurred and to be incurred (which exceeds the current total expected investment costs of approximately HK$1,135 million up to Completion) as a result of modifications to the current specifications attributable to the Hotel Interest. Reciprocally, downward adjustments will be made to the initial Purchase Price if the CTF Group's minimum investment amount attributable to the Hotel Interest is less than HK$578.8 million being the 51% attributable interest of the expected total investment amount of approximately HK$1,135 million to be made by the CTF Group in the Acquired Group up to Completion. As at 31 December 2006, the total investment costs incurred by the CTF Group for its 73% attributable interest in the Hotel Group amounted to approximately HK$806.8 million, and on this basis, 51% of which amounted to approximately HK$563.7 million. If the Hotel Group records an overall net loss or net profit after taxation from its inception up to Completion, the Purchase Price will also be decreased or increased (as the case may be) accordingly. Further details of the adjustment events are set out on pages 79 to 80 of the Circular.

If the total adjusted amount arising from the adjustment events exceeds HK$100 million, the Company may defer payment of the excess consideration, provided that the Company must reduce the unpaid excess by a minimum of HK$10 million per annum and interest is to accrue on the unpaid excess at prime rate per annum.

Given the nature and reciprocality of the adjustment and mechanism, and the deferred payment arrangement of the adjusted amount, if any, we consider the adjustment to the Purchase Price to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. The Convertible Note

The Convertible Note in the principal amount of HK$400 million will be issued on Completion in partial satisfaction of the Purchase Price. The Directors consider it to be in the interests of the Company in terms of funding requirements to reserve part of the proceeds of the Rights Issue as working capital for possible increase in the consideration by virtue of the adjustment provisions in the Acquisition Agreement (given the lead time between the signing of the Original Agreement and Completion) as well as for the business development of the Enlarged Group.

The principal amount of the Convertible Note represents approximately 29% of the estimated net proceeds of the Rights Issue. If only the Rights Issue were effected as a means to raise fund to satisfy the Purchase Price, the remaining amount of funds available for working capital of the Enlarged Group upon Completion will be substantially reduced from approximately HK$576.8 million to approximately HK$176.8 million. Given the above, we consider that by having the issue of the Convertible Note as part payment of the Purchase Price in lieu of having the Rights Issue as the sole payment method is acceptable as it will preserve the working capital of the Enlarged Group following Completion for future business expansion of the Enlarged Group whilst the Convertible Note is for a term of three years, it will also defer the dilution effect of the shareholdings of the Independent Shareholders.

In arriving at our opinion with regard to the fairness of the terms of the Convertible Note, we have taken into account the following principal factors:

i. Conversion price and coupon rate

The initial Conversion Price of HK$2.0 per Conversion Share has been determined with reference to the prevailing market price of the Shares at the time of entering into the Original Agreement. The Convertible Note is convertible at any time during the period from the date of issue up to the business day immediately prior to the third anniversary of the date of issue of the Convertible Note.

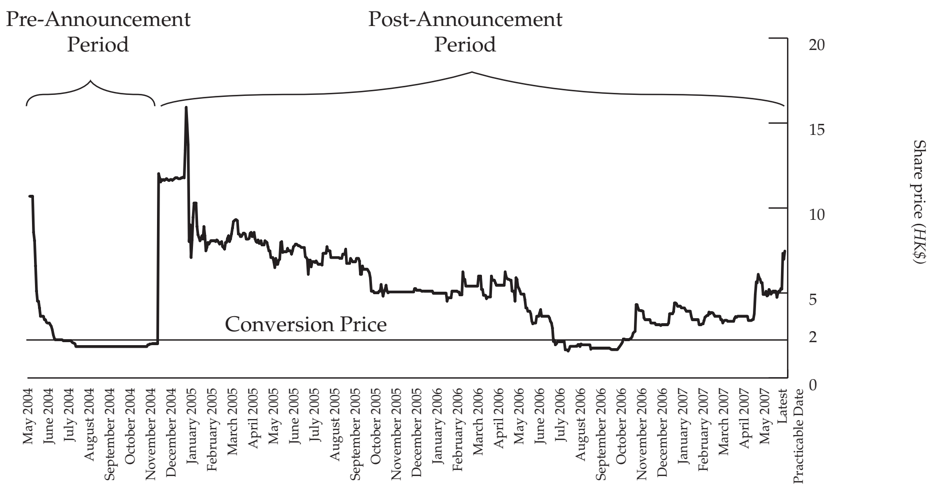
The Conversion Price represents:

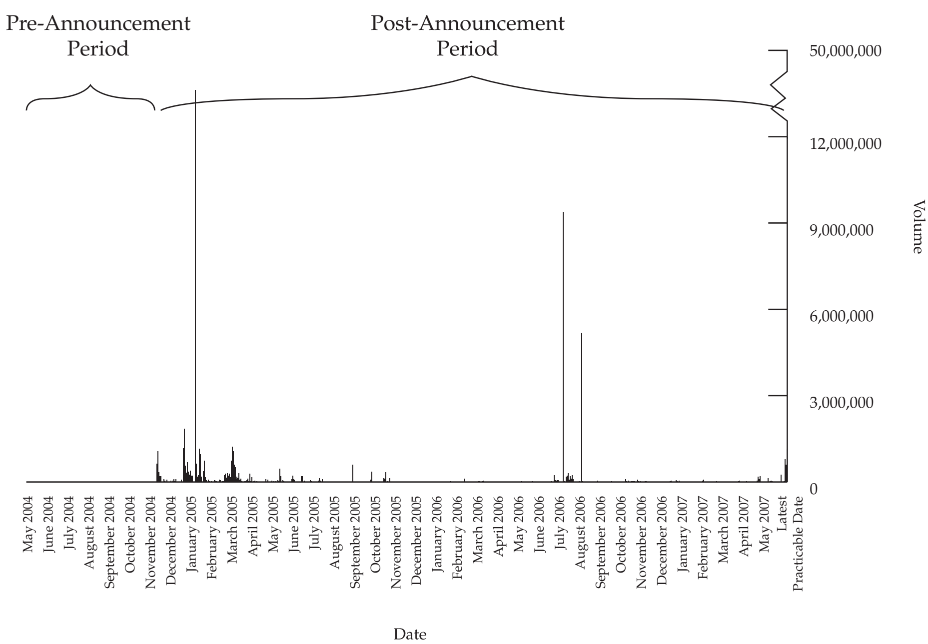
Share price reference	Premium/(discount) underlying the Conversion Price *(%)*
– to the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date;	7.0
– to the theoretical ex-rights price of approximately HK$1.57 per Share based on the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date and assuming four Rights Shares are issued for every existing Share as at the date of the Announcement;	27.4
– to the average closing price of approximately HK$1.80 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Dealing Date;	11.1
– to the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date;	(69.1)
– to the theoretical ex-rights price of approximately HK$2.50 per Share based on the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date and assuming four Rights Shares are issued for every existing Share;	(20.0)

– to the average closing price of approximately HK$6.01 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Practicable Date; and (66.7)

– to the unaudited pro forma consolidated net asset value per Share of HK$1.95 upon completion of the Acquisition Agreement and the Rights Issue. 2.6

The chart below shows the closing prices and the trading volume of the Shares on the Stock Exchange during the six-months preceding to the Last Dealing Date (the "Pre-Announcement Period") up to and including the Latest Practicable Date (the "Post-Announcement Period"):





Source: Bloomberg

Throughout the Pre-Announcement Period, the price of the Shares was on a descending trend from the highest of HK$10.65 per Share in May 2004 to the lowest of HK$1.87 per Share as of the Last Dealing Date. We have reviewed the public announcements published by the Company during that period and noted that the Company had undergone a capital restructuring and fund raising exercise in April 2004 which resulted in a change of the controlling Shareholder. The Company had also begun to diversify into other entertainment industry including its investment in film production business in mid 2004 which was followed by the subsequent acquisition of the M8 Group in November 2004.

Following the release of the Announcement, the Share price recorded an acute increase from HK$1.87 per Share on the Last Dealing Day to HK$12.00 per Share on the first trading day of the Post-Announcement Period and reached the highest of HK$15.95 per Share in early January 2005. Similarly, the trading volume of the Shares also underwent a surge during the same period. Thereafter, the Share price was on a decreasing trend and hit a low of HK$1.43 in early August 2006. As of the Latest Practicable Date, the Share price was HK$6.48 per Share.

The Conversion Price was determined with reference to the Share price at the prevailing time (November 2004) when the Original Agreement was entered into. The Share price increased significantly following the publication of the Announcement, which may have been principally caused by market speculation arose from the announcement of the Acquisition. Due to the continued loss recorded by the Group throughout the Post-Announcement Period, the Share price decreased from the peak of HK$15.95 per Share in early January 2005 to reach a low of HK$1.43 in early August 2006 and recorded HK$6.48 per Share as at the Latest Practicable Date.

Given the long time gap between the date of the Original Agreement and the present time, we consider it appropriate to compare the Conversion Price with the conversion price of other convertible issues (the "Comparable Convertible Issues") announced by listed companies in Hong Kong during i) the Pre-Announcement Period; and ii) the recent period during the last 12 months preceding to the Latest Practicable Date (the "Recent Period"). The selection criteria of the Comparable Convertible Issues are that they have had

i) the same maturity period of three years as the Convertible Note; and ii) denominated in HK$ as those of the Convertible Note. We set out the relevant findings as follows:

Stock Code	Name of company	Date of announcement	Principal amount HK$ *(in million)*	Coupon rate *(%)*	Redemption amount at maturity (% of the principal)	Effective annualized interest	Conversion premium/ (discount) to closing price of shares prior to announcement *(%)*	Premium/ (Discount) of the conversion price to the then latest published audited net asset value per share *(%)*
	Pre-Announcement Period:							
493	GOME Electrical Appliances Holdings Ltd. (formerly China Eagle Group Company Ltd.)	24-Feb-04	300.0	2	100	2	(20.00)	4.46
172	Goldbond Group Holdings Ltd.	01-Apr-04	69.0	–	100	–	(3.40)	1,239.78
1051	Credit Card DNA Securities System (Holdings) Ltd.	13-Apr-04	70.0	2	100	2	12.70	net deficit
613	Yugang International Ltd.	25-May-04	70.0	3	100	3	127.10	(61.36)
563	Neo-China Group (Holdings) Ltd.	30-Jun-04	100.0	1	100	1	8.80	(7.91)
76	South Sea Petroleum	6-Oct-04	63.8	–	120	6.27	24.0	net deficit
1215	Guo Xin Group Ltd.	15-Nov-04	88.5	–	105	1.64	2.56	net deficit
985	China Sci-Tech Holdings Ltd.	18-Nov-04	49.9	–	100	–	42.11	109.63
	Adjusted average:						**9.54** *(Note 1a)*	**11.21** *(Note 1b)*
	The Company			**1**	**100**	**1**	**27.38** *(Note 2a)*	**2.56** *(Note 3)*

Stock Code	Name of company	Date of announcement	Principal amount HK$ *(in million)*	Coupon rate *(%)*	Redemption amount at maturity (% of the principal)	Effective annualized interest	Conversion premium/ (discount) to closing price of shares prior to announcement *(%)*	Premium/ (Discount) of the conversion price to the latest published audited net asset value per share *(%)*
	Recent Period:							
391	Mei Ah Entertainment Group Ltd.	29-Jun-06	100.0	4	106	5.96	8.64	54.13
578	Everbest Century Holdings Ltd.	4-Jul-06	20.0	1	100	1	27.27	(35.98)
82	Yanion International Holdings Ltd.	13-Jul-06	66.3	–	100	–	(30.00)	2,378.92
983	Shui On Construction and Materials Ltd.	20-Jul-06	930.0	–	118.97	5.96	23.27	135.81
1175	Fu Ji Food and Catering Services Holdings Ltd.	10-Oct-06	1,000.0	–	118.54	5.83	26.00	520.68
1141	Xin Corporation Ltd.	24-Nov-06	7.1	1	100	1	0.00	net deficit
8130	Milkyway Image Holdings Ltd.	5-Dec-06	20.0	–	100	–	8.70	net deficit
1182	Foundation Group Ltd.	22-Dec-06	24.0	–	100	–	(98.41)	(60.19)
139	139 Holdings Ltd.	7-Feb-07	102.0	2	100	2	1.35	(85.10)
371	Shang Hua Holdings Ltd.	12-Apr-07	200.0	–	100	–	(16.67)	81.62
850	Wing Shing International Holdings Ltd.	23-May-07	200.0	0.5	128.33	9.17	12.47	(27.27)
	Adjusted average:						**3.74**	**72.96** *(Note 1c)*
	Average discount:						**(48.36)** *(Note 1d)*	
	The Company			**1**	**100**	**1**	**(20.00)** *(Note 2b)*	**2.56** *(Note 3)*

Source: www.hkex.com.hk, however, we cannot state with certainty that the list is exhaustive.

Notes:

1. (a) Excludes the outlier, Yugang International Ltd.
   (b) Excludes the outlier, Goldbond Group Holdings Ltd.
   (c) Excludes the outlier, Yanion International Holdings Ltd.
   (d) Represents the average discount of all of the discounts of the conversion price of the Convertible Comparable Issues to their respective closing share price prior to announcement.

2. (a) Represents the premium of the Conversion Price of HK$2.00 and the theoretical ex-rights price of HK$1.57 per Share based on the closing price of Shares of HK$1.87 as at the Last Dealing Date; and

   (b) represents the discount of the Conversion Price of HK$2.00 to the theoretical ex-rights price of HK$2.50 per Share based on the closing price of Shares of HK$6.48 as at the Latest Practicable Date.

3. Represents the premium of the Conversion Price of HK$2.00 over the unaudited pro forma consolidated net asset value of approximately HK$1.95 per Share which is calculated based on the unaudited pro forma consolidated net asset value of the Enlarged Group of approximately HK$2,298 million as set out in Appendix VI to the Circular, divided by 1,179,157,235 Shares to be issued upon completion of the Acquisition and the Rights Issue.

4. The list of the Comparable Convertible Issues have been compiled based on our best knowledge and in accordance with the selection criteria stated above.

As noted from the terms of the Comparable Convertible Issues, the coupon rate of the Convertible Note is lower than and comparable to the effective annualized interest of the Comparable Convertible Issues announced in the Pre-Announcement Period and the Recent Period.

Pre-Announcement Period

As the Convertible Note will be issued upon completion of the Rights Issue, we consider it more appropriate to make reference of the Conversion Price to the theoretical ex-rights price of the Shares. The 27.38% premium of the Conversion Price over the theoretical ex-rights price of the Shares (the "LDD Ex-rights Price") based on the closing price of the Shares as at the Last Dealing Date is higher than the average premium of 9.54% of those of the Comparable Convertible Issues announced during the Pre-Announcement Period.

The Conversion Price represents a premium of approximately 2.56% of the unaudited pro forma consolidated net asset value per Share (the "Proforma NAV per Share") as at 31 March 2007 (assuming completion of the Acquisition and the Rights Issue) which is lower than the average premium of approximately 11.21% of those the Comparable Convertible Issues announced in the Pre-Announcement Period. Nonetheless, the issue of the Conversion Shares will not dilute the net asset value per Share as the Conversion Price is still higher than the Pro forma NAV per Share as at 31 March 2007.

Recent Period

As regards the comparison of the Conversion Price to the theoretical ex-rights price of the Shares based on the closing price of the Shares (the "LPD Ex-rights Price") as at the Latest Practicable Date with those of the Comparable Convertible Issues announced during the Recent Period, we note that as the price of the Shares had increased substantially since the publication of the Announcement to the recent time, which led to a significant difference in the LDD Ex-rights Price of HK$1.57 and the LPD Ex-rights Price of HK$2.50. Notwithstanding the fact that the premium of the Conversion Price to the LDD Ex-rights Price is higher than the premium of those of the Comparable Convertible Issues announced in the Pre-Announcement Period, the Conversion Price represents a discount (the "Recent Discount") of approximately 20.00%

to the LPD Ex-rights Price as compared to the average premium of approximately 3.74% of those of the Comparable Convertible Issues announced during the Recent Period.

Due to the long time gap between the date of the Original Agreement in November 2004 and the present time whereby the Share price recorded substantial increase throughout these years which led to the substantial increase in the LPD Ex-rights Price, and subsequently the Recent Discount, we have narrowed our analysis on all of the discounts of the conversion price to the share price of the Comparable Convertible Issues announced during the Recent Period and compared them with the Recent Discount. We note that the average conversion price discount of the Comparable Convertible Issues announced during the Recent Period was approximately 48.36%, whereby the Recent Discount of approximately 20.00% is lower than this average rate of discount.

The Conversion Price represents a premium of approximately 2.56% of the Proforma NAV per Share as at 31 March 2007 as compared to the adjusted average premium of approximately 72.96% of those of the Comparable Convertible Issues announced during the Recent Period. Notwithstanding this, the issue of the Conversion Shares will not dilute the net asset value per Share as the Conversion Price is still above the Proforma NAV Share as at 31 March 2007.

Views

Having considered the above, and notwithstanding the long time gap between the time of entering into the Original Agreement and the present time, particularly the fact the Purchase Price has remained the same despite the increase in the Hotel Property Valuation and the Macau Property Valuation since November 2004, we are of the view that the terms of the Convertible Note are still fair and reasonable so far as the Company and the Independent Shareholders are concerned.

ii. Dilution of Independent Shareholders' holdings

Upon full conversion of the Convertible Note, 200 million new Shares will be issued, which represent approximately 84.8% of the existing issued share capital of the Company, 17.0% of the issued share capital of the Enlarged Group as enlarged by the Rights Issue, and 14.5% of the issued share capital of the Enlarged Group as enlarged by the Rights Issue and the issue of the Conversion Shares.

Assuming that none of the Rights Shares (apart from the CTF Group's pro rata entitlement to the Rights Shares) need to be taken up by the CTF Group and the Convertible Note is converted in full, the aggregate shareholding of the CTF Group upon completion of the Rights Issue and full conversion of the Convertible Note will increase from approximately 50.9% to 58.0%, and accordingly, the shareholding of the Independent Shareholders will be diluted from approximately 40.3% to approximately 34.5%.

Given (a) the premium underlying the Conversion Price to the LDD Ex-rights Price; (b) the Recent Discount is comparable to the average discount of the Comparable Convertible Issues announced during the Recent Period; (c) the undertaking given by CTF that it will not exercise any conversion rights of the Convertible Note such that the public float will fall below the minimum percentage as required under the GEM Listing Rules; (d) the 3-year term of the Convertible Note, barring unforeseeable circumstances, the issue of the Convertible Note should have no immediate shareholding dilution effect on the Independent Shareholders; (e) the issue of the Convertible Note will enable the Enlarged Group to maintain its working capital position following completion of the Acquisition; and (f) the unaudited Proforma NAV per Share will increase upon full conversion of the Convertible Note, we regard the possible shareholding dilution effect underlying the Convertible Note to be acceptable so far as the Independent Shareholders are concerned.

7. Risk factors

The Acquisition will change the business risk profile of the Enlarged Group, though not necessarily increasing it. The Independent Shareholders shall bear in mind the risk factors as disclosed on pages 22 to 29 of the Circular.

8. Rights Issue

(a) Reasons for the Rights Issue and use of proceeds

It is stated in the section headed "Letter from the Board" in the Circular that the Company's main purpose for proposing the Rights Issue is to finance the Acquisition. The net proceeds of the Rights Issue are estimated to amount to approximately HK$1,375 million, with approximately HK$798.2 million be applied to finance the Acquisition and the balance of approximately HK$576.8 million as working capital and future business development of the Enlarged Group.

The Purchase Price which already included the consideration for the Macau Interest amounts to approximately HK$1,198 million (subject to adjustments). Based on the Group's financial position at the time of entering into the Original Agreement in November 2004, the Directors consider that the Rights Issue would enable the Company to make an acquisition of a very significant revenue-generating assets which it could not have afforded if doing it by share placement or by bank borrowings because any private share placement of such magnitude, will inevitably result in a dilution of the Shareholders' interests in the Company whilst bank borrowings of such amount, if could be obtained, would have adversely affected the gearing position of the Enlarged Group. As at 30 September 2006, the cash balance of the Group amounted to approximately HK$241.7 million, whilst the unaudited consolidated net asset value of the Group was approximately HK$261.6 million as at that date. When comparing this latest unaudited asset base of the Group with the Purchase Price of HK$1,198 million, we concur with the views of the Directors that the Rights Issue, as a way of financing the Acquisition, will allow all Qualifying Shareholders to participate in the future growth and development of the Enlarged Group and to maintaining their respective proportionate interests in the Company at the same time. Furthermore, the Rights Issue will also enhance the capital base of the Enlarged Group.

Given the above and having considered the financial position of the Group at the present time and the time of entering into the Original Agreement in November 2004 (with cash balance of approximately HK$142.8 million and an unaudited consolidated net asset value of approximately HK$165.5 million as at 30 September 2004) as compared with the amount of the aggregate consideration payable for the Acquisition, notwithstanding the difference between the time of entering into the Original Agreement and the present time, we concur with the views of the Directors that it is still in the interests of both the Company and the Shareholders as a whole to raise capital through the Rights Issue to finance the Acquisition.

Shareholders should note that Completion is conditional upon, among others, completion of the Rights Issue. If the Rights Issue does not become unconditional, the Acquisition Agreement will also lapse. In this regard, if Shareholders approve the Acquisition Agreement, they should consequentially approve the Rights Issue so as to facilitate the Completion. However, if Shareholders vote against the Acquisition Agreement, they should also veto the Rights Issue as the proceeds of the Rights Issue are to be utilized to finance the Acquisition.

(b) The subscription price for the Rights Shares

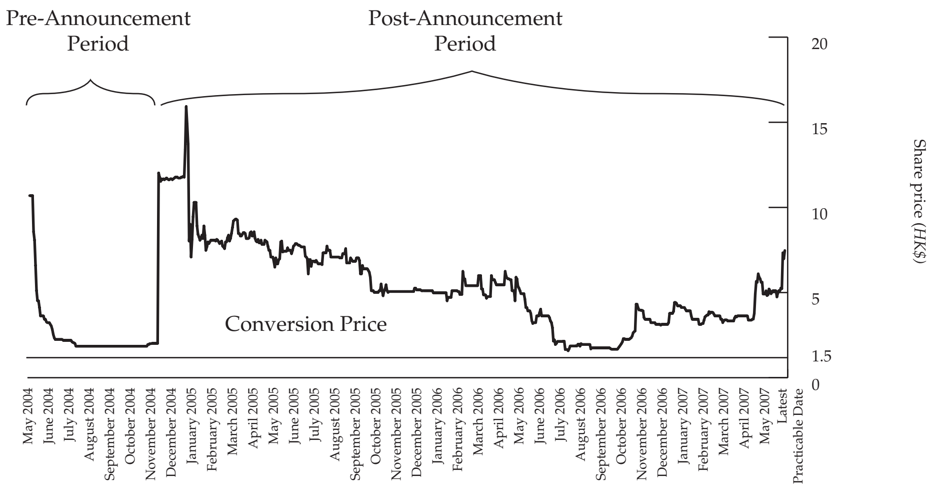
The Company will provisionally allot four Rights Share for every one Share held by the Qualifying Shareholders on the Record Date at a subscription price of HK$1.50 per Rights Share (the "Subscription Price").

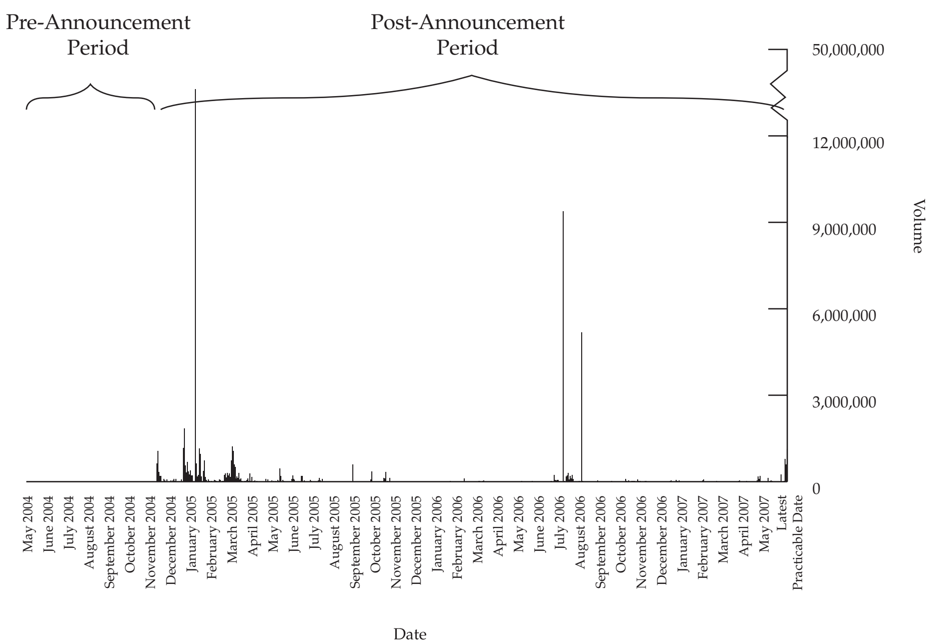
(i) Price performance of the Shares

The Subscription Price represents:

Share price reference	(Discount) underlying the Subscription Price *(%)*
– to the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date;	(19.8)
– to the theoretical ex-rights price of approximately HK$1.57 per Share based on the closing price of HK$1.87 per Share as quoted on the Stock Exchange on the Last Dealing Date and assuming four Rights Shares are issued for every existing Share as at the date of the Announcement;	(4.5)
– to the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date;	(76.9)
– to the theoretical ex-rights price of approximately HK$2.50 per Share based on the closing price of HK$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date and assuming four Rights Shares are issued for every existing Share; and	(40.0)
– to the unaudited pro forma consolidated net asset value per Share of HK$1.95 upon completion of the Acquisition Agreement and the Rights Issue.	(23.1)

Set out below is a table showing the closing prices of the Shares during the Pre-Announcement Period and the Post-Announcement Period:





Source: Bloomberg

The movement of the price of the Shares and the trading volume are set out in the sub-section headed "Conversion price and coupon rate" above. In order to enhance the attractiveness of a rights issue exercise, we note that it is the market practice that the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market price of the Shares is in line with the normal market practice of a rights issue.

(ii) Comparison to rights issues announced by other listed companies in Hong Kong

The Subscription Price was determined with reference to the price of the Shares at the prevailing time (November 2004) when the Original Agreement was entered into. Given the time gap between then and the present time, we consider it appropriate to compare the Subscription Price to the subscription price of other rights issues (the "Rights Issue Comparables") announced by companies listed on the main board of the Stock Exchange during the Pre-Announcement Period and the Recent Period, details of which are set out in the following table:

Stock Code	Date of the announcement	Name of company	Premium/ (discount) of subscription price to closing price of shares %	Premium/ (discount) of subscription price to theoretical ex-rights price *(Note 1)* %	(Discount)/ Premium of subscription price to the unaudtited pro forma consolidated net asset value per share upon completion of the rights issue %
	Pre-Announcement Period:				
1125	3-Jun-04	Lai Fung Holdings Limited	(57.45)	(51.92)	(89.1)
1037	24-Jun-04	Daiwa Associate Holdings Limited	(18.18)	(11.76)	(63.4)
362	5-Aug-04	Daqing Petroleum & Chemical Group Limited	(21.05)	(15.09)	(6.3)
996	25-Aug-04	Pricerite Group Limited	(58.82)	(53.30)	8.6
294	30-Aug-04	Yangtzekiang Garment Manufacturing Company Limited	(18.18)	(12.90)	(29.4)
208	10-Sept-04	Polytec Assets Holdings Limited	(11.30)	(6.40)	45.1
603	26-Oct-04	Nippon Asia Investments Holdings Ltd. (formerly China City Natural Holdings Limited)	(44.44)	(33.33)	20.0
913	2-Nov-04	Unity Investments Holdings Limited	72.80	46.20	(49.7)
296	18-Nov-04	Emperor (China Concept) Investments Limited	(12.82)	(2.44)	(32.0)
		Average	**(18.83)**	**(15.66)**	**(21.80)**
		The Company	**(19.80)**	**(4.46)** *(Note 2a)*	**(23.08)** *(Note 3)*

Stock Code	Date of the announcement	Name of company	Premium/ (discount) of subscription price to closing price of shares prior to announcement %	Premium/ (discount) of subscription price to theoretical ex-rights price (Note 1) %	(Discount)/ Premium of subscription price to the unaudtited pro forma consolidated net asset value per share upon completion of the rights issue %
	Recent Period:				
535	20-Jul-06	Frasers Property (China) Limited	(39.39)	(30.23)	(40.00)
305	28-Jul-06	Magnum International Holdings Limited	(75.54)	(67.31)	net deficit
1217	24-Aug-06	Sino Technology Investments Company Limited	(50.0)	(40.03)	(60.00)
1218	30-Aug-06	Easyknit International Holdings Limited	(68.18)	(35.19)	(77.42)
129	26-Sept-06	Asia Standard International Group Limited	(24.90)	(19.90)	(67.83)
79	26-Sept-06	Century Legend (Holdings) Limited	(71.80)	(63.00)	(55.03)
1049	11-Oct-06	Celestial Asia Securities Holdings Limited	(27.30)	(20.0)	163.41
8129	11-Oct-06	Q9 Technology Holdings Limited	(22.00)	(15.22)	92.12
365	17-Nov-06	Sun East Technology (Holdings) Limited	(42.86)	(34.89)	(77.78)
1063	12-Dec-06	SunCorp Technologies Limited	(63.41)	(53.63)	476.92
348	21-Dec-06	Lung Cheong International Holdings Limited	(28.60)	(20.90)	(68.75)
193	26-Jan-07	Capital Estate Limited	(80.88)	(40.90)	(62.32)
718	5-Feb-07	Bestway International Holdings Limited	(39.60)	(30.40)	(20.40)
810	12-Feb-07	China Treasure (Greater China)	(97.50)	(79.59)	(82.7)
913	12-Mar-07	Unity Investments Holdings Limited	(76.12)	(22.54)	(60.00)
1174	23-Mar-07	Pacific Andes International Holdings Limited	(34.30)	(25.80)	4.03
279	23-Mar-07	Freeman Corporation Limited	(45.70)	(35.83)	(15.49)
1083	11-May-07	Panva Gas Holdings Limited	(5.66)	(4.80)	280.95
124	15-May-07	Kingway Brewery Holdings Limited	(25.50)	(21.90)	54.14
1070	25-May-07	TCL Multimedia Technology Holdings Limited	(37.50)	(31.00)	8.11
2324	7-Jun-07	Sino Katalytics Investment Limited	(28.00)	(20.60)	n.a.
620	11-Jun-07	UDL Holding Limited	(67.27)	(57.75)	n.a.
		Average	**(47.95)**	**(35.06)**	**(4.25)** *(Note 4)*
		The Company	**(19.80)**	**(40.00)** *(Note 2b)*	**(23.08)** *(Note 3)*

Source: www.hkex.com.hk and the rights issue prospectuses of the Rights Issue Comparables, however, we cannot state with certainty that the list is exhaustive.

Notes:

1. The theoretical ex-rights price is calculated based on the closing price of the relevant shares on the last trading day prior to the date of the announcement relating to the rights issue.

2. a) Represents the premium of the Subscription Price of HK$1.50 over the theoretical ex-rights price of HK$1.57 per Share based on the closing price of HK$1.87 per Share as at the Last Dealing Date; and

   b) represents the discount of the Subscription Price of HK$1.50 to the theoretical ex-rights price of HK$2.50 per Share based on the closing price of HK$6.48 per Share as at the Latest Practicable Date.

3. The discount represents the discount of the Subscription Price of HK$1.50 to the unaudited pro forma consolidated net asset value of HK$1.95 per Share, which is calculated based on the unaudited pro forma consolidated net asset value of the Enlarged Group of approximately HK$2,298 million as set out in Appendix VI to the Circular, divided by 1,179,157,235 Shares to be issued upon completion of the Acquisition and the Rights Issue.

4. Exclude the outlier, SunCorp Technologies Limited.

5. The list of the Rights Issue Comparables has been compiled based on our best knowledge.

Pre-Announcement Period

The subscription prices to their respective theoretical ex-rights prices of the Rights Issue Comparables announced during the Pre-Announcement Period ranged from a premium of approximately 46.2% to a discount of approximately 53.3%, with an average discount of approximately 15.7%. The discount of approximately 4.5% to the LDD Ex-rights Price as implied by the Subscription Price falls within the range of discount as well as is lower than the average discount of those of the Rights Issue Comparables announced in the Pre-Announcement Period.

The subscription price to their respective unaudited pro forma consolidated net asset value per share of the Rights Issue Comparables announced during the Pre-Announcement Period ranged from a premium of approximately 45.1% to a discount of approximately 89.1%, with an average discount of approximately 21.8%. The discount of approximately 23.08% of the Subscription Price to the Proforma NAV per Share as at 31 March 2007 is considered comparable to those of the Rights Issue Comparables announced during the Pre-Announcement Period.

Recent Period

The discount of the subscription price to their respective theoretical ex-rights prices of the Rights Issue Comparables announced during the Recent Period ranged from approximately 4.80% to approximately 79.59%, with an average discount of approximately 35.06%. We note that due to the long time gap since the announcement of the Rights Issue in November 2004 to recent date and the increase in the price of the Shares during that interim period, the discount of the Subscription Price to the LPD Ex-rights Price of approximately 40.00% is slightly deeper than the average discount of approximately 35.06% of those of the Rights Issue Comparables announced in the Recent Period. However, such discount of 40.00% still falls within the range of discount of the Rights Issue Comparables announced in the Recent Period.

The reference of the subscription prices to their respective unaudited pro forma consolidated net asset value per share of the Rights Issue Comparables announced during the Recent Period ranged from a premium of approximately 476.92% to a discount of approximately 77.78%, with an average discount of approximately 4.25%. Notwithstanding the long time gap since the announcement of the Rights Issue in November 2004 to recent date, the discount of approximately 23.08% of the Subscription Price to the Proforma NAV per Share as at 31 March 2007 though is deeper than the average discount of the Rights Issue Comparables announced in the Recent Period, it still falls within the range of discount of such Rights Issue Comparables.

(iii) Shareholding dilution effect

For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Shares in full, depending on the extent that they accept their entitlements, their shareholding interests will be diluted up to a maximum of 75%. However, it should be noted that such Shareholders will have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares (the "Nil-Paid Rights") on the market during the dealings of Nil-Paid Rights on the Stock Exchange, subject to the then prevailing market conditions.

The shareholding interests of the Non-Qualifying Shareholders will be diluted by 75% immediately following the Rights Issue. Nevertheless, their entitlements to the Rights Shares will be sold on the market in nil-paid forms, subject to market conditions. The net proceeds of the sale will be paid to the relevant Non-Qualifying Shareholders except for the amount of less than HK$100, which will be retained by the Company. On the other hand, the Independent Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional Nil-Paid Rights on the market. The Qualifying Shareholders may also apply for excess Rights Shares.

Although the level of dilution of the Rights Issue is significant, Shareholders will be able to participate in a more sizeable business through the Enlarged Group and with a larger asset backing as well as capital base. We are of the opinion that the proposed arrangements of the Rights Issue are in line with the market practice for rights issues.

(iv) Underwriting Agreement

As noted from the section headed "Letter from the Board" in the Circular, the Company had not been able to secure third party underwriters back in November 2004 who were prepared to accept an underwriting commitment for an unknown period of time (as it is not possible for the Company to ascertain the completion time of the Acquisition). Hence, the Underwriter, being the controlling Shareholder, is willing to commit and to provide continuous financial support to the Group in underwriting the Rights Issue and to finance the Acquisition. Pursuant to the Underwriting Agreement, CTF will receive an underwriting commission of 2.0% of the aggregate subscription price of the Rights Shares (other than the Rights Shares provisionally allotted to Mediastar pursuant to the Rights Issue) underwritten by it. Given this and based on the respective underwriting commission charged by the underwriters in the Rights Issue Comparables announced in the Recent Period, we also concur with the views of the Directors that the underwriting commission accords with the market rates, and is fair and reasonable and that the terms of the Underwriting Agreement are in the interests of the Company and the Shareholders as a whole.

(v) Views

We noted that due to the long time gap since the announcement of the Rights Issue in November 2004 to recent date, whereby the Share price has undergone significant increase during this period, which leads to the deeper discount of the Subscription Price to the LPD Ex-rights Price and to the Proforma NAV per Share as at 31 March 2007 as compared with those of the Rights Issue Comparables announced in the Recent Period. However, we also noted that despite the respective increase in the Hotel Property Valuation and the Macau Property Valuation as compared to their values dated back in 2004, the Purchase Price remained unchanged as those determined in November 2004 whereby the Company is able to enjoy a larger discount of the Purchase Price to the Hotel Property Valuation and to the Macau Property Valuation.

Having taken into account all these factors, we consider that, on balance, the Subscription Price, which applies to all Shareholders alike, is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

9. Possible financial effect of the Acquisition and the Rights Issue

Net tangible value

As at 31 March 2007, the Group's net tangible asset value amount to approximately HK$177.7 million, representing approximately HK$0.75 per Share. As noted from the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix VI to the Circular, the Pro forma

NAV of the Enlarged Group would have amounted to approximately HK$2,298 million, represents approximately HK$1.95 per Share (based on 1,179,157,235 Shares to be issued upon completion of the Acquisition and the Rights Issue).

Earnings

For the year ended 31 March 2007, the Group recorded a net loss of approximately HK$110.8 million whilst the Acquired Group recorded a net profit of approximately HK$20.0 million for the year ended 31 December 2006. As noted from the unaudited pro forma consolidated income statement of the Enlarged Group set out in Appendix VI to the Circular, assuming the Acquisition had been completed on 1 April 2006, the Enlarged Group would have recorded a net loss of approximately HK$136.6 million. Such increase in net loss of the Enlarged Group was principally due to the increase in the finance costs of the Enlarged Group.

Gearing and working capital

As at 31 March 2007, the Group's gearing ratio (total bank borrowings divided by total assets) was approximately 4.1%. Upon completion of the Acquisition and the Rights Issue, the Enlarged Group would be in a net cash position.

In view of the fact that the Purchase Price will be financed by the net proceeds of the Rights Issue and the issuance of the Convertible Note, the working capital position of the Enlarged Group would not be adversely affected upon Completion. Based on the current working capital position, the business development of the Enlarged Group and the proceeds from the Rights Issue, the Directors confirm that the Enlarged Group would have sufficient working capital to meet its normal operations following Completion.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the Acquisition is in line with the stated business strategy of the Group to diversify into business with growth potential and to expand the Group's entertainment business;

- although the Acquisition was announced in November 2004, with the respective increase in the Hotel Property Valuation and the Macau Property Valuation as compared to their values dated back in 2004, the Purchase Price has remained the same as those determined in November 2004 which results in a larger discount of the Purchase Price to the Hotel Property Valuation and the Macau Property Valuation;

- the Rights Issue will enhance the asset base of the Enlarged Group and to allow the Qualifying Shareholders to participate in the growth and development of the Company, whilst together with the issue of the Convertible Note will allow the Enlarged Group to be able to reserve additional working capital for the Group's future business development instead of solely relying on the proceeds of the Rights Issue;

- despite the long time gap between the time when the Acquisition Agreement was entered into and the present time, the terms of the Acquisition Agreement, including the Subscription Price, the Conversion Price and the coupon rate of the Convertible Note are still, on balance of other relevant factors, considered to be fair and reasonable; and

- the asset base of the Enlarged Group will be enhanced and the Enlarged Group will be in a net cash position immediately upon completion of the Acquisition and the Rights Issue and the issue of the Convertible Note,

we consider that the terms of the Acquisition Agreement (including the terms of the Convertible Note) and the terms of the Rights Issue are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are also in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement (including the issuance of the Convertible Note) and the Rights Issue.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau	**Flavia Hung**
Executive Vice President	*Senior Vice President*

HISTORY

The Group originated in June 1998 when the domain name of hkcyber.com was registered. In March 1999, the Group commenced developing an informative, interesting and interactive portal covering a range of topics and services and constructing the infrastructure of the website *hkcyber.com*.

In June 1999, the Group commenced developing software programmes, designing the different channels of the website and building up the content and database for the website. In November 1999, the Group officially launched its website at *hkcyber.com* which initially covered news, finance, fortune, horse racing, leisure and sports together with community features, namely chat room, free e-mail, interactive stories in which viewers can participate in developing different story lines and message boards. In April 2000, *hkcyber.com* was awarded as the "Best AV Site" and the "10 Best Local Web Site" by the Commercial Radio Hong Kong and Webmasters (Hong Kong) Associate Limited (which is an association of internet and web professionals in content development, technical development and network operation in Hong Kong) respectively. The Group was also awarded the "Hong Kong eAward" by the Hong Kong Productivity Council.

Since 31 July 2000, the Shares have been listed on GEM.

In January 2002, the Group further expanded its multimedia business in the PRC market by entering into an agreement with 廣東錫安人力資源有限公司 (formerly known as 廣東錫安物業發展有限公司) to form a joint venture company, 廣東安博信息服務有限公司, which was set up to provide employment, community services and professional corporate services via service centers and on-line portals. In May 2002, the Company acquired the entire issued share capital of COAGL from the COAGL Vendors for a consideration of HK$80 million, which were to be satisfied by the issue of the loan notes ("Loan Notes") having an aggregate principal amount of HK$80 million to the Vendors in accordance with their shareholding interests in COAGL. COAGL and its subsidiaries are principally engaged in the provision of wireless, broadband and multimedia enabling and system integration services in the Asia Pacific region. Following completion of the acquisition of COAGL, the Group has evolved from an on-line multimedia content provider to an enabler in wireless, broadband and multimedia technologies. In May 2002, the name of the Company was changed from hkcyber.com (Holdings) Limited to Cyber On-Air Group Company Limited.

In November 2002, September 2003 and March 2004, the Group discontinued its business of providing advertising platform for internet marketing and E-mall, licensing and subscription of web content and provision of recruitment and corporate services respectively.

In April 2004, Mediastar, became the controlling Shareholder when the Company issued 120,000,000 new Shares to Mediastar at a subscription price of HK$1.00 per Share. In May 2004, the Company fully settled all amounts outstanding under the Loan Notes by the issue of an aggregate of 4,000,000 new Shares to the COAGL Vendors.

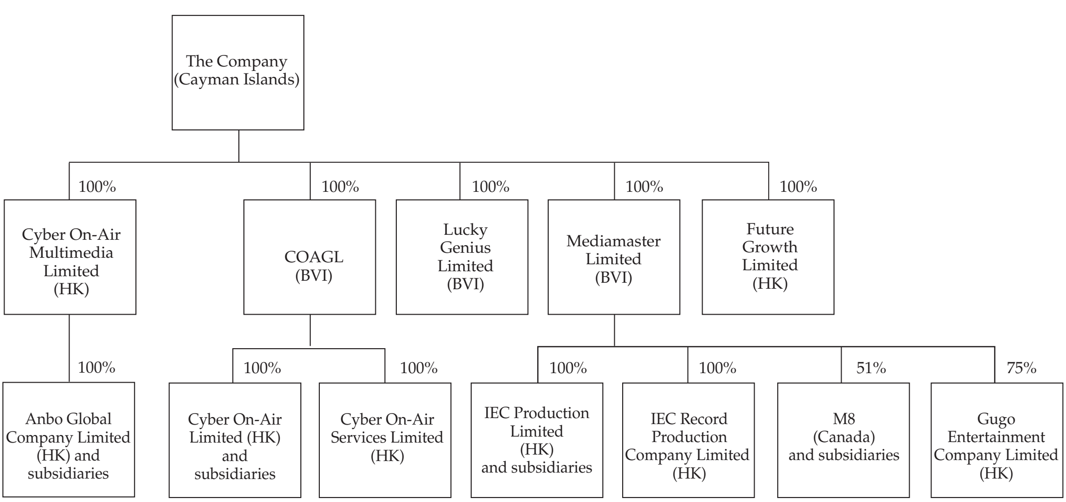
In December 2004, the Company completed the acquisition of approximately 51.0% of the voting rights in M8 at a total consideration of US$11,626,203. M8 Group is an established independent picture production/distribution group in North America principally engaged in the acquisition, financing, production, and worldwide licensing of theatrical feature films in a variety of genres. Past releases of M8 include the critically acclaimed drama **Monster**, which stars Charlize Theron and Christina Ricci and was selected as "The Best Film of 2003" by nationally syndicated in the U.S. film critic Roger Ebert. For her performance in the film, star Charlize Theron has garnered a myriad of accolades and awards including the prestigious Golden Globe Award for "Best Actress-Drama" and an Academy Award for "Best Actress". **Monster** was theatrically released in the U.S. by Newmarket Films, and was theatrically released throughout Canada by Remstar/Alliance Atlantis. Other past M8 releases include **The I Inside**, a suspense thriller starring Ryan Phillippe, Piper Perabo, and Stephen Rea, **11:14**, a black comedy starring Hilary Swank, Rachel Leigh Cook, Barbara Hershey, and Patrick Swayze, and the character-driven drama **The United States of Leland**, starring Kevin Spacey, Don Cheadle, Ryan Gosling, Chris Klein, and Lena Olin.

On 17 December 2004, the name of the Company was changed from Cyber On-Air Group Company Limited to International Entertainment Corporation. In 2005, the Group further expanded its business operations by investments in production of television series and music concerts in Hong Kong and the PRC.

As announced by the Company on 22 February 2007, the delisting (the "Delisting") of the class A multiple voting shares (Symbol: MEE.A) and the class B subordinate voting shares (Symbol: MEE.B) of M8 Entertainment Inc. ("M8") on the Toronto Stock Exchange ("TSX") became effective from 5:01 p.m. (Toronto time) on 15 March 2007. As informed by TSX, the Delisting was principally due to the fact that M8 had failed to meet the continued listing requirements of TSX, particularly the maintenance of market value.

CORPORATE STRUCTURE

Set out below is a corporate chart showing certain principal operating subsidiaries of the Group, their respective places of incorporation, and the shareholding structure of the Company as at the Latest Practicable Date.



BUSINESS

The Group is principally engaged in the provision of project services, network solutions, the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres and investments in production of television series and music concerts.

The following table sets out the Group's revenue during the two years ended 31 March 2007:

	Year ended 31 March			
	2006 (Audited)		2007 (Audited)	
	HK$'000	*%*	*HK$'000*	*%*
Network solutions	8,112	2.96	7,824	5.70
Project services	6,796	2.48	9,469	6.90
Entertainment business	257,472	93.86	118,617	86.39
Others	1,931	0.70	1,400	1.01
Total	274,311	100.00	137,310	100.00

(i) Network solutions

Network solutions involve the provision of total system solution including data networking solution, synchronisation solution, timing solution, wireless local area network solution and network access control solution.

(ii) Project services

Project services involve the project implementation services to manufacturers, carriers and enterprises and the installation and maintenance of telecommunication products. The services provided by the Group cover (i) wireless infrastructure such as radio base station installation, antenna & microwave system installation and coaxial and feeder cable installation, (ii) intelligent structural cabling services, and (iii) project management, system installation planning, system integration, software upload, testing and commissioning.

(iii) Entertainment business

Entertainment business involves acquisition, financing, production and licensing of theatrical feature films/cartoon, which activities are conducted by M8 and Gugo Entertainment Company Limited ("Gugo"). The Group completed the acquisition of approximately 51.0% of the total voting rights in M8 on 22 December 2004. On 28 February 2005, the Group further acquired 75% equity interest in Gugo, a cartoon production house in Hong Kong, for developing an animation division under the Group. The Group acquired the interests in Gugo from Independent Third Parties at a consideration of HK$4.5 million. The Group also invests in production of television series and music concerts in Hong Kong and the PRC.

SUPPLIERS AND PURCHASES

The principal materials sourced by the Group include synchronisation system, data communication system and wireless LAN security management system. Such materials are mainly purchased from suppliers in the United States and are mainly settled in US dollars. Costs of materials accounted for approximately 1.2% and 2.3% of the total purchases of the Group for each of the two years ended 31 March 2007 respectively. The Group's suppliers grant credit periods to the Group ranging from 0 day to 45 days.

Purchases for networking equipment, hardware and software are made on a job order basis. When the Group receives a contract to undertake a project, the Group will discuss with its customers and decide on the hardware and software required for the project. The Group will then obtain quotation from suppliers and place orders for the items to be purchased. The Group selects suppliers according to their technical expertise, market reputation and product price and quality. During the two years ended 31 March 2007, the Group did not encounter any material disruption in its business due to the shortage of supply or defects in the quality of components or materials.

The aggregate purchase attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases for each of the two years ended 31 March 2006 and 2007 respectively.

In relation to the project services, during the two years ended 31 March 2007, all the works were subcontracted out to be completed by independent contractors.

SALES AND MARKETING

As at the Latest Practicable Date, the Group had a team of two sales and marketing staff in Hong Kong. The sales and marketing staff make visits to potential customers to explore new business opportunities and maintain regular contacts with existing customers in order to identify their needs and problems and provide suggestions on improvement of their network or system and promote new solutions and services. The sales and marketing staff will also discuss with the Group's engineers on technical issues so that professional advice and proposals will be given to the customers.

M8 Group distributes its films worldwide, to most territories around the world. Its sales department attends major film markets throughout the year, including the Cannes Film Festival, AFM, Sundance Film Festival, and the Berlin Film Festival.

CUSTOMERS

The Group's customers are mainly mobile services operators, network services providers, and film distributors. The Group has established a close working relationship with each of its major customers.

For the year ended 31 March 2007, the Group's turnover was principally derived from the United States and Europe. For each of the two years ended 31 March 2007, approximately 5.35% and 14.80% of the Group's turnover was derived from Hong Kong, approximately 0.79% and 0.74% of the Group's turnover was derived from elsewhere in the PRC, approximately 46.65% and 33.72% of the Group's turnover was derived from the United States, approximately 41.05% and 47.60% of the Group's turnover was derived from Europe and approximately 6.16% and 3.14% of the Group's turnover was derived from Asia other than Hong Kong and the PRC. Turnover by business segments is set out in the paragraph headed "Business" in this appendix.

The sales attributable to the Group's largest customer accounted for approximately 17% and 17% of the Group's total turnover for each of the two years ended 31 March 2007 respectively. The sales attributable to the Group's five largest customers accounted for approximately 31% and 45% of the Group's total turnover for each of the two years ended 31 March 2007 respectively. All the five largest customers of the Group for each of the two years ended 31 March 2007 are Independent Third Parties, and none of the Directors, their respective associates or any Shareholder who to the knowledge of the Directors owns more than 5% of the Company's issued share capital have any interest in the five largest customers of the Group for each of the two years ended 31 March 2007.

Generally, credit periods of up to two months may be granted to customers of the Group's IT business while credit periods of up to three months may be granted to customers of its film business. In order to manage credit risk, credit control measures are in place to ensure that the debts are maintained at an acceptable level. The Group will send reminders to overdue customers and keep the debtors aging under review. Special credit terms will only be granted to customers upon approval by senior management.

The provision for bad and doubtful debts charged to the Group's income statement for each of the two years ended 31 March 2007 were approximately HK$11.9 million and HK$1.1 million respectively.

COMPETITION

The Group's major competitors include domestic and multinational network solution providers and wireless infrastructure and cabling services providers in Hong Kong and the PRC. The competition in this industry is intense as there are a number of market players and there are no significant entry barriers for new entrants. However, the Group aims to enhance its competitive edge over its competitors by providing quality customized services to its customers in a flexible manner. The Group's capability to quickly adapt to changing technologies and the management's expertise and experience in the industry place itself at an advantageous position in the industry.

A significant portion of the M8 Group's operating revenues is currently derived from production and licensing of feature films in a highly competitive industry environment where audience acceptance cannot be predicted with reasonable certainty. The M8 Group competes to recruit talent, ideas and screenplays created by third parties. However, it is the objective of the M8 Group to produce feature films much more efficiently and cost-effectively than other major US studios.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain name	Registrant organization	Registration date	Expiry date
cyberonair.com	Cyber On-Air Limited	28 September 1999	28 September 2010
ientertainmentcorporation.com	Future Growth Limited	22 December 2004	22 December 2007
intertainmentcorp.info	Future Growth Limited	28 December 2004	28 December 2007
intertainmentcorp.com	Future Growth Limited	27 December 2004	27 December 2007
ientertainmentcorporation.info	Future Growth Limited	23 December 2004	23 December 2007
ientcorp.com	Future Growth Limited	2 February 2005	2 February 2008
hkcyber.com	Cyber On-Air Limited	9 June 1998	8 June 2008
media8ent.com	Media 8 Entertainment	3 September 2003	3 September 2008
media8entertainment.com	Media 8 Entertainment	3 September 2003	3 September 2008
mdpworldwide.com	MDP Worldwide	27 September 2000	27 September 2009
gugoentertainment.com	Gugo Entertainment Co. Ltd.	27 April 2004	27 April 2008

As at the Latest Practicable Date, the Group owned the following intellectual property rights and software:

Number	Subject matter	Territory	Applicant/ Proprietor/Owner/ Licensee/Licensor/ Assignee/Assignor	Particulars	Status
1.	Trade Mark application no. 3405610	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee)	Word mark "GUGO" in class 16	Certificate of registration issued
2.	Trade Mark application no. 3405629	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee)	Word mark "GUGO" in class 25	Certificate of registration issued
3.	Registered trade Mark no. 3405628	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "GUGO" in class 28	Certificate of registration issued
4.	Trade Mark application no. 3405627	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "GUGO" in class 35	Abandoned
5.	Trade Mark application no. 3652130	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "古高" in class 25	Certificate of registration issued
6.	Trade Mark application no. 3559931	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "古高" in class 35	Certificate of registration issued
7.	Trade Mark application no. 3559932	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "古高" in class 28	Certificate of registration issued
8.	Trade Mark application no. 3559933	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "古高" in class 16	Certificate of registration issued

Number	Subject matter	Territory	Applicant/ Proprietor/Owner/ Licensee/Licensor/ Assignee/Assignor	Particulars	Status
9.	Trade Mark application no. 3559935	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "菇高" in class 16	Certificate of registration issued
10.	Trade Mark application no. 3559657	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "菇高" in class 35	Certificate of registration issued
11.	Trade Mark application no. 3559658	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "菇高" in class 28	Certificate of registration issued
12.	Trade Mark application no. 3559659	PRC	AlexandraZ.com (HK) Ltd. (Applicant/Assignor) Gugo Entertainment Co. Ltd. (Assignee/Proprietor)	Word mark "菇高" in class 25	Certificate of registration issued
13.	Trade Mark application no. 300314937	HK	Gugo Entertainment Co. Ltd. (Applicant)	Word mark "GUGO" & device in class 16	Certificate of registration issued
14.	Trade Mark application no. 300314937	HK	Gugo Entertainment Co. Ltd. (Applicant)	Word mark "GUGO" & device in class 25	Certificate of registration issued
15.	Trade Mark application no. 300314937	HK	Gugo Entertainment Co. Ltd. (Applicant)	Word mark "GUGO" & device in class 28	Certificate of registration issued
16.	Trade Mark application no. 300314937	HK	Gugo Entertainment Co. Ltd. (Applicant)	Word mark "GUGO" & device in class 35	Certificate of registration issued
17.	Trade Mark application no. 3006000632	HK	International Entertainment Corporation	Logo "IEC" in class 41	Certificate of registration issued

Number	Subject matter	Territory	Applicant/ Proprietor/Owner/ Licensee/Licensor/ Assignee/Assignor	Particulars	Status
18.	Trade Mark application no. 3006000641	HK	International Entertainment Corporation	Word mark "International Entertainment Corporation 國際娛樂有限公司" & logo in class 41	Certificate of registration issued
19.	Copyright	Worldwide	AlexandraZ.com (HK) Ltd. (Assignor) Gugo Entertainment Co. Ltd. (Assignee/Owner)	Script of cartoon series featuring Gugo	Ownership assigned
20.	Copyright	Worldwide	AlexandraZ.com (HK) Ltd. (Assignor) Gugo Entertainment Co. Ltd. (Assignee/Owner)	Cartoon character drawings of cartoon series featuring Gugo	Ownership assigned to the Company
21.	Copyright	Worldwide	AlexandraZ.com (HK) Ltd. (Assignor) Gugo Entertainment Co. Ltd. (Assignee/Owner)	Soundtrack recording of cartoon series featuring Gugo	Ownership assigned to the Company
22.	Copyright	Worldwide	AlexandraZ.com (HK) Ltd. (Assignor) Gugo Entertainment Co. Ltd. (Assignee/Owner)	Language dub for the Cantonese language version dub for Gugo cartoon characters	Ownership assigned to the Company
23.	Copyright	Worldwide	Gugo Entertainment Co. Ltd.	Chinese Name for Main Title and Subtitle and Chinese Name for Gugo	Ownership assigned
24.	Exclusive licence no. TV2003002	Worldwide	Gugo Entertainment Co. Ltd. (Licensee)	Synchronization licence agreement (TV) of musical composition of title song with EMI	Granted
25.	Exclusive licence no. M02003019	Worldwide	Gugo Entertainment Co. Ltd. (Licensee)	Mechanical reproduction licence agreement of musical composition of title song with EMI	Granted
26.	Exclusive licence no. TV2002021	Worldwide	Gugo Entertainment Co. Ltd. (Licensee)	Synchronization licence agreement (TV) of lyrics of title song with EMI	Granted

Number	Subject matter	Territory	Applicant/ Proprietor/Owner/ Licensee/Licensor/ Assignee/Assignor	Particulars	Status
27.	Exclusive licence no. M02002205	Worldwide	Gugo Entertainment Co. Ltd. (Licensee)	Mechanical reproduction licence agreement of lyrics of title song with EMI	Granted
28.	Exclusive licence	HK	Gugo Entertainment Co. Ltd. (Licensor)	TV programme licence agreement with TVB	Granted

As at the Latest Practicable Date, the Group owned the following film titles:

Title	Right	Right Holder	Territory	Registration Date
The I Inside	Copyright – Film	MDP Filmproduktion GmbH	US	9 July 2004
11:14	Copyright – Film	Five Stories, Inc.	US	25 November 2001
Monster	Copyright – Film	MDP Filmproduktion GmbH	US	16 January 2004
Upside of Anger	Copyright – Film	MDP Filmproduktion GmbH	US	30 July 2004
Havoc	Copyright – Screenplay	MDP Filmproduktion GmbH	US	11 September 2003
Santa's Slay	Copyright – Screenplay	MDP Filmproduktion GmbH	US	30 April 2004
Loverwrecked	Copyright – Screenplay	Young Racers, Inc.	US	23 June 2004
Running Scared	Copyright – Screenplay	Running Scared, Inc.	US	18 June 2004
Man About Town	Copyright – Screenplay	Man About Town Films, Inc.	US	8 October 2004

QUALITY CONTROL

The Group recognizes the importance of quality control in ensuring the delivery of quality products and services to its customers. When products procured by the Group are received from the suppliers, the Group's engineers conduct quality checks and return any unsatisfactory products to the suppliers. Those products that pass the quality checks will be integrated with the Group's in-house developed solutions or software (where necessary) to form the solutions or systems for its customers. Several quality control procedures are conducted throughout the course of developing the solutions or systems and a final check will be conducted upon completion to ensure the smooth running of the solutions or systems before final delivery to the customers. Final inspection is also performed by the Group for works subcontracted to other professionals.

M8 Group has positioned itself as a leading and credible source of creative and high-quality theatrical feature films. Before going into production, all creative film projects must be "greenlit" by a committee consisting of senior management members, who then assign an executive in charge to ensure that the production will proceed on schedule and within prescribed budgetary constraints.

MAINTENANCE, AFTER SALES SERVICE AND SUPPORT

The Group has a team of technical staff to provide after sales support service. The engineers of the Group are available not only during office hours but also during the public holidays and after office hours to serve customers having maintenance contracts with the Group.

PROPERTY INTERESTS

As at the Latest Practicable Date, the Group did not own any properties and the Group had the following leased properties, details of which are also set out in Appendix VII to this circular.

Properties leased in Hong Kong

As at the Latest Practicable Date, the Group leased from an Independent Third Party Workshop No. 7, 6th Floor, Kam Hon Industrial Building, No. 8 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong with a gross floor area of approximately 82.31 sq.m. for industrial use from 10 November 2006 to 9 November 2008. The Group also leased from an Independent Third Party Unit 9, 3rd Floor, Fook Hong Industrial Building, No. 19 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong with a gross floor area of approximately 314.20 sq.m. for industrial use from 19 April 2007 to 18 April 2009. In addition, the Group leased from NWTCL, a connected person (as defined the GEM Listing Rules) of the Company, Rooms 1207-1208, 12th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with a gross floor area of approximately 167.22 sq.m. for office use from 15 January 2007 to 14 November 2009. The Directors consider that the terms of the tenancy agreements entered into with NWTCL were negotiated on an arm's length basis and were entered into on normal commercial terms and in the ordinary and usual course of business of the Group and the terms are fair and reasonable and in the interests of the Shareholders as a whole. Please refer to the paragraph headed "Connected transactions" in the section headed "Letter from the Board" in this circular.

Properties leased in the US

As at the Latest Practicable Date, the Group leased from an Independent Third Party Suite 2000, 20th Floor, 1875 Century Park East, Los Angeles, California, United States with a rentable area of approximately 1,324.79 sq.m. for office use from 1 October 2003 to 31 January 2008.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS AND FINANCIAL CONDITION OF THE GROUP

Trading record

	Year ended 31 March		
	2007	**2006**	**2005**
	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	137,310	274,311	34,448
Cost of sales	(204,609)	(357,328)	(35,308)
Gross loss	(67,299)	(83,017)	(860)
Other income	16,872	9,281	3,977
Selling and distribution costs	(12,786)	(21,012)	(2,424)
Impairment loss recognised in respect of goodwill	–	(14,843)	–
General and administrative expenses	(41,512)	(60,717)	(28,210)
Other expenses	–	–	(1,244)
Finance costs	(4,828)	(2,704)	(1,117)
Loss before taxation	(109,553)	(173,012)	(29,878)
Taxation	(1,260)	(22,049)	–
Loss for the year	(110,813)	(195,061)	(29,878)
Attributable to:			
Equity holders of the Company	(110,813)	(117,063)	(19,295)
Minority interests	–	(77,998)	(10,583)
	(110,813)	(195,061)	(29,878)
Loss per share			
Basic	HK$(0.47)	HK$(0.50)	HK$(0.10)
Diluted	HK$(0.47)	HK$(0.50)	HK$(0.10)

Results of operation

For the year ended 31 March 2005

The Group's turnover for the year ended 31 March 2005 was approximately HK$34.4 million, representing an increase of approximately HK$18.3 million or 113.7% compared to the previous year. The Group's turnover comprised sales of goods, services income and film licensing income of HK$5.5 million, HK$10.4 million and HK$18.5 million respectively. The increase in turnover was mainly contributed by the licensing income from theatrical feature films as the results of the acquisition of M8. The Group recorded a decrease in sales of goods because of the keen competition for its IT projects. With the introduction of 3G service by mobile operators in Hong Kong, other operators that do not have 3G licence become more aggressive to improve their network by improving their network coverage, optimization of existing networks as well as replacing existing systems. Accordingly, the Group's services income was benefited by such market situation.

During the year, the Group recorded a gross loss of approximately HK$0.9 million comparing to a gross profit of approximately HK$4.6 million in 2004. Since the acquisition of 51% interest in M8 in December 2004, the results of M8 from the acquisition date onward were consolidated in the financial statements of the Group. The Group recorded a gross loss because the systematic amortisation of the film cost of M8 exceeded the film licensing income recognized by M8.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 78.2% to approximately HK$31.9 million for the year ended 31 March 2005 from approximately HK$17.9 million in the last year. The increase was mainly attributable to the inclusion of the expenses incurred by the M8 Group after the completion of the acquisition in December 2004.

The loss from operations for the year decreased by approximately 15.2% as compared to the previous year since there was no impairment loss for the goodwill arising on the acquisition of subsidiaries. In addition, other operating income increased from approximately HK$0.05 million in the previous year to approximately HK$4.0 million as a result of negative goodwill of approximately HK$3.1 million recognised.

Current assets increased significantly from HK$7.3 million as at 31 March 2004 to approximately HK$909.4 million as at 31 March 2005. The increase was primarily attributable to the acquisition of 51% interest in M8 in December 2004. As at 31 March 2005, the Group recorded film cost, trade receivables and bank balances and cash of approximately HK441.3 million, approximately HK$83.3 million and approximately HK$353 million respectively while the Group only recorded trade receivables and bank balances and cash of approximately HK$4.0 million and approximately HK$0.6 million respectively as at 31 March 2004. The film costs related to the expenditures on film production capitalised by M8 and Gugo. The Directors considered the increase in trade receivables was in line with the increase in turnover. The Group recorded a significant amount of cash as at 31 March 2005 as the result of the financing activities during the year ended 31 March 2005.

As at 31 March 2005, the Group had bank overdraft of approximately HK$2.2 million. The bank loans of the Group amounted to approximately HK$247.4 million, which would be due within one year, of which approximately HK$31.0 million bore interest at 0.75% in excess of the announced base rate of interest of Bank of America; approximately HK$5.7 million bore interest at 1.5% in excess of the announced base rate of interest of Bank of America; approximately HK$30.4 million bore interest at 1.0% in excess of the announced base rate of interest of Bank of America; and approximately HK$180.3 million bore interest at 1.25% in excess of the announced base rate of interest of Bank of America Corporation.

The Group had loans from Directors of approximately HK$3.0 million, of which approximately HK$1.8 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK$12.6 million, of which approximately HK$9.8 million was secured by a corporate guarantee issued by the Company, bore interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum and was repayable on 30 June 2005; approximately HK$1.2 million was secured by a corporate guarantee issued by the Company, bore interest at the best lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited and was repayable on 30 June 2005; approximately HK$0.8 million was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand; approximately HK$0.5 million was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand and the remaining balance of approximately HK$0.3 million was unsecured, interest-free and repayable on demand.

Guarantees were given to a related company in respect of loans utilised by the subsidiaries of the Group amounting to HK$11.0 million. In addition, the Group had other loans of approximately HK$3.4 million, of which approximately HK$2.0 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand. During the year, the Group issued two non-interest bearing promissory notes of approximately HK$36.1 million which was repaid on 21 June 2005.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 32.0% as at 31 March 2005 as compared to approximately 193.5% in previous year. The decrease in gearing ratio was mainly due to the significant increase in the total assets as at 31 March 2005 as a result of the acquisition of 51% interest in M8.

The Group financed its operations generally with internally generated cash flows, the present available credit facilities and proceeds from issue of new shares. Pursuant to resolutions passed at an extraordinary general meeting held on 22 April 2004, every 100 issued shares of HK$0.01 each in the capital of the Company were consolidated into one new share of HK$1.00 each (the "Share Consolidation"); the 2,000 unissued non-voting preference shares of HK$0.05 each in the authorised share capital of the Company were cancelled (the "Cancellation"); and after the Share Consolidation and Cancellation became effective, the authorised share capital of the Company was increased from HK$20,000,000 to HK$500,000,000 by the creation of 480,000,000 unissued new shares of HK$1.00 each.

On 30 April 2004, the Company issued 120,000,000 Shares pursuant to a conditional subscription agreement entered into by the Company with Mediastar on 8 March 2004.

On 30 April 2004, the Company also issued 4,000,000 Shares pursuant to the conditional settlement agreements entered into by the Company with COAGL Vendors on 8 March 2004 for the full and final settlement of all amounts outstanding under the Loan Notes, including unpaid accrued interest, and the discharge and release of the share charges in respect of all the shares in COAGL granted by the Company in favour of each of the COAGL Vendors.

On 5 May 2004, the Company issued 80,000,000 Shares pursuant to a conditional placing agreement entered into by the Company with Taifook Securities Company Limited ("TFS") on 8 March 2004.

On 25 January 2005, the Company issued a total of 31,000,000 Shares at the subscription price of HK$8.50 per Share pursuant to a placing agreement entered into by the Company and TFS on 18 January 2005.

For the year ended 31 March 2006

The Group's turnover for the year ended 31 March 2006 was approximately HK$274.3 million, representing an increase of approximately 696.3%, as compared with approximately HK$34.4 million for the previous year. The increase in turnover was mainly contributed by the revenue from the entertainment business. The Group reported a gross loss of approximately HK$83.0 million for the year under review, as compared to the gross loss of approximately HK$0.9 million in the previous year. The increase in gross loss was primarily due to write-downs on some of the films.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 166.8% to approximately HK$81.7 million for the year ended 31 March 2006 from approximately HK$31.9 million in the last year. The increase was mainly attributable to the inclusion of the expenses incurred by the M8 Group after the completion of the acquisition in December 2004.

In view of the deteriorating results of certain subsidiaries of the Company, an impairment loss of approximately HK$14.8 million had been recognised for the goodwill arising on the acquisition of these subsidiaries in 2006.

The Group recorded loss before taxation for the year ended 31 March 2006 of approximately HK$173.0 million, representing approximately 479.1%, as compared with approximately HK$29.9 million in the previous year. The increase in loss before taxation for the year was mainly due to the write-downs on some of the films and impairment loss recognised for the goodwill arising on acquisition of certain subsidiaries during the year.

As at 31 March 2006, the Group's net current assets amounted to approximately HK$285.5 million. Current assets amounted to approximately HK$540.6 million, of which approximately HK$293.0 million was cash, bank deposits and pledged deposits, approximately HK$25.0 million was trade receivables, and approximately HK$198.2 million was film costs.

The Group had current liabilities amounted to approximately HK$255.1 million, of which approximately HK$59.4 million was trade payables, approximately HK$46.4 million was other payables and accrued charges, approximately HK$130.5 million was bank and other borrowings, and approximately HK$15.6 million was loans from Directors and related companies.

As at 31 March 2006, the Group did not have any bank overdraft. The bank loans of the Group amounted to approximately HK$127.1 million, which would be due within one year.

As at 31 March 2006 the Group had loans from the Directors of approximately HK$3.0 million, of which approximately HK$1.8 million was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK$12.6 million, of which approximately HK$9.8 million was secured by a corporate guarantee issued by the Company, bore interest at HIBOR plus 2% per annum and was repayable on 30 June 2006; approximately HK$1.2 million was secured by a corporate guarantee issued by the Company, bore interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was repayable on 30 June 2006; approximately HK$0.8 million was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand; approximately HK$0.5 million was unsecured, bone interest at HIBOR plus 2% per annum and was repayable on demand and the remaining balance of approximately HK$0.3 million was unsecured, interest-free and repayable on demand. Guarantees were given to a related company in respect of loans utilised by the subsidiaries of the Company amounting to HK$11.0 million.

In addition, the Group had other loans of approximately HK$3.4 million, of which approximately HK$2.0 million was unsecured, bore interest at the HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

During the year ended 31 March 2005, the Group issued two non-interest bearing promissory notes of approximately HK$36.1 million, which was repaid on 21 June 2005.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 26.9% as at 31 March 2006.

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

For the year ended 31 March 2007

The Group's turnover for the year ended 31 March 2007 was approximately HK$137.3 million, representing a decrease of approximately 49.94%, as compared with approximately HK$274.3 million for the previous year. The decrease in turnover was mainly contributed by the decrease in revenue from the entertainment business. The Group reported a gross loss of approximately HK$67.3 million for the year under review, as compared to the gross loss of approximately HK$83.0 million in the previous year. The decrease in gross loss was primarily due to the decrease in revenue generated for the year ended 31 March 2007.

Selling and distribution costs and general and administrative expenses decreased by approximately 33.54% to approximately HK$54.3 million for the year ended 31 March 2007 from approximately HK$81.7 million in the last year. The decrease was mainly attributable to the non-recurring expenses incurred by the M8 Group after the completion of acquisition in last year.

The Group recorded an operating loss for the year ended 31 March 2007, amounted to approximately HK$104.7 million, representing a decrease of approximately 38.52%, as compared with approximately HK$170.3 million in the previous year. The decrease in operating loss for the year was mainly due to the decrease in the write-downs on some of the films during the year.

As at 31 March 2007, the Group's net current assets amounted to approximately HK$176.2 million. Current assets amounted to approximately HK$309.4 million, of which approximately HK$194.4 million was cash, bank deposits and pledged deposits, approximately HK$5.8 million was trade receivables, and approximately HK$59.1 million was film costs.

The Group had current liabilities amounted to approximately HK$133.2 million, of which approximately HK$92.9 million was trade payables, approximately HK$24.2 million was other payables and accrued charges, approximately HK$12.9 million was bank borrowings.

As at 31 March 2007, the Group did not have any bank overdraft. The bank loans of the Group amounted to approximately HK$12.9 million, which would be due within one year.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 4.13% as at 31 March 2007.

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

Financial Review

During the year ended 31 March 2007 the Group made certain additions and impairment loss of film cost of approximately HK$48.3 million and HK$102.8 million respectively which included principally the followings:

Addition:	
Hollywood love movie	HK$48.3 million
Impairment loss:	
Hollywood love movie	HK$43.7 million
Hollywood drama movie	HK$41.9 million
Hong Kong TV suspense series	HK$16.0 million
Hollywood crime drama movie	HK$1.2 million

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution comprises share premium, merger reserve and accumulated profits. Under the Companies Law, the share premium of a company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution of dividend the company is able to pay its debts as they fall due in the ordinary course of business.

FOREIGN CURRENCY EXPOSURE AND HEDGING POLICY

The Group's assets and liabilities are denominated in HK$, RMB and US$. The Group has no significant exposure to foreign exchange fluctuations.

TAXATION

The Group is subject to Hong Kong profits tax and PRC enterprise income tax for the three years ended 31 March 2007. The statutory Hong Kong profits tax rate was 17.5%, 17.5% and 17.5% for the three years ended 31 March 2007 respectively. Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Based on the annual report of the Company for the year ended 31 March 2007, as at 31 March 2007, the Group had net current assets of approximately HK$176.2 million. The current assets mainly comprised inventories of approximately HK$1.6 million, film costs of approximately HK$59.1 million, bank balances and cash of approximately HK$180.5 million, pledged bank deposits of approximately HK$13.9 million, available-for-sale financial assets of approximately HK$13.8 million, trade receivables of approximately HK$5.8 million and other receivables, deposits and prepayments of approximately HK$34.8 million. The current liabilities mainly comprised trade payables of approximately HK$92.9 million, other payables and accrued charges of approximately HK$24.2 million, bank borrowings of approximately HK$12.9 million amounts due to related companies of approximately HK$1.3 million and preference dividend payable of approximately HK$0.7 million.

Cash flows

The Group financed its operations generally with internally generated cash flows and the present available credit facilities. The cash from operations and the Group's ability to fund its capital expenditure needs could be adversely affected by downturns in demand for the Group's products and services.

Operating activities

Net cash from operating activities for the year ended 31 March 2007 was approximately HK$43.2 million, as compared with net cash from operating activities of approximately HK$106.8 million for the year ended 31 March 2006. Such decrease was primarily due to the fall in turnover in 2007.

Investing activities

Net cash from investing activities increased from approximately HK$(42.2) million for the year ended 31 March 2006 to approximately HK$47.7 million for the year ended 31 March 2007. In 2006, the cash outflow from investing activities was mainly attributable to the increase in pledged bank deposits, while that was decreased in 2007.

Financing activities

Net cash used in financing activities was approximately HK$143.7 million for the year ended 31 March 2007, as compared with net cash from financing activities of approximately HK$183.1 million for the year ended 31 March 2006. The net cash outflow from financing activities for the year ended 31 March 2007 was attributable to the repayment of bank borrowings amounting to approximately HK$116.5 million and interest paid of approximately HK$8.3 million.

Financial resources, borrowings and banking facilities

Bank balances and cash were approximately HK$233.1 million and HK$180.5 million as at 31 March 2006 and 31 March 2007 respectively.

The Group has historically relied on cash flows generated from operations, bank and other borrowings, loans from Directors and related companies and proceeds from issue of new shares for its capital expenditures and other capital requirement.

As at 31 March 2007, all of the Group's bank borrowings were short term in nature and only approximately HK$12.9 million was secured.

Given the businesses of the Group are project-oriented, the cashflow requirements of the Group will be in some degree dependent on the launch of the individual projects. The Directors expect that the Group shall be able to meet its anticipated cash needs, including the payment of the consideration for the Acquisition, operating lease commitment, repayment of bank borrowing and working capital, primarily through the Rights Issue, the issue of the Convertible Note, the cash generated from its operations and raising of new bank borrowings.

Capital commitments

As at 31 March 2007, save for the Acquisition, the Group had no capital commitments contracted for.

Capital structure

As at 31 March 2007, the Group had intangible assets of approximately HK$59.1 million, net tangible assets of approximately HK$177.7 million comprising non-current tangible assets of approximately HK$1.5 million (comprising property, plant and equipment) and net current assets of approximately HK$176.2 million.

Foreign exchange exposure and hedging instruments

The Group's revenues and costs are mainly denominated in US$, HK$ and RMB. Since HK$ and RMB remain pegged to US dollars, the Group does not foresee a substantial exposure to US$ and RMB in this regard.

Treasury policies

It is the Group's policy to develop sufficient internal and external sources of funds (including both short-term funds and long-term funds) to take advantage of business opportunities, as well as to maintain a satisfactory level of liquid assets. The development of such sources provides the means for more effective business decisions. Short-term funds are generated internally from the Group's operations or from outside financial institutions, most frequently banks. The use of internally generated funds for short-term needs will be the preferred method of funding. The Group uses cash budgets to determine the cash needs and distinguish between short-term and long-term requirements.

MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2007, the date to which the latest published audited consolidated financial statements of the Company have been made up.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Directors and are based upon management's then-current judgement. "Significant accounting polices" in the audited financial statements set out in Appendix III to this circular includes a summary of the principal accounting policies adopted by the Group. Critical accounting policies are those that are most important to both of the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that may change in subsequent period. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimates may differ significantly from management's current judgement. The Directors believe the following critical accounting policies involve the most significant judgement and estimates used in the preparation of financial information.

Film costs

Film costs represent film rights and films and animation series produced by the Group.

Film rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

Provision for obsolete inventories

The Group's inventories are stated at the lower of cost (on a first-in, first-out basis) and net realisable value. Inventories will be reviewed annually for obsolescence provisions if appropriate. Since the IT projects of the Group is generally sales driven, the purchases of raw materials are mostly made in accordance with the pre-determined according to the contract specification. This has enabled the Group to maintain inventory level at an in-need basis. During the two years ended 31 March 2007, the Group only recorded insignificant amount of provision for obsolete inventories. The Directors consider that the existing policy in making provision for inventory is appropriate.

Allowances for doubtful accounts

The Directors perform ongoing credit evaluations of the customers' financial condition and make allowances for doubtful accounts based on the outcome of the credit valuations. The Directors evaluate the collectibility of the Group's accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and the age of past due receivables. Unanticipated changes in the liquidity or financial position of the Group's customers may require additional allowances for doubtful accounts. The Directors consider that the existing policy in making provision for doubtful debts is appropriate.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Circumstances that would lead to impairment review by the Directors include a low utilization rate of a significant under-performance relative to expectation of equipment, significant changes or planned changes in the use of assets, significant negative industry or economic trend. If there is any indication that assets may be impaired, the Directors will exercise their judgement and estimate the recoverable amount.

Revenue recognition

The Group is engaged in the motion picture production and the acquisition, financing, production and worldwide licensing of theatrical feature films. The licensing income is provided on film project basis. Revenue from licensing income is recognised when the conditions of the agreement in relation to the film project are all fulfilled with reference to the projected aggregate revenue of the film. If the Group cannot reasonably foresee the progress of a film or it is unlikely that the costs incurred will be recovered eventually, revenue will not be recognised and the costs incurred will be treated as expenses of the Group.

DIRECTORS AND SENIOR MANAGEMENT OF THE ACQUIRED COMPANY

Directors of the Acquired Company

Dr. Cheng Kar Shun, please refer to the paragraph headed "Executive Directors" in the section headed "Letter from the Board" in this circular for the details of Dr. Cheng.

Mr. To Hin Tsun, Gerald, please refer to the paragraph headed "Executive Directors" in the section headed "Letter from the Board" in this circular for the details of Mr. To.

Mr. Chan Kam Ling, aged 63, joined the Hotel Group in October 2002. Mr. Chan became a director of New World Development Company Limited in 1994 and New World China Land Limited in 1999 respectively. Mr. Chan is currently the managing director and chief executive officer of NWS Holdings Limited. He is also managing director of Sino-French Holdings (Hong Kong) Limited and Macao Water Supply Company Limited as well as a director of Companhia de Electricidade de Macau, CEM, S.A.. Mr. Chan has more than 30 years of experience in construction, property investment and infrastructure industry.

Senior management

Mr. Paulo Ho, aged 63, joined the Hotel Group in September 2002. Mr. Ho is the managing director of the Hotel Group. In 1972, Mr. Ho departed to Las Vegas to learn the American way of gambling and casino management. Subsequently, he has been involved in the establishment and/or investment of various overseas hotels, casinos and gaming business. During 1976-1987, he assisted the Philippine government in the establishment of the first legal casino in Manila and then further expanded to other casino establishments in Angeles, Baguio, Olongapo, Cebu, Iloilo and Davao. In recognition of his contributions to the development of casino operations as a new source of revenue as well as active involvement in the economic and social development of Philippines, he was granted Philippine citizenship in 1983 pursuant to the Presidential Decree 1881. Mr. Ho has more than 30 years of experience in hotel and amusement business.

Ms. Yvonne Lo Pui Ying, aged 57, is the group financial controller and treasurer of the Hotel Group. Ms. Lo is responsible for the overall general management of the financial and treasury affairs of the Hotel Group in the Philippines. Ms. Lo is a Certified Hotel Administrator granted by the American Hotel and Motel Association. Ms. Lo is also founder member of Hotels Controllers and Accountants Association in Hong Kong. Prior to joining the Hotel Group in November 2003, Ms. Lo has been the director of finance of Renaissance Harbour View Hotel since 1988 and she has worked in various senior finance positions in certain hotels in Hong Kong. Ms. Lo has more than 34 years of experience in hotel management.

Mr. Kan Wong Hak Kan, aged 38, is the financial controller and assistant treasurer of the Hotel Group. Mr. Wong is responsible for the supervision of the finance, accounting, treasury, tax and compliance functions of the Hotel Group in the Philippines. Mr. Wong holds a degree of Bachelor of Arts (Honor) in accounting studies from the London Guildhall University. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant in Hong Kong. Prior to the joining of the Hotel Group in November 2003, Mr. Wong was the Assistant Controller of New World Renaissance Hotel, Kowloon. Mr. Wong has more than 15 years of experience in accounting and financial management.

Mr. Tony Toh Chong Hin, aged 50, is the director of operation of the Hotel Group. Mr. Toh is responsible for providing supervision on establishment, maintenance and the operation of the slots machines and the surveillance system installed at the casino within the Hotel Property for the fulfilment of the Hotel Group's functions as owner of the premises and facilities provided to PAGCOR. Mr. Toh attended a full general management program for senior managers in the National University of Singapore. Mr. Toh commenced his career in hotel and amusement business in 1978 by joining Resorts World Berhad, a subsidiary of Genting group of companies in Malaysia. Subsequently, he has taken senior positions at various casino hotels. Mr. Toh joined the Hotel Group in November 2003. Mr. Toh has more than 26 years of experience in gaming and amusement industry.

Mr. Gottfried Bogensperger, aged 43, is the general manager of the Hotel. Mr. Bogensperger is mainly responsible for overseeing the entire hotel operations. Prior to the joining of the Hotel Group in January 2004, Mr. Bogensperger has worked in several executive positions in other Hyatt properties in Singapore, Korea, Malaysia and Mexico. Mr. Bogensperger has more than 26 years of experience in the hotel industry.

Mr. Joey Hung-Yi Wu, aged 37, is the director of food and beverages of the Hotel. Mr. Wu is responsible for overseeing the entire food and beverage operations of the hotel. Prior to the joining of the Hotel Group in February 2007, Mr. Wu was the Assistant Director of Food and Beverage at Grand Hyatt Beijing from 2004 to 2007. Mr. Wu has more than 10 years of hotel/hospitality experience. Mr. Wu is a graduate of Hotel and Tourism Management from a Hotel School in Montreux, Switzerland.

Ms. Verna Villa-Vidallon, aged 36, is the director of finance of the Hotel. Ms. Vidallon is responsible for the administration of accounting procedures to ensure compliance with the local government and financial reporting procedures of the Hotel. Prior to the joining of the Hotel Group in October 2005, Ms. Vidallon has worked in the finance departments of other hotels in the Philippines. Ms. Vidallon received a bachelor of accountancy degree from Polytechnic University of the Philippines. Mr. Vidallon is a Certified Public Accountant in the Philippines. Mr. Vidallon has more than 14 years of experience in accounting and finance.

Mr. Hubertus Cramer, aged 42, is the executive chef of the Hotel. Mr. Cramer is responsible for designing menus, pricing, maintaining effective food and beverage cost controls. Prior to the joining of the Hotel Group in February 2004, Mr. Cramer has worked as executive chef and executive sous chef in various Hyatt properties in Singapore, Australia, Indonesia and Korea. Mr. Cramer has more than 23 years of culinary experience.

Mr. Johne Gundran, aged 46, is the director of engineering of the Hotel. Mr. Gundran is responsible for the overall maintenance function of the property and the compliance with local regulations and Hyatt International standards of operation of the Hotel. Prior to the joining of the Hotel Group in March 2004, Mr. Gundran has worked as engineer in food, hospital and defence industry. Mr. Gundran is a professional mechanical and electrical engineer and he received a bachelor of science degree from University of the East. Mr. Gundran has more than 21 years of experience in engineering.

Mr. Eugene Tamesis, aged 38, is the director of marketing of the Hotel. Mr. Tamesis is responsible for the development and execution of the hotel marketing plans and programs and expansion of hotel products and/or services. Prior to joining the Hotel Group in March 2004, Mr. Tamesis has worked as director of sales and marketing in hotels located in Vietnam and Philippines. Mr. Tamesis received a bachelor of science degree in management from Ateneo de Manila University. Mr. Tamesis has more than 17 years of experience in the hotel industry.

Mr. Elpidio Beloso Jr., aged 41, is the director of rooms of the Hotel. Mr. Beloso handles the operations of various departments in the rooms division which includes housekeeping, guest services, security, concierge and valet. Prior to joining the Hotel Group in March 2004, Mr. Beloso was the senior operations manager in a hotel located in Manila. Mr. Beloso received a bachelor of science degree in civil engineering from Aquinas University of Legazpi. Mr. Beloso has more than 13 years of experience in the hotel industry.

Ms. Emma Valeros Cruz, aged 51, is the director of human resources of the Hotel. Ms. Cruz is responsible for overseeing the overall human resources function of the Hotel. Prior to joining the Hotel Group in March 2004, Ms. Cruz has worked in various senior human resources management positions in multinational companies in the Philippines. Ms. Cruz received a master of art degree in industrial relations and a bachelor of art degree from University of the Philippines. Ms. Cruz has more than 15 years of experience in personnel management.

At present, the Company does not intend to change the majority of the composition of the board of directors of the Acquired Group or the senior management of the Acquired Group upon completion of the Acquisition.

COMPETITION AND CONFLICTS OF INTEREST

Potential conflict of interest

Each director of the Acquired Company owes fiduciary duties and duties of confidentiality towards the Acquired Company. After Completion, the Acquired Company, being a subsidiary of the Company, will be required to follow the directions of the Company, which has a total of eight Directors (of which only one is also a director of the

Acquired Company). The Company would exercise control over the Acquired Company through its shareholding control. Where a director is materially interested in a transaction to be considered by the board of his company, such director (be it at the level of the Company or the Acquired Company) is required to declare his interest and (to the extent required by the relevant company's constitutional documents) abstain from voting on the resolutions to which such material interest relates.

To avoid actual or potential conflict of interest, all the existing directors of the Acquired Company have been required by the Company (and they have confirmed) that they will inform the Company of all business opportunities which come to them (other than in their capacities as directors of other companies in respect of which their obligations of confidentiality will prevail), and that, to the extent required by the constitutional documents of the Acquired Company, they will abstain from voting on any resolutions in respect of any business opportunity or matter which comes before the board of the Acquired Company on which they sit if they are also directors of another company which could potentially be interested in such business opportunity or matter.

Potential investment opportunity

If the Company is offered by CTF with any investment opportunity of competing business in accordance with the provisions of the Acquisition Agreement, a report on that opportunity will be presented to the Directors (including the independent non-executive Directors). If the Directors resolve that the Company takes up the investment opportunity, it will be dealt with in accordance with the requirements of the Listing Rules. The Company intends not to reject any such investment opportunity without first having the endorsement of such rejection from a majority of its independent non-executive Directors. The Company will, for so long as CTF remains (whether directly or indirectly) a controlling Shareholder (as defined in the GEM Listing Rules), include in its interim and annual report brief particulars of any investment opportunity that it has rejected during the financial period which is the subject of that report and which has been taken up by CTF or its subsidiaries (excluding for this purpose, members of the Group at the relevant time). In this regard, CTF has undertaken in favour of the Company in the Acquisition Agreement that it will promptly notify the Company any investment opportunity so taken up by CTF or its subsidiaries (excluding for this purpose, members of the Group at the relevant time).

Potential competition

Fortune Holiday Limited ("Fortune"), which is indirectly owned as to 73% by CTF and not a member of the Acquired Group, has entered into agreements with PAGCOR in June 2002 pursuant to which Fortune, subject to fulfillment of certain conditions precedent, is entitled to acquire a site of approximately 10.5 hectares ("Fortune Land") within a 60 hectares site at the Manila Bay Reclamation Area proposed to be called "Theme Park Manila". Under those agreements, Fortune is entitled to build a hotel, residential and entertainment complex including three PAGCOR casino facilities at the Fortune Land. The initial term of the lease of the Fortune Land under the said agreements is 50 years and Fortune has also been given, inter alia, the option to renew the lease for another 25 years. CTF has confirmed to the Company that the conditions precedent (including but not limited to the grant of land title by the Philippines government to PAGCOR) to the performance of Fortune's obligations under the said agreements have not been fulfilled by the pre-agreed date nor have they been fulfilled as at the Latest Practicable Date. The completion of the acquisition of the Fortune Land will be subject to further negotiation between Fortune and PAGCOR. While Fortune has not exercised its right to terminate those agreements, there is no certainty at this stage that the project as described above will proceed at any time or on the same terms or at all.

Fortune has also been given the right, inter alia, under a separate agreement entered into in June 2002 to require PAGCOR to lease and operate a casino at no more than two sites at any one time acquired by Fortune in Metro Manila (but outside the Theme Park Manila). CTF has confirmed to the Company that as at the Latest Practicable Date, Fortune has not acquired any such site and does not have any plan to do so in the near future. Fortune is an investment holding company incorporated in the BVI and is beneficially owned by CTF, Mr. To Hin Tsun, Gerald, Mr. William Doo Wai Hoi, Mr. Ng Hoi Yue (an Independent Third Party) and Mr. Chan Kam Ling as to 73%, 11%, 8%, 5% and 3% respectively. Dr. Cheng Kar Shun was also a director of Fortune as at the Latest Practicable Date.

CTF has confirmed that it does not propose as part of the Acquisition Agreement to transfer Fortune and its interests under the agreements described above to the Company in as much as there is at present no certainty that the investments and/or businesses contemplated under those agreements would materialize. CTF has also undertaken to notify the Company if and when it becomes probable that the transactions contemplated under those agreements may proceed and has, in consideration of HK$1 paid by the Company, granted an option in favour of the Company so that it may, at its discretion, require CTF to sell and/or procure the sale of its interests in Fortune to the Company at cost to CTF. Such option is exercisable until CTF ceases to become (whether directly or directly) the controlling shareholder of Fortune or the controlling Shareholder, whichever is earlier. The exercise of the option by the Company may constitute a transaction which are subject to disclosure or shareholders' approval under Chapter 19 or 20 of the GEM Listing Rules. The Company will comply with the relevant provisions of the GEM Listing Rules if the option is exercised.

In the event that the transactions contemplated under any of the above agreements between Fortune and PAGCOR materialise, an independent board committee comprising independent non-executive Directors would then decide whether the Company should exercise the option to acquire the interests in Fortune.

Under the Acquisition Agreement, Cross-Growth and CTF have undertaken that for so long as CTF remains (whether directly or indirectly) a controlling shareholder (as defined in the GEM Listing Rules) of the Company, neither of them nor their respective subsidiaries shall carry on (whether directly or indirectly) any tours, entertainment and leisure related business which competes with the business activities carried on by the Acquired Group and ATD in the Philippines and Macau respectively (save for those disclosed in this circular and in respect of holdings of less than 10% of the voting shares in publicly listed and traded companies), provided that they shall be entitled to invest in potentially competing projects, if and to the extent that such investment opportunity has first been offered to and rejected by the Company in writing.

Directors' interests in competing business

The following Directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the business of the Enlarged Group pursuant to the GEM Listing Rules as set out below:

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Enlarged Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Enlarged Group	Nature of interest of the Director in the entity
Cheung Hon Kit	Wing On Travel (Holdings) Limited and its subsidiaries	Investment in hotel property with casino facilities in Macau	director, optionholder
	Macau Prime Properties Holdings Limited	Investment in hotel and residential property in Macau	director
Cheng Kar Shun	Many Town Company Limited	A minority investor of SJM which is principally engaged in casino business in Macau	director
Cheng Kar Shun	New World Development Company Limited and its subsidiaries	Investment in hotel property in Makati, Manila, Philippines	director optionholder and shareholder
Lo Lin Shing, Simon	Macau Prime Properties Holdings Limited	Investment in hotel and residential property in Macau	director

FINANCIAL RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

Upon the completion of the Acquisition, the Enlarged Group will continue to maintain certain current accounts with the controlling Shareholder. CTF has undertaken to the Company that it will only demand for repayment of the loans when such repayment would not adversely affect the operations of the Enlarged Group and the implementation of its business objectives.

BACKGROUND OF THE ACQUIRED INTERESTS

CTF is an investment-holding conglomerate with businesses including investments in overseas hotel properties. CTF has confirmed that, save as disclosed in this circular, CTF does not have any interest in entities which are engaged in hotel properties with casino facilities in Macau and the Philippines. The Hotel Group originated when CTF decided to establish a deluxe hotel with casino facilities in the Philippines. The history of the Acquired Group dated back to October 2002 when CTFP and CTFHE (both wholly owned subsidiaries of Flexi-Deliver, the intermediate holding company of the Acquired Group and which is 73% owned by the CTF Group) entered into agreements with Megaworld Corporation ("Megaworld"), a company listed in the Philippines Stock Exchange and an Independent Third Party, for the acquisition of MSPI and NCHI whose principal asset was the Hotel Property. The Acquired Company was incorporated on 8 November 2004 to facilitate the Acquisition. It has had no business activities, operations, assets or liabilities since its incorporation up to the Latest Practicable Date, other than entering into transactions to effect the Reorganisation as stipulated in the Acquisition Agreement. On completion of the Reorganisation, Flexi-Deliver will become a wholly owned subsidiary of Maxprofit and the Acquired Company will own 51% of Maxprofit and 40% of ATD.

On 29 March 2001, Megaworld and Fairmont Holdings, Inc. ("Fairmont"), an Independent Third Party, entered into a joint venture agreement for the construction and development of an office and condominium project on a parcel of land located at Pedro Gil Street, Malate, Manila (the "Fairmont Land"). Subsequently, Megaworld constructed on Fairmont Land an office and commercial complex consisting of commercial units and parking areas with a total gross floor area of 51,282.4 sq.m. (the "Plaza"). Megaworld was the owner of the Plaza while Fairmont was the owner of the Fairmont Land. In addition, Megaworld owned a parcel of land (the "Megaworld Land") located at Pedro Gil Street, Malate, Manila which is adjacent to the Fairmont Land. Megaworld constructed a multi-storey building on the Megaworld Land consisting of 174 condominium units (hotel, commercial and residential units) with a total saleable floor area of 27,135.0 sq.m. (the "Marina Square Suites").

Believing in the potential of the hotel and gaming industry in the Philippines, the CTF Group acquired and/or leased some of the properties erected on the Fairmont Land and the Megaworld Land. For this purpose, the following transactions were completed:

- CTFP was incorporated in the Philippines on 3 October 2002 as the investment holding company for the Hotel Group's gaming premises and facilities in the Philippines. On 25 October 2002, CTFP entered into a sale and purchase agreement with Megaworld. Pursuant to the agreement, Megaworld transferred the Plaza erected on the Fairmont Land to MSPI, the then newly incorporated wholly-owned subsidiary of Megaworld. Furthermore, CTFP purchased the entire equity interest in MSPI from Megaworld for a cash consideration of US$39,273,039. Thus, MSPI became the property owner of the Plaza which now houses the casino operated by PAGCOR.

- CTFHE was incorporated in the Philippines on 7 October 2002 as the investment holding company for the Hotel Group's hotel operation in the Philippines. On 25 October 2002, CTFHE entered into a sale and purchase agreement with Megaworld. Pursuant to this agreement, Megaworld transferred to NCHI, the then newly incorporated wholly-owned subsidiary of Megaworld, various units at the Marina Square Suites erected on the Megaworld Land and CTFHE purchased the entire equity interest in NCHI from Megaworld for a cash consideration of US$8,963,147.12. Thus, NCHI became the property owner of certain commercial and residential units which now form part of the Hotel.

Because of the restriction on foreign ownership of land and the restriction of the percentage of ownership of condominium building by foreign owners in the Philippines, the Hotel Group, Megaworld, Fairmont, Harbour View Properties and Holdings, Inc. ("HVP"), Pacific Bayview Properties, Inc. ("PBPI") and Blue Marine Properties, Inc. ("BMPI") entered into a coordinating agreement on 25 October 2002. Pursuant to such agreement and its subsequent amendment agreements, (i) HVP agreed to acquire from Fairmont the Fairmont Land; (ii) BMPI agreed to acquire the entire issued share capital of PBPI from Megaworld; and (iii) PBPI agreed to acquire certain condominium units in Marina Square Suites from Megaworld and lease them to NCHI. Each of BMPI and HVP is owned as to 60% and 40% by an Independent Third Party and Oriental-Invest Properties Ltd. ("OIP") respectively. OIP is equally owned by Ms. Anita Shum and Mr. Patrick Yuen, both of them being cousins-in-law of Dr. Cheng Kar Shun, the chairman of the Company.

On 2 April 2003, NCHI entered into a lease agreement with PBPI for the leasing of six hotel/commercial units for an annual rental of Peso21,175,000. The lease is effective for a period of 25 years commencing on 2 April 2003 and ending on 1 April 2028 with an option to renew for a further term of 25 years exercisable at the discretion of NCHI. These units were rented by NCHI for the purpose of providing extra floors for the hotel which is now part of the Hotel Property. On the same day, MSPI entered into a lease agreement with HVP for the leasing of the Fairmont Land for an annual rental of Peso8,700,000. The lease is effective for a period of 25 years commencing on 2 April 2003 and ending on 1 April 2028 with an option to renew for a further term of 25 years exercisable at the discretion of MSPI.

Prior to the acquisition of MSPI and NCHI by the Hotel Group, the structure of the Hotel and casino premises had been erected but not fitted out and/or furnished. Subsequent to the CTF Group's takeover of the Hotel Group, Megaworld, a licensed contractor in the Philippines, was appointed as a contractor for the construction of additional floors on the Plaza, structural alterations, external improvement works including all external walls, architectural features, and windows, and other internal partition works. As a result of the construction, an additional 19 floors had been built on top of the Plaza as an integrated part of the hotel complex.

In February 2004, the internal alteration and fitting out of the Plaza was completed and it became the gaming and administrative areas of PAGCOR and dining areas of the Hotel. In September 2004, the renovation of the hotel floors was partially completed and certain floors were open to guest as a soft opening of the Hotel.

As part of the Reorganisation, the Acquired Company will also acquire from Cheung Hung the Macau Interest.

RELATIONSHIP WITH HYATT

The Acquired Company is the owner of the Hotel which is being operated as a super deluxe Hyatt Hotel.

On 12 December 2003, the Hotel Group entered into a pre-opening agreement with Hotel Project Systems, Pte Limited ("HPSL"), an indirect subsidiary of Hyatt International Corporation. HPSL was responsible for the provision of advisory and consultancy services in connection with the planning, building, furnishing, equipping and decorating of the Hotel owned by the Hotel Group for the preparation of the Hotel for pre-opening operation.

On 12 December 2003, the Hotel Group further entered into a license agreement with HPSL, pursuant to which HPSL agreed to provide the Hotel Group with technology, experience and know-how of technical systems and operating standards and services for international deluxe hotels to be applied to the Hotel. HPSL has the proprietary rights to license to the Hotel Group the use in conjunction with the hotel the name "Hyatt®" and the aforementioned related wordmarks, trade and service marks and logos. The license agreement is effective for an initial term from 12 December 2003 to the fifth anniversary of the formal opening of the Hotel. Each of the Hotel Group and HPSL shall have the option to extend the agreement for an additional period of five years after the initial five-year period, and thereafter for another additional period of three years (the "Operating Terms"). During the first 7 fiscal years of the Operating Term and during the period of partial operations prior to the formal opening, the Hotel Group has to pay 5% of the hotel revenue as a preliminary installment of its royalty fee to HPSL. Commencing with the 8th fiscal year of the Operating Term and during the remainder of the Operating Term, the Hotel Group has to pay 8% of the hotel revenue as preliminary installment of its royalty fee to HPSL. In September 2004, the Hotel commenced to receive guests and a royalty fee payable under the license agreement began to accrue accordingly.

In order to gain access to the Hyatt® international marketing network, on 12 December 2003, the Hotel Group further entered into a sales and marketing agreement with Hyatt International – SEA (Pte) Limited ("HISPL"), an indirect subsidiary of Hyatt International Corporation, pursuant to which HISPL agreed to provide the Hotel Group with appropriate worldwide sales and marketing services, consultation, worldwide advertising and promotional services for the Hotel. The sales and marketing agreement is effective from 12 December 2003 to the fifth anniversary of the formal opening of the Hotel. Each of the Hotel Group and HISPL has the option to extend the agreement for an additional period of five years after the initial five-year period, and thereafter for another additional period of three years. The Hotel Group is required to pay certain sales and marketing fee, chain allocation, reservation charges and customer loyalty program fee to HISPL pursuant to the sales and marketing agreement.

BACKGROUND OF HYATT

At present, there are more than 700 Hyatt Hotels & Resorts® in more than 44 countries. Global Hyatt Corporation's affiliates own, operate, manage, and franchise Hyatt® branded hotels and resorts.

Hyatt Hotels & Resorts® expanded aggressively along the West Coast of the United States. According to the Hyatt Group, there were 13 Hyatt® hotels in the United States by 1969. In that year, a subsidiary of the newly formed Hyatt International Corporation opened its first international hotel in Hong Kong known as the Hyatt Regency Hong Kong.

The Hyatt Group has created several sub-brands operating under the "Hyatt®" name in order to reflect the needs and tastes of various types of customers. Currently, the Hyatt Group has three major sub-brands, namely, Park Hyatt®, Hyatt Regency®, and Grand Hyatt®.

The Hyatt Group specializes in deluxe hotels with meeting facilities and special services for the business travellers, operates hotels in major and secondary cities, airport locations, and leading resort areas throughout the world. The Hotel was designed to cater for high-end casino players, leisure and business travellers as well as large-scale meetings and conventions. The Hotel, reflecting a grand scale and refinement, includes features such as state-of-the-art technology, sophisticated business and leisure facilities, banquet and conference facilities of world-class standard, and specialized programs that cater to discriminating business and vacation guests.

RELATIONSHIP WITH PAGCOR

The Hotel owned by the Hotel Group is designed to provide casino gaming facilities to its customers as an addition to its accommodation facilities. Pursuant to the PAGCOR Charter, only PAGCOR has the exclusive right, privilege and authority to establish, operate and maintain gambling casinos within the territorial jurisdiction of the Philippines. Therefore, on 14 March 2003, MSPI and PAGCOR entered into a lease agreement (the "Lease Agreement") pursuant to which PAGCOR leased certain areas of the Hotel from the Hotel Group as a fully-equipped and ready to use casino of international standards for a period of 12 years from whichever is earlier of the casino's grand opening day or 31 March 2004; provided only that if the PAGCOR Charter shall not be extended or renewed beyond its current expiry date, i.e. 10 July 2008, the lease shall terminate on 10 July 2008. On 18 January 2005, the House of Representatives of the Congress of the Philippines passed the House Bill No. 3409 to extend the PAGCOR Charter for 25 years renewable for another 25 years. On 7 February 2007, the Senate of the Philippines approved the bill on third reading. The bill will then be presented to the Bicameral Conference Committee for reconciliation of conflicting provisions of the version of the bill of the Senate and of the House of Representatives. Thereafter, the reconciled version of the bill will then be transmitted to the President of the Philippines for approval. The House Bill No 3409 was transmitted and received by Office of President of the Philippines on 4 June 2007. The President of the Philippines may approve either the bill and sign it into law or veto the bill and send it back to the Senate of the Philippines with a veto message. The bill becomes a law if, within 30 days after receiving it, the President of the Philippines fails to sign or veto the bill. The bill, even if vetoed by the President of the Philippines, will become a law if the Congress overrides the veto by a 2/3 vote of all its members.

According to the Lease Agreement, MSPI should provide PAGCOR with not less than 15,000 sq.m. of gaming area and an office space of not less than 5,000 sq.m. MSPI, shall be responsible for the interior design and maintenance of the leased premises, including the partition walls, lighting, air-conditioning, ducting for cables, toilets and carpeting and in consultation with PAGCOR, is also responsible for the design and specifications, selection, acquisition and delivery to the gaming premises of all furniture, fixtures and equipment for gaming within the gaming premises. PAGCOR shall be responsible for the management and operation of the casino at the Hotel and shall be responsible at its sole expense for providing all necessary and appropriately trained staff in respect thereof. In return, PAGCOR will pay a rent at a rate which is higher of a base amount or 36.1% of the gross win (after deduction of local gaming tax) gained from the domestic player area of the casino. "Gross win" is defined by gross bet net of payment of loss. To ensure proper accounting of rental, PAGCOR is responsible to keep separate chips for the casino and keep separate accounts for that casino which MSPI shall have the right to inspect for purposes of verifying the rent payable to MSPI and shall be entitled to appoint a representative to monitor and verify the accounting and treasury operations relating to the gaming at the casino in order to monitor and verify the calculation of the relevant revenue and amounts payable to MSPI. The casino was open to the public and commenced operation in February 2004. Accordingly, MSPI commenced receiving rent from PAGCOR in February 2004. Further information relating to the gambling operation in the Hotel is set out in section headed "Additional information relating to the casino located in the Hotel" in this circular.

STRENGTHS

The Directors believe that the Acquired Group has the following strengths:

Experienced management team

The management team is composed of members who have years of experience in the hospitality industry and expertise in their own fields so that the Hotel will be operated in line with international standards determined by the Hyatt International Corporation.

High technology environment

The Directors believe that technology plays an important role in a brand new hotel property. The Hotel guests will enjoy advanced technology features provided by the Hyatt Group which include high-speed broadband internet in all rooms, wireless technology in public areas and latest and most sophisticated audio and video and lighting technology system in the meeting rooms. The Hotel is also run by computerised property management, building maintenance, room and restaurant reservation, telephone, accounting, finance and materials management, and office communication systems.

Branding

Being the second Hyatt® hotel in Manila, the Hotel further utlilises the already recognised Hyatt® reputation and brand. With its superior facilities, world-class service, and delicious and authentic cuisine, the Hotel is targeted to achieve the highest average room rate amongst its direct competitors. With 735 Hyatt® hotels worldwide, the brand name is reinforced and the reputation is reaffirmed.

Strategic alliances

The Directors believe that for a brand new casino hotel, strategic alliances will assist in enhancing market awareness of the casino hotel and promote patronage. Hyatt Group, on behalf of its various hotels, has entered into marketing partnerships with various institutions, airlines, credit card companies and loyalty programmes in order to have a greater reach of the traveling market. Through in-house loyalty marketing programmes of Hyatt Hotels and Resort®, the Hotel is able to offer preferential deals and arrangements with these strategic partners. In addition, the Hotel has leased out a designated gaming area to PAGCOR for the establishment of a casino. Given PAGCOR is the only corporation authorised to establish, operate and maintain gambling casino in the Philippines, the alliance with PAGCOR and the establishment of a PAGCOR casino within the Hotel Property and adjoining the Hotel could become a major attraction point to the customers.

Financial backing

As an infant hotel property, financial backing from the owner is very important so that there will be adequate funding for the running of the Hotel. The management is expected also to be able to secure additional funding from its own operations. As an experienced and financially sound investor, CTF has committed significant investment funding towards the development of the Hotel.

Solid customer base

The customer base and market focus of the Hotel will primarily be corporate and government sectors, and the high end tourists from northern Asia, especially Japan, Korea, Taiwan, the PRC and Hong Kong. The well-furnished rooms, authentic foods, exclusive meeting rooms (equipped with technologically advanced conference facilities), casino, retail shops have been designed to attract the target customers.

Strategic location and marketing position

The Directors believe that being the only new deluxe international hotel launched in Manila in the last six years is a very unique selling point for the Hotel. As the Hotel is situated in the heart of Manila's Malate district and is close to the popular tourist spots including Luneta Park, Rizal Monument, the Cultural Centre of the Philippines, Chinatown, the International Convention Centre, the World Trade Centre and the Makati Business District, it is also expected to secure the business from the target customers. The Directors consider that the mixed-use complex comprising a deluxe hotel, casino and residential apartment is unique in the district currently and that its hotel facilities and features are the newest in town and are expected to attract different types of clientele with other drinking, dining and entertainment options.

BUSINESS OF THE HOTEL GROUP

Introduction

The Acquired Group is the owner of the Hotel which is a luxury casino hotel in the Philippines consisting of 32-floor luxury hotel tower with 378 guest rooms and a gaming facility of approximately 17,650 sq.m. capable of accommodating approximately 125 table games and 630 slot machines. The Acquired Group owns and/or leases properties which are used for hotel, casino and ancillary leisure and entertainment operations. To the extent that any part of the premises are to be used for casino operations, that part of the premises are or will be leased to and operated by persons who are permitted under applicable laws to carry out such operations.

The Acquired Group's lease with PAGCOR provides for rental to be collected by reference to the gross win (after deduction of local gaming tax) gained from the domestic peso gaming area of the casino which PAGCOR operates on the Acquired Group's premises. Philippines legal counsel of the Company has advised that this lease is enforceable and complies with applicable Philippines laws. Hong Kong legal counsel of the Company confirms that this arrangement does not contravene the Gambling Ordinance, as this arrangement and all associated activities take place outside Hong Kong.

The following table sets out the Acquired Company's combined turnover for the three years ended 31 December 2006:

	For the year ended		
	31 December 2004 (Audited) *(HK$'000)*	**31 December 2005 (Audited)** *(HK$'000)*	**31 December 2006 (Audited)** *(HK$'000)*
Hotel revenue	5,560	66,806	106,442
Rental income from the casino	49,011	132,105	212,782
Total	54,571	198,911	319,224

(i) Hotel revenue mainly represented revenue generated from guest rooms, food & beverages and the hotel facilities such as fitness club and business center. For the rooms which are booked through the travel agencies, the Acquired Group will receive an amount net of commission to the travel agencies.

(ii) Rental income from the casino represented the rents received from PAGCOR for leasing the areas of the Hotel for the casino operation and for use as PAGCOR's offices.

Under Executive Order No. 14 of the Mayor of Manila, a hotel must obtain a license from the Mayor's Office. On 19 May 2004, a license was granted by the Mayor's Office to "Hyatt Hotel and Casino Manila" to operate as a hotel. In addition to the hotel license requirement, the Hotel Group also complied with other relevant regulations in relation to fire safety, sanitary condition, mechanical operation, environment, and video broadcasting in the Philippines. Save for the disclosures made in page II-42 in this circular, the Directors confirm that the Hotel Group (which will form part of the Enlarged Group) is in compliance with all relevant regulations.

Even though the Hotel obtained its operating license in May 2004, it did not immediately commence reception of guests to allow time for internal renovation and test run of facilities. In September 2004, the renovation of the Hotel was partially completed and certain floors were open to guests as a soft opening. In substance, the Hotel had only little more than three months of operation with limited floors open for public in 2004.

Hotel rooms

A typical hotel suite of the Hotel consists of a sleeping area, a bathroom and a working area. It also includes two queen-size beds or one king-size bed, a writing desk, dual-line speakerphones, a sofa, sitting chairs and a round table. A number of large suites, namely Regency Suite, Regency Executive Suite and Presidential Suite, are of a large size for use by high-end customers and VIPs associated with group and trade show business or foreign high rollers. The average daily room rate is Peso4,700 for normal season. The average occupancy percentage of the Hotel for the year 2006 was approximately 66%.

In addition to free breakfasts in the morning for all the guests who stay in Club Deluxe King, Regency Suite, Regency Executive Suite and Presidential Suite, they are also provided free cocktails in the evening, 24-hour concierge service and upgraded room amenities.

Customers

The customers of the Acquired Group can generally be classified into five categories, namely the business individuals, business group, leisure individuals, leisure ad hoc, leisure regular, and scheduled airline crew. Apart from the tourist casino players from all around the world, the Acquired Group's target customers are the corporate clients involved in industries such as manpower and recruitment, shipping and forwarding, pharmaceutical, consumer goods and government/embassy guests, as well as local travel agencies and wholesalers. The Acquired Group has maintained a good business relationship with the target customers in areas adjacent to the Hotel. As at 31 December 2006, the Hotel Group has signed up contracts with more than 378 corporate clients and 91 travel agencies.

The customers are usually required to pay in cash or by credit card, unless the Acquired Group has established a good business relationship with them. Cash settlement can be in any foreign currencies acceptable to the Bangko Sentral ng Pilipinas, the central bank in the Philippines, and the most frequently paid foreign currencies are US$, Japanese Yen and the Euro. Credit card payment is accepted in Peso and US$. City ledger is a payment method that provides credit lines to pre-selected and pre-approved companies with good credit ratings and the payment of these companies are usually received within 15 – 30 days upon the date of billing.

For the two years ended 31 December 2006, the Acquired Group's five largest customers accounted for approximately 69.2% and 80.0% of the Acquired Group's total turnover respectively, and the Acquired Group's single largest customer, the casino operator, accounted for approximately 66.4% and 66.7% of the Acquired Group's total turnover respectively. The other top four customers included travel agents and an international organisation.

None of the Directors, their associates or, so far as the Directors are aware of, Shareholders who own more than 5% of the issued capital of the Company or any of their respective associates has any interest in any of the five largest customers of the Acquired Group for the Track Record Period.

Marketing and promotion

The Acquired Group has devoted significant effort in developing and strengthening its business relations with its customers. Its public relations department is responsible for handling all in-house public relations, advertising, collateral development, marketing services and promotions. It has set up different marketing plans which target different types of customers. The public relations department is also responsible for the coordination with HISPL for worldwide marketing activities.

The Directors believe that the following marketing strategies of the Acquired Group will enable it to assure quality service to its customers for the expansion of its customer base:

- offering competitive rates and courtesies to PAGCOR and its customers for rooms and other services bookings;
- offering smart bundling of rooms, food and beverage products and transportation to obtain high yielding embassy business;
- concentrating on the high spending leisure travelers, mainly from Hong Kong, PRC, Korea and Japan;
- providing in-house first class total accommodation and facilities for foreign casino players;
- setting up a point-system and to offer discounts to the loyal guests;
- establishing partnership with prestigious airlines with regional headquarters in Asia;

- focusing on exhibitors and buyers related to foreign exporters of lifestyle products; and

- working closely with the high yield travel agencies.

The Hotel also advertises in many types of media, including local newspapers, radio, monthly travel magazines, in-flight magazines, travel trade gazette, and the websites www.hyatt.com and www.manila.casino.hyatt.com.

Furthermore, an advertising agency has been appointed to handle advertising planning, creative development and media placement. In addition to marketing and promotion, travel agencies also represent a channel for the sale of the hotel packages. These travel agencies normally produce sales and marketing collaterals in a form of flyers, brochures, pamphlets and websites. All travel agencies are given wholesaler rates and special meal rates in order to attract more customers.

Credit control

The Acquired Group adopts a stringent credit control policy to minimize the overall bad debt exposure and maintains an acceptable level of credit terms by granting credits to its customers based on their credit worthiness, background of the companies and years of business relationship with the Acquired Group. Credit and background checks are performed for every credit customer.

As at the Latest Practicable Date, the Acquired Group did not experience any significant bad or doubtful debts and the Acquired Group did not make any debt provision on its outstanding trade receivables.

Hotel facilities, customer services and housekeeping

As a first-class hotel, the Hotel is equipped with different facilities to suit different needs of its customers including lobby shop, fitness center, business center, swimming pool, casino, pastry boutique and spa. Other than the hotel facilities, the Hotel also places great emphasis on the customer services and provides professional services such as business service, limousine service, medical services, babysitting service, and laundry service. In September 2005, the Hotel engaged an external specialized spa service provider to provide the professional and skilled masseuse services at its Club & Spa Oasis.

Five floors of the Hotel with a total of 180 rooms are designated as Regency Club Floors, which are especially designed for business travellers. A private lounge, a meeting room with professional, quick and convenient business service, fax, photocopy and call transfer are the exclusive services provided to the business travellers. Customers could opt to check in or out at the club floor in order to minimize the queue up time for registration at the main lobby.

To ensure the cleanliness and continuous availability of its rooms, the Hotel maintains a professional housekeeping team, which comprises 34 full-time staff as at 31 December 2006 and a group of outsourced staff, who are responsible for cleaning up the rooms, keeping up the supplies such as shampoo and soap in the rooms, and replenishing the supplies when necessary. The house-keeping personnel initiate purchase orders for supplies based on the forecasts of occupancy and material consumption rates.

Food and beverage

Food and beverage is an important function of any hotel operation. The Hotel is designed to provide various gourmet experience for its guests. The Hotel operates several restaurants including a café, an authentic Cantonese restaurant, steakhouse and lobby lounge. The food and beverage department also handles in-the-room services and orders from the casino around the clock. The key chefs of the restaurants are recruited from all over the world with years of experience in exotic cuisine preparation.

As the procurement is centrally handled by the procurement department of the hotel, the food and beverage department works closely with the procurement department in ordering foods and beverage items and inspecting the quality of foods and beverage to ensure the quality meet the required standards of Hyatt Hotels and Resort® and a sufficient level of stock is maintained. For the two years ended 31 December 2006, revenue generated from food and beverage accounted for approximately 46.8% and 38.9% respectively of the Hotel's operating revenue while food and beverage costs accounted for approximately 35.3% and 32.3% respectively of the total food and beverage sales.

Maintenance and engineering

The engineering department is responsible for the property management, electricity, communication, landscape and general maintenance of furniture and fixture. As at 31 December 2006, it comprised 8 full-time staff with a group of outsourced staff. For each major aspect of the property and equipment, the engineering department has a periodical maintenance schedule for such area. The public supply of electricity in Manila is unstable and frequent blackouts in Manila are not unusual. In order to maintain a steady supply of electricity to the hotel operation, the Hotel has installed four electricity backup generators. These generators are intended to ensure that electricity supply is resumed immediately and automatically for the hotel and casino in case of any blackout situation. The fuel inventory of the Hotel is generally sufficient for the production of electricity for 48 consecutive hours and the Directors believe that such contingent measure should be adequate under normal circumstances. The Directors confirm that the Acquired Group has already obtained all the required licences for maintaining its own generators.

Procurement

The principal purchases of the Acquired Group are food, beverages and consumable supplies. The procurement department centralizes the purchase orders. Food is mainly purchased from the local suppliers. In order to maintain a continuous supply of quality materials, the Acquired Group may enter into long-term agreement with certain suppliers. Currently, the Acquired Group maintains business relationships with more than 300 suppliers.

The quality, stability and timely supply of food is particularly important. The Acquired Group would request three different quotes from three different suppliers with the same specification. The procurement manager then evaluates and negotiates with all the suppliers in order to achieve the best price and terms from them. The Acquired Group would return the goods of bad quality promptly after receipt, and seek alternative suppliers.

In general, credit terms given by major suppliers to the Acquired Group ranged from approximately 30 days and 45 days. Some suppliers require cash deposits upon placing of orders. The Hotel was not yet in operation in 2003. The average creditors' turnover days of the Acquired Group for the two years ended 31 December 2006 were approximately 21.56 days and 27.97 days respectively. Payment for overseas purchase is mainly used in US$, while payment for local purchases in the Philippines is mainly made in Peso. For each of the two years ended 31 December 2005 and 2006 respectively, purchase from the five largest suppliers in aggregate accounted for less than 30% of the Acquired Group's total purchases.

Quality Control

In order to ensure the Acquired Group's services and food conform to Hyatt's standards and requirements, the Hotel provides in-house training which covers general orientation and competency (knowledge, skills and behavior) to its staff at all levels and positions. Guidance is given to the staff to ensure the quality of services meets the standard and guest questionnaires are given out to the customers so the staff can improve their services based on the customers' feedback.

Competition

The Acquired Group faces keen competition from the hotels in Manila. Currently, there are more than 22 deluxe hotels in Manila (including Makati and Malate) of which 2 of them are attached with casino facilities. Certain key information of the two casino hotels in Manila is summarised as follows:

	Hotel A	**Hotel B**
Name of the casino	Casino Filipino Heritage	Casino Filipino Pavillion
Rating	Deluxe 5 star	4 star
Rooms and suites	Over 460	Over 530
Distance from the Hotel	Approximately 15 minutes by car away from the Hotel	Approximately 10 minutes by car away from the Hotel
Year of establishment	1994	1967
Conference facilities	15 function rooms	9 function rooms
Hotel management	Singapore-based hotel manager	International chain hotel manager

Although the Hotel faces competition from the existing players in the industry, the Directors believe that the Hotel has the potential to outperform the competitors because of its location, hotel facilities, unique customer services, authentic cuisine and casino. It is the latest five-star deluxe and most contemporary hotel opened in Manila within the last six years. Also, it is situated in the heart of downtown Manila's Malate district, and is close to the Baywalk promenade, Chinatown, the International Convention Centre, the World Trade Centre, the Makati Business District and the biggest mall in the district.

Moreover, the Directors believe that the following competitive strengths can enable the Hotel to guarantee the quality of its services and to maintain and further expand its customer base:

- Leveraging on the brand image of Hyatt®;
- Introducing Regency Club® concept;
- Having the largest hotel casino facility in Metro Manila;
- Introducing innovative and authentic food and beverage concepts;
- Offering competitive pricing;
- Adopting advance in-room technology;
- Offering consistently high quality customer service and product; and
- Having competent and experienced management.

Human resources

The Hotel employs a general manager on the recommendation of HSPL, a wholly owned subsidiary of Hyatt International Corporation. The general manager is responsible for overseeing the daily operation of the entire Hotel. The senior management of the Hotel has years of experience in the hospitality industry and many of them have been working in other Hyatt hotels around the world for years. The Directors believe that the current human resources setting is able to attract, train and develop a very dynamic and proactive set of employees to guarantee customer satisfaction at all times.

As at 31 December 2006, the Hotel Group employed approximately 318 full time employees for the hotel operation. In addition to these full time employees, it also hires temporary or casual employees on an as needed basis for the non-core business such as cleaning, laundry, transportation and function handling. By recruiting the non-core employees on project or casual basis, the Hotel Group will have more flexibility in hiring quality staff and allocating resources during the non-peak periods.

Security

The Hotel Group's security team comprises a full-time security manager and a group of security guards who are provided by an established security firm in Manila. By having an outsourced service provider, the Hotel Group can ensure the security guards are familiar and kept up-to-date with the latest knowledge/trend in the field of security.

A digital surveillance system has been installed inside the Hotel Property. The security manager is in charge of the overall security within the Hotel and the surrounding areas of the Hotel's perimeter. He is also responsible for monitoring the performance of each individual guard and will replace the security guards whenever it is necessary. Security guards are required to report directly to the security manager frequently. Also, the security guards are changed every 6 months for security reasons. Security contract is reviewed on a yearly basis to evaluate performance, effectiveness and execution of standards established.

Emergency plan

The Philippines has experienced natural catastrophes and political instability over the years that may materially disrupt and adversely affect hotel operation. In response to that, the Hotel has already set up an emergency plan which lays out the responsibilities and the detailed procedures that the guests, patrons and employees must follow in any emergency situation. A special team, Hotel Emergency Action Team ("HEAT") has been established for the protection of the assets of the Hotel and the casino. The communication center and security control room security officer would notify the HEAT members whenever an emergency situation exists.

Insurance

The Hotel Group maintains general insurance policies that cover its office, guest rooms, hotel facilities, casino and condominium, third party injuries and damage caused by accidents. In addition, the Hotel Group has also maintained insurance schemes which cover medical expenses and accidental death and dismemberment benefit for its employees. The Directors confirm that the Hotel Group has not experienced any material third party liability claim up to the Latest Practicable Date.

BUSINESS OF ATD

Upon the completion of the Reorganisation, the Acquired Company will hold the Macau Interest. As at the Latest Practicable Date, ATD was owned by Cheung Hung, an associate of CTF, Paul & King Investimento Companhia Limitada ("Paul & King"), a company incorporated in Macau, and City Honour Developments Limited ("City Honour"), a company incorporated in the BVI, as to 40%, 10% and 50% respectively. Paul & King, City Honour and their respective ultimate beneficiaries are Independent Third Parties.

Cheung Hung acquired the Macau Interest in ATD in August 2004 at a cost of approximately HK$363.2 million from an Independent Third Party. The principal activity of ATD is property investment and its principal asset is the Macau Property. The Macau Property, comprising a land with an area of approximately 7,128 sq.m. located at Novos Aterros do Porto Exterior (新口岸外港填海區), Macau, is currently under development and construction. As at the Latest Practicable Date, the board of directors of ATD comprised Dr. Cheng Yu Tung, Mr. Cheng Chi Him, Mr. Chan Siu Hung, Ms. Leong On Kei, Ms. Ina Chan, Mr. Li Chi Keung and Ms. Kong Ieong. Both Dr. Cheng Yu Tung and Mr. Cheng Chi Him are the representatives of Cheung Hung on the board of directors of ATD. As at 31 December 2006, ATD recorded a total asset value of approximately HK$579.7 million. Please refer to the accountants' report of ATD as set out in Appendix V to this circular for the details of the financial information of ATD.

According to the proposed development plan, the Macau Property will be developed into a complex comprising the following:

	Estimated gross floor area *(sq.m.)*
High-end residential units	68,512
Super deluxe hotel with casino facilities	74,104
Commercial units	2,281
Parking	19,364
	164,261

This super deluxe hotel is intended to be a 5-star hotel with approximately 400 hotel rooms built in one high rise tower with more than 50 storeys on top of a podium. The upper floors of the high rise tower will be designated as high-end residential units for sale purpose. Up to the Latest Practicable Date, ATD was still in negotiation with certain international branded hotel managers in relation to the management of the proposed super deluxe hotel. As at the Latest Practicable Date, ATD had not entered into any licensing or management agreement with any international hotel manager. In late 2006, ATD commenced the pre-sale of the residential units. As at 31 May 2007, approximately 70% of the residential units were sold.

Approval from Town Planning Department in Macau to proceed with the development has been obtained and the construction of the project on the Macau Property is expected to be completed in 2008. As at the Latest Practicable Date, ATD had commenced the construction of the podium for the property. Based on the above development plan, the total construction costs is estimated to be about MOP2 billion. Apart from being financed by a combination of bank loans and proceeds from the pre-sale of the residential units. On 31 August 2006, ATD obtained a syndicated loan facility of HK$1.5 billion from certain financial institutions in Hong Kong and Macau. The loan is secured by, *inter alia*, a charge of the entire issued share capital of ATD and is guaranteed solely by CTF. CTF charges ATD a guarantee fee of 1% of loan being utilised. As at 31 December 2006, approximately HK$190.9 million has been drawn down. As transfer of shares of ATD is prohibited under the said HK$1.5 billion loan facility agreement, ATD has requested the relevant financial institutions to provide such consents for the purposes of the Acquisition. On 23 May 2007, ATD has obtained relevant consents from the financial institutions that shares of ATD are allowed to be transferred from Cheung Hung to the Acquired Company provided that the Acquired Company will pledge such shares of ATD in favour of the financial institutions immediately after the transfer. ATD will become an associated company of the Acquired Company upon the completion of the Reorganisation. Save for the aforesaid, the Acquired Company does not have any other financial obligation to ATD and the Enlarged Group does not expect to make any further financial contribution to ATD after Completion. ATD will apply for the relevant licence for the operation of the hotel after completion of construction of the building. The casino facilities will be operated by a concession casino holder who will be responsible for applying for the relevant approval and authorisation from the Macau Government for the operation of a casino in the premises. ATD intends to invite other licensed junket operators in Macau to participate in the casino. The relevant approval and authorisation is to be sought by the concessionaire and obtained from the Macau government after the establishment but prior to the opening of the casino facilities. At present, ATD has not discussed with other casino operators for potential cooperation. ATD will not rule out the possibility to approach alternative casino operators if SJM is unable to obtain the relevant licence and all necessary approval.

On 8 February 2002, the Macau government promulgated that SJM, Wynn Resorts (Macau) S.A. and Galaxy Casino, S.A. were granted the gaming concession in Macau. According to the annual report of SJM for the year ended 31 December 2006 posted on the website of the Gaming Inspection and Coordination Bureau of Macau ("GICB"), the major shareholders of SJM are Investimentos – STDM, Lda and Mr. Stanley Ho. Investimentos – STDM Lda is 99% held by STDM. According to Macau Gaming Law, as a concessionaire, SJM is only allowed to engage in games of fortune or chance or other casino games in the casinos and other gaming, through a concession agreement with the Macau government, at places and properties licensed and classified by the Macau government in advance. In addition, the allocation of any other places for operating the licensed services will be subject to the approval of the Macau government. Therefore, SJM will be required to seek approval of the Macau government for operating a casino in a property to be leased from ATD before the commencement of the casino operation. According to GICB, prior to the expiry of the monopoly of franchise to run casino operations in Macau in 2001, STDM had been in the gambling business in Macau for more than 39 years. As of 31 December 2004, SJM had a total of 217 VIP gaming tables, 496 regular gaming tables, 1,492 slot machines and 188 pachinko. At the end of first quarter of 2007, SJM had a total of 18 casinos located in Macau.

On 12 November 2004, ATD and SJM entered into a cooperation agreement whereby SJM would operate a casino in the hotel complex to be constructed by ATD on the Macau Property, subject to the approval and authorisation by the Macau Government. The cooperation agreement is valid up to 31 March 2020, which is the expiry date of the gambling licence of SJM in Macau. According to the cooperation agreement, ATD will be responsible for the marketing and introduction of the high roller guests, maintenance of the casino facilities and the payment of utilities charges while SJM will be responsible for provision of gaming equipment and labour, the management treasury, security of the casino (including VIP rooms) and application for the approval and authorisation from the Macau Government for the casino operation at such premises. In return, ATD will be entitled to receive for the use of the premises by SJM 40% (based on a setting of 60 tables) of the gross win (subject to number of tables and further negotiation but no less than 30%) generated from the casino to be operated by SJM in the Macau Property. As a detailed operational plan has not yet been formulated at this stage, ATD intends that when the casino becomes operational, control procedures will be implemented to ensure the accuracy of the payment. ATD is not obliged to and does not intend to extend any financing to the players at the casino. The Directors and CTF confirmed that both the Company and CTF did not have any equity interest in SJM as at the Latest Practicable Date. However, Dr. Cheng Yu Tung, a director of CTF, is the chairman of SJM. In addition, Dr. Cheng Yu Tung, Mr. Cheng Yue Pui and Dr. Cheng Kar Shun, directors of CTF, are also directors of Many Town Company Limited, a minority investor of STDM. Many Town Company Limited is beneficially owned by Dr. Cheng Kar Shun and members of his family including his parents, children, his siblings and their respective children, Mr. Paulo Ho and the administrators of the estate of the late Mr. Ho Yin, namely Mr. Ho Hau Wing, Mr. Ho Hou Chiu William and Mr. Ho Hau Wah Edmund.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The Acquired Company, through its principal subsidiaries, has actively pursued the hotel and entertainment business throughout the period from 1 January 2005 to the Latest Practicable Date. The following are details of the Acquired Group's business pursuits for the period from 1 January 2005 to the Latest Practicable Date:

For the year ended 31 December 2005

Financial highlights

- Achieved a total turnover of approximately HK$198.9 million for the year ended 31 December 2005 which was contributed by revenue from the hotel operation and rental from PAGCOR for the casino premises respectively.

- The Hotel Group further spent approximately HK$2.4 million for the year ended 31 December 2005 for the renovation and fitting out of the Hotel Property.

Customer base development

- Maintained 299 corporate companies and accounts with 110 travel agencies.

Marketing and promotion

- Introduced point system to reward and recognize corporate guests.

- Introduced packages to attract local market.

- Launched food & beverages promotions to create awareness and patronage for outlets.

- Attended trade shows and Hyatt® Fairs to attract additional leisure and business segments.

- Partnered with the prestigious airlines to attract more customers.

- Carried out bridal fair to tap weddings market.

Property, equipment and facilities

- Completed the renovation of the lobby shop, pastry boutique, Chinese restaurant and steakhouse.

Deployment of human resources

The number of employees deployed by the Acquired Group was as follows:

	As at 31 December 2005
Engineering	7
Food and beverage	160
Finance/Executive office	49
Rooms	83
Sales and marketing	29
Human resources	5
Operation	22
	355

For the year ended 31 December 2006

Financial highlights

- Achieved a total turnover of approximately HK$319.2 million for the year ended 31 December 2006 which was contributed by revenue from the hotel operation and rental from PAGCOR for the casino premises.

- The Hotel Group further spent approximately HK$4.4 million for the year ended 31 December 2006 for the renovation and fitting out of the Hotel Property.

Customer base development

- Maintained 380 corporate accounts and accounts with 79 travel agencies.

Marketing and promotion

- Launched food and beverage promotions to create market awareness and patronage.
- Partnered with Singapore Airlines to attract more customers.
- Introduced F&B discount card to reward customer loyalty.
- Attended trade show and Hyatt® Fairs to attract additional business.
- Used television and other media exposure to create market presence.
- Conducted direct mail campaign to meeting planners to attract convention and exhibition business.

Property equipment and facilities

- Completed the renovation of ballroom.

Development of human resources

- The number of employees deployed by the Acquired Group was as follows:

	As at 31 December 2006
Engineering	8
Food and beverage	174
Finance/Executive office	50
Rooms	91
Sales and marketing	25
Human resources	6
Operation	32
Total	386

From 1 January 2007 to 31 March 2007

Financial highlights

- Revenue from hotel operation and rental from PAGCOR for the casino premises continued to contribute to the Hotel Group's turnover.
- The Hotel Group further spent approximately HK$4.6 million from 1 January 2007 to 31 March 2007 for the renovation and fitting out of the Hotel Property.

Customer base development

- Maintained 331 corporate accounts and accounts with 96 travel agencies.

Marketing and promotion

- Partnered with credit card companies either by offering value added services for their cardmembers or offered preferred rates on hotel vouchers for Rewards Programme.

- Promoted wedding and meeting packages in order to boost events revenue.

- Promoted the ballroom as a concert venue through partnerships with local concert producers.

- Accepted in various Airline Programmes and Tour Programmes to boost leisure segment.

- Used television and other media exposure to further increase market presence.

- Conducted direct mail campaign to meeting planners to attract convention and exhibition business.

- Continued strong relationship with different industry segments through monthly Industry Nights targeting select, supportive industries.

- Maintained good relations with hotel bookers by actively promoting Hyatt® marketing programmes, such as marketing programmes designed for corporate bookers, frequent return guests and meeting bookers, through event hosting, entertainment and sales blitzes.

Property equipment and facilities

- Additional air handling unit in First Floor and installation of double glazed windows in guest rooms.

Development of human resources

- The number of employees deployed by the Acquired Group was as follows:

	As at 31 March 2007
Engineering	8
Food and beverage	178
Finance/Executive office/Security	52
Rooms	92
Sales and marketing	24
Human resources	7
Operation	33
Total	394

Managerial involvement and ownership continuity

The core management team of the Acquired Group includes Dr. Cheng Kar Shun, Mr. To Hin Tsun Gerald, Mr. Chan Kam Ling, Mr. Paulo Ho, Ms. Yvonne Lo and Mr. Gottfried Bogensperger. The core management of the Acquired Group has not changed during the period from 1 January 2005 to the Latest Practicable Date (the "Period") and each of the members of the management has devoted substantial time and attention (to the extent required from time to time) towards the initial set up through to the operational stage of the entire project as set out below. In the opinion of the Directors, the core management team is able to satisfy Rule 11.12(1) of the GEM Listing Rules for the purpose of this deemed new listing application.

- Dr. Cheng Kar Shun is responsible for the business development and overall strategic direction of the Acquired Group. His extensive business network provided a solid foundation in introducing potential business parties such as PAGCOR and Hyatt to the Acquired Group during the Period. Dr. Cheng is the Chairman of the Acquired Company and he will continue to chair the board of the Acquired Company upon Completion. Furthermore, Dr. Cheng will continue to identify investment opportunities, if any and to seek strategic partners or alliances to the Acquired Group through his business network.

- Mr. To Hin Tsun Gerald is primarily responsible for the business development of the Acquired Group. Mr. To is the key negotiator on key business contracts. In mid 2002, Mr. To, on behalf of the Acquired Group, commenced negotiation with Megaworld and PAGCOR for the acquisition of the Hotel Property from Megaworld and the leasing of the casino premises to PAGCOR respectively. Mr. To had traveled extensively to the Philippines to carry out the due diligence and negotiation. Consequently, a sale and purchase agreement for the Hotel Property and a casino leasing agreement were executed by the Acquired Group with Megaworld in October 2002 and with PAGCOR in March 2003 respectively. Subsequently in mid 2003, Mr. To, on behalf of the Acquired Group, commenced negotiation with reputable international hotel operators in relation to the brand licensing. Finally, the Acquired Group entered into a licensing agreement with the Hyatt Group in December 2003. Furthermore, Mr. To is one of the primary communication channels between the Acquired Group and PAGCOR. Upon Completion, Mr. To will continue (on behalf of the Acquired Group) to explore the business horizon of the Acquired Group and remains to be an active communication channel between the Acquired Group and PAGCOR.

- Mr. Chan Kam Ling is responsible for the project management and development of the Acquired Group. Along with Mr. To, Mr. Chan was also involved in the negotiation of the acquisition of the Hotel Property with Megaworld. Furthermore, Mr. Chan was in charge of the supervision of the design and construction related matters of the Hotel Property. Since the planning of the construction in 2002, Mr. Chan closely monitored the construction and renovation progress of the Hotel Property. After completion of the Hotel and its related facilities, Mr. Chan continues to monitor future property development, maintenance and facilities upgrade of the Hotel.

- Mr. Paulo Ho has been appointed as a director of certain subsidiaries of the Acquired Group since September 2002. Mr. Ho is responsible for the supervision of the day to day operation of the casino facilities and is the Acquired Group's local representative in the Philippines in respect of its relationship with PAGCOR. Prior to the opening of the casino and the Hotel in February 2004 and September 2004 respectively, Mr. Ho was responsible for the design of the casino/Hotel layout and the sourcing of gaming equipment and advising on the design of the casino and other facilities in connection with it.

- While the Hotel Property was still under construction, Ms. Yvonne Lo started working in the Philippines on full time basis for the establishment of the administrative office of the Acquired Group in the Philippines in November 2003. Ms. Lo was also involving in advising on various aspects of the agreements contracted with the Hyatt Group. Ms. Lo is responsible for the supervision of the financial and treasury operations of the Acquired Group. Ms. Lo also oversees the administrative and compliance matters of the Acquired Group in the Philippines.

- Since his appointment in January 2004 as the general manager of the Hotel, Mr. Gottfried Bogensperger has been responsible for overseeing the entire hotel operations of the Acquired Group on a daily basis. Mr. Bogensperger was also primarily involved in the initial set up of the hotel operations prior to the Hotel's soft opening in September 2004 and he is one of the primary communication channels between the Hotel and the Hyatt Group.

Based on the above, the Directors consider that each of the senior management members of the Acquired Group has contributed significantly to the business and operation of the Acquired Group according to different stages of development of its overall business during the Period. In addition, the majority of the operating subsidiaries of the Acquired Company has been under the control of CTF since their respective dates of incorporation or the date of their acquisition by CTF, which occurred in May 2002. Accordingly, the Acquired Group is able to satisfy the requirements under Rule 11.12 of the GEM Listing Rules. The Directors expect the members of the core management team of the Acquired Group will continue to assume their existing roles and duties after Completion.

Reorganisation prior to the Completion

Pursuant to the Supplemental Agreement, the Company, Cross-Growth and CTF have agreed, amongst other things, to exclude from the Acquired Group, FHPI. FHPI has contracted with PAGCOR, the operator of the casino premises leased to it by the Acquired Group, to introduce foreign passport holders to a designated non-peso gaming area within the casino.

Having considered the facts that since the opening of the casino in February 2004 and the signing of the Original Agreement in November 2004, the non-peso gaming area had not yet commenced full operation and the future prospects of FHPI's business were uncertain. In view of this and given that the primary aim of the Acquisition would be for the Company to acquire, own and operate "Hyatt Hotel and Casino Manila" (including the ownership and the leasing of the casino premises as mentioned above), the Company considered it appropriate to exclude FHPI from the Acquisition.

At present, MSPI has leased a total of approximately 23,000 sq.m. to PAGCOR. Pursuant to the Lease Agreement, changes to the physical size and split between the gaming and office areas must be agreed upon by both parties, being MSPI (as lessor) and PAGCOR (as lessee). Moreover, the Lease Agreement also acknowledges the establishment of a non-peso gaming area by PAGCOR. Under the agreement between PAGCOR and FHPI which relates to the non-peso gaming area, neither PAGCOR nor FHPI may unilaterally make changes to the size or location of the non-peso gaming area or the layout of the PAGCOR casino which will affect the non-peso gaming area. To protect its position, the Company has sought an undertaking from CTF that for so long as CTF continues to be a controlling shareholder of FHPI and the controlling Shareholder, CTF will procure that FHPI will not request or consent to any increase in the floor area of the non-peso gaming area to an area exceeding 5,000 square meters without the prior written consent of the Company.

Pursuant to the Reorganisation, CTFP disposed of its entire equity in FHPI to Double Delights at a nominal consideration on 30 June 2006. For detailed financial impact of the disposal of FHPI by the Acquired Group, please refer to the paragraph headed "discontinued operation" in the accountants' report of the Acquired Company set out in Appendix IV to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS AND FINANCIAL POSITION OF THE ACQUIRED GROUP

FINANCIAL INFORMATION OF THE ACQUIRED COMPANY

Audited combined income statement

The following is a summary of the combined income statement of the Acquired Company for the Track Record Period which have been extracted from the accountants' report on the Acquired Company set out in Appendix IV to this circular. The results of ATD have not been included in the accountants' report on the Acquired Company as the Acquired Company will only acquire 40% of the equity interest in ATD pursuant to the Reorganisation, which does not meet the definition of business combination under common control in the principles of merger accounting. The combined income statement has been prepared on the basis set out in the accountants' report.

	For the year ended		
	31 December 2004	**31 December 2005**	**31 December 2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover:			
Leasing	49,168	132,647	213,362
Hotel	5,560	66,806	106,442
Inter-segment sales	(157)	(542)	(580)
Direct operating costs	(47,267)	(126,455)	(155,890)
Gross profit	7,304	72,456	163,334
Other operating income	377	1,735	14,515
General and administrative expenses	(16,402)	(41,776)	(52,804)
Other operating expenses	(381)	(1,019)	(3,824)
(Loss) profit from operations	(9,102)	31,396	121,221
Finance costs	(36,549)	(86,727)	(103,268)
(Loss) profit before taxation	(45,651)	(55,331)	17,953
Taxation credit	1,687	7,800	10,901
(Loss) profit for the year from continuing operations	(43,964)	(47,531)	28,854
(Loss) profit for the year from discontinued operations	(9,240)	(7,886)	(8,847)
(Loss) profit for the year	(53,204)	(55,417)	20,007

Results of operation

For the year ended 31 December 2004

The total turnover for the year ended 31 December 2004 amounted to approximately HK$54.6 million which was derived from leasing the casino facilities and operating the Hotel. Of the total turnover, approximately 89.8% was rent generated from leasing the casino facilities and the remaining 10.2% was generated from operating the Hotel.

The Acquired Group entered into the Lease Agreement with PAGCOR on 14 March 2003. After completion of the internal alteration and fitting out of the Plaza in February 2004, approximately 6,000 sq. metres was turned over to PAGCOR as casino premises and 5,200 sq. metres was turned over to PAGCOR to be used as PAGCOR's headquarters in July 2004. The rent for the premises is the higher of Peso100,000 in respect of each calendar month or 36.1% of the gross win (after deduction of local gaining tax) in that calendar month. The renovation of the Hotel was partially completed and certain floors were open to guest as a soft opening of the Hotel in September 2004.

Direct operating costs for the year ended 31 December 2004 was approximately HK$47.3 million, which consisted principally of depreciation of approximately HK$22.1 million, staff costs of approximately HK$7.8 million, food and beverage of approximately HK$1.2 million, and guest supplies and casino supplies of approximately HK$1.1 million.

The overall gross profit margin of the Acquired Group was approximately 13.4% for year ended 31 December 2004.

The loss from operations for the year ended 31 December 2004 was approximately HK$9.1 million, representing a decrease of approximately HK$5.4 million or approximately 37.2% as compared to the prior period. The decrease was attributable to the commencement of business operations and the Acquired Group commenced to receive revenue. During the year, the general and administrative expenses increased approximately HK$7.2 million as a result of (i) the increase in staff costs for the increase in headcounts from 13 as at 31 December 2003 to 360 as at 31 December 2004; and (ii) the increase in utilities for the casino which commenced operation in February 2004 and the Hotel which commenced to receive guests in September 2004.

Finance costs for the year ended 31 December 2004 amounted to approximately HK$36.6 million, representing an increase of approximately HK$36.0 million from prior period, reflecting the increase in bank borrowings to fund the renovation work and business operation.

Taxation credit/charge was calculated at 32% of the estimated taxable loss/income derived in the Philippines. The Acquired Group recorded taxation charge of approximately HK$1.7 million for the year ended 31 December 2004 due to the reversal of deferred tax assets capitalised in prior period. The Acquired Group was in its pre-operating stage during 2003. Deferred income tax asset was recognised in 2003 for some temporary differences because during that time, the Acquired Group expected the hotel operation would start in early 2004. Such deferred tax assets were reversed following the delay in commencement of the hotel operation and there is insufficient probable taxable income available to be utilised. The hotel was opened to receive guests seven months after the opening of the casino as a result of delay in the interior renovation. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income/liability will be available to allow all or part of the deferred income tax asset to be utilised. In view of the delay in the commencement of the hotel operation, it was assessed that it was probable that there would be insufficient taxable income available to utilise the deferred tax asset that was capitalised in 2003 and thus the whole amount of deferred tax asset was reversed in 2004.

With the loss from operations of approximately HK$9.1 million, finance costs of approximately HK$36.6 million, and the taxation credit of approximately HK$1.7 million, the Acquired Company recorded a loss from continuing operations for the year ended 31 December 2004 of approximately HK$44.0 million.

For the year ended 31 December 2005

The total turnover for the year ended 31 December 2005 amounted to approximately HK$198.9 million which was derived from leasing the casino facilities and operating the Hotel. Of the total turnover, approximately 66.4% was rents generated from leasing the casino facilities and the remaining 33.6% was generated from operating the Hotel. During the year, the total turnover of the Acquired Group increased by approximately HK$144.3 million or 264.5% as compared to prior year. The increase of the turnover was a combined result of the marketing efforts for a new casino-equipped hotel and increase of operation period. In prior year, the Hotel was open for four months and the casino was open for approximately ten months while the Acquired Group was in operation for the entire year of 2005.

Direct operating costs for the year ended 31 December 2005 was approximately HK$126.5 million, which consisted principally of depreciation of approximately HK$75.3 million, staff cost of approximately HK$15.2 million, food and beverage of approximately HK$11.4 million, and guest supplies and casino supplies of approximately HK$7.6 million. The direct operating costs increased significantly as certain facilities and restaurants were not in operation until 2005.

The overall gross profit margin of the Acquired Group increased from 13.4% in prior year to 36.4% for the year ended 31 December 2005 because the gross profit margin of the leasing of the casino facilities was relatively higher than the hotel operation. Therefore, the gross profit margin ratio of the Acquired Group increased as the revenue from the leasing of the casino facilities increased.

During the year, the Acquired Group recorded other income of approximately HK$1.7 million, which consisted principally of foreign exchange gains and interest income.

Finance costs for the year ended 31 December 2005 amounted to approximately HK$86.7 million, representing an increase of approximately HK$50.2 million or approximately 137.3% from the corresponding period of prior year. The increase was due to the increase of the utilisation of the facilities for the settlement of construction costs and the acquisition of operating equipment.

Taxation credit/charge was calculated at 32.5% of the estimated taxable loss/income derived in the Philippines. The Acquired Group recorded taxation credit of approximately HK$7.8 million for the year ended 31 December 2005 due to the fact that the Acquired Group adjusted for its deferred tax arising on unrealised exchange gain on amounts due to its subsidiaries.

With the profit from operations of approximately HK$31.4 million, finance costs of approximately HK$86.7 million, and the taxation credit of approximately HK$7.8 million, the Acquired Group recorded a net loss from continuing operations for the year ended 31 December 2005 of approximately HK$47.5 million.

For the year ended 31 December 2006

The total turnover for the year ended 31 December 2006 amounted to approximately HK$319.2 million which was derived from leasing the casino facilities and operating the Hotel. Of the total turnover, approximately 66.7% was rents generated from leasing the casino facilities and the remaining 33.3% was generated from operating the Hotel. During the year, the total turnover of the Acquired Group increased by approximately HK$120.3 million or 60.5% as compared to prior year. The increase of the turnover was a combined result of the marketing efforts for a casino-equipped hotel and increase of the operation period. In prior year, the Hotel had approximately 300 suites available for business and the additional floor in the casino was open in February 2005, while the number of suites available for business increased to approximately 378 in 2006 and the casino was in operation for the entire year of 2006.

Direct operating costs for the year ended 31 December 2006 was approximately HK$155.9 million, which consisted principally of depreciation of approximately HK$96.7 million, staff cost of approximately HK$20.5 million, food and beverage of approximately HK$14.2 million, and guest supplies and casino supplies of approximately HK$12.5 million.

The overall gross profit margin of the Acquired Group increased from approximately 36.4% in prior year to approximately 51.2% for the year ended 31 December 2006 because the gross profit margin of the leasing of the casino facilities was relatively higher than the hotel operation. Therefore, the gross profit margin ratio of the Acquired Group increased as the revenue from the leasing of the casino facilities increased.

During the year, the Acquired Group recorded other income of approximately HK$14.5 million, which consisted principally of foreign exchange gains and interest income.

Finance costs for the year ended 31 December 2006 amounted to approximately HK$103.3 million, representing an increase of approximately HK$16.5 million or approximately 19.1% from the corresponding period of prior year. The increase was due to the increase of the utilisation of the banking facilities for the settlement of construction costs and the acquisition of operating equipment.

Taxation was calculated at 35% of the estimated taxable loss derived in the Philippines. The Acquired Company recorded taxation credit of approximately HK$10.9 million for the year ended 31 December 2006 due to the fact that Acquired Group adjusted for its deferred tax arising on unrealised exchange gain on amounts due to its subsidiaries.

For the year ended 31 December 2006, the Acquired Group recorded a profit from operations of approximately HK$121.2 million, as the revenue from the rental income from the casino increased significantly from approximately HK$132.1 million in 2005 to approximately HK$212.8 million in 2006.

Review on the financial position of the Acquired Group

Net current liabilities

As at 31 December 2006, the Acquired Group had net current assets of approximately HK$73.3 million. The current assets mainly comprised inventories of approximately HK$2.8 million, trade receivables of approximately HK$30.0 million, other receivables, deposits and prepayments of approximately HK$9.9 million and bank balances and cash of approximately HK$94.3 million. The current liabilities mainly comprised trade payables of approximately HK$5.8 million, other payables and accrued charges of approximately HK$17.8 million, and bank borrowings of approximately HK$34.8 million.

Cash flows

For the three years ended 31 December 2006, the Acquired Group recorded net cash outflow/inflow from its operations, being approximately HK$(15.4) million, HK$76.1 million and HK$204.3 million respectively. For the year ended 31 December 2004, such cash outflow was mainly due to the loss generated from continuing operations of approximately HK$54.4 million, the increase in other assets of approximately HK$5.8 million and the increase in other receivables, deposits and prepayments of approximately HK$17.1 million. For the two years ended 31 December 2006, the Acquired Group recorded net cash inflow of approximately HK$76.1 million and HK$204.3 million respectively from its operation. The Acquired Group's business has been in operation since 2004, and its casino leasing and hotel business commenced to generate net cash inflow to the Acquired Group.

The Acquired Group's capital expenditures for the three years ended 31 December 2006 were approximately HK$546.2 million, HK$92.9 million and HK$40.6 million, respectively. As the construction and renovation of the Hotel has been substantially completed, the Directors expect future capital expenditures will be substantially less than the amounts incurred in the past three years.

Net cash flow generated from financing activities amounted to approximately HK$564.6 million, HK$30.0 million and HK$231.8 million for the three years ended 31 December 2006 respectively. The increase in net cash from financing activities for the aforesaid years was mainly attributable to the advance from related companies and net borrowings raised. As at 31 December 2006, the Acquired Group had secured bank loans of approximately HK$207.3 million, which were under the guarantee of letters of credit issued by a bank in Hong Kong. The letters of credit were secured by a pledge of the deposits provided by the CTF Group of approximately US$44 million (approximately HK$343.2 million). These loans bore interest at an average rate of 10% per annum.

The Acquired Group had maintained at a considerately healthy level of cash balance for the three years ended 31 December 2006. In particular, the amount of cash and cash equivalent held by the Acquired Group as at 31 December 2004, 2005 and 2006 were approximately HK$21.7 million, HK$35.9 million, and HK$94.3 million respectively.

Financial resources, borrowing and banking facilities

The Acquired Group had historically relied on cash flows generated from operations, bank borrowings and shareholders' support for its capital expenditures and other capital requirements. As at 31 December 2006, the Acquired Group recorded amounts due to related companies and bank borrowings of approximately HK$1,034.0 million and HK$207.3 million respectively.

All of the Acquired Group's bank borrowings were drawn from two banks in the Philippines. These loans borne interest at an average rate of 10% and matured in 2006. As at 31 December 2006, the amounts due to related companies were approximately HK$1,034.0 million, of which approximately HK$1,028.5 million was due to the CTF Group and the remaining was due to other related companies, which were unsecured and interest free. Of the amounts due to the CTF Group, approximately US$44 million represented advances made in contemplation of the Reorganisation in accordance with the Acquisition Agreement for the replacement of deposits aggregating US$62 million provided by the CTF Group to secure the banking facilities granted to the Hotel Group. A further US$18 million will therefore be advanced as part of the Reorganisation so that the banking facilities of the Hotel Group will be secured by monies held by a Hotel Group company.

Capital commitments

As at 31 December 2006, the Acquired Group had capital commitments contracted but not provided for in respect of acquisition of plant and machinery of approximately HK$0.3 million.

Capital structure

As at 31 December 2006, the Acquired Group had net asset value of approximately HK$176.3 million comprising non-current tangible assets of approximately HK$1,333.7

million (comprising property, plant and equipment, investment property, and other assets), non-current liabilities of approximately HK$1,230.7 million (comprising amounts due to related companies, bank borrowings and deferred tax liabilities), and net current assets of approximately HK$73.3 million.

Foreign exchange exposure and hedging instruments

The Acquired Group's business in the Philippines principally receives revenue in Peso, US$ and other major currencies while it settles its liabilities mainly in Peso. Therefore, the Acquired Group's liabilities will not be significantly escalated if there is any significant depreciation in Peso against US$. The Directors believe that the Acquired Group is not exposed to excessive foreign exchange risk and no formal hedging instruments have been imposed.

Treasury policies

It is the Acquired Group's policy to develop sufficient internal and external sources of funds (including both short-term funds and long-term funds) to take advantage of business opportunities, as well as to maintain a satisfactory level of liquid assets. The development of such sources provides the means for more effective business decisions. Short-term funds are generated internally from the Acquired Group's operations or from outside financial institutions, most frequently banks. The use of internally generated funds for short-term needs will be the preferred method of funding. The Acquired Group uses cash budgets to determine the cash needs and distinguish between short-term and long-term requirements.

Gearing ratio

The gearing ratio, measured in terms of total borrowing divided by total assets, was approximately 27.6%, 26.5% and 14.1% as at 31 December 2004, 2005 and 2006, respectively.

FINANCIAL INFORMATION OF ATD

Audited consolidated income statements

The following is a summary of the consolidated income statements of ATD for the three years ended 31 December 2006 which have been extracted from the accountants' report on ATD set out in Appendix V to this circular. The consolidated income statements have been prepared on the basis set out in the same accountants' report.

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Other operating income	–	–	442
General and administrative expenses	(6,539)	(94)	(213)
(Loss)/profit from operation	(6,539)	(94)	229
Finance costs	–	–	–
(Loss)/profit before taxation	(6,539)	(94)	229
Taxation	–	–	–
Net (loss)/profit for the year	(6,539)	(94)	229

For the year ended 31 December 2004

Turnover

During the year, no turnover was recorded by ATD as ATD had not commenced any revenue generating activity.

General and administrative expenses

ATD incurred general and administrative expenses totaling approximately HK$6.5 million. The key components of general and administrative expenses included:

(a) stamp duty of approximately HK$4.5 million in relation to the transfer of shares of ATD;

(b) legal fee of approximately HK$1.9 million in relation to the transfer of shares of ATD; and

(c) other administrative expenses mainly comprised land rent, professional fees and office supplies.

For the year ended 31 December 2005

Turnover

During the year, no turnover was recorded by ATD as ATD had not commenced any revenue generating activity.

General and administrative expenses

ATD incurred administrative expenses totaling approximately HK$0.1 million. The key components of general and administrative expenses included professional expenses and office sundries.

For the year ended 31 December 2006

Turnover

During the year, no turnover was recorded by ATD as ATD had not commenced any revenue generating activity. In late 2006, ATD commenced the pre-sale of the residential units. Proceeds from the pre-sale are not recognised as revenue until the relevant occupancy permits are issued.

During the year, ATD recorded other income of approximately HK$0.4 million, mainly representing interest income as ATD held bank balance and cash of approximately HK$96.2 million as at 31 December 2006. As a result, ATD recorded a net profit of approximately HK$0.2 million for the year ended 31 December 2006.

General and administrative expenses

ATD incurred administrative expenses totaling approximately HK$0.2 million. The key components of general and administrative expenses included professional expenses and office sundries.

DISTRIBUTABLE RESERVES

The Acquired Company was incorporated in the BVI on 8 November 2004 and it has not commenced any operating activity since its incorporation up to the Latest Practicable Date, other than entering into transactions to effect the Reorganisation. Accordingly, there was no reserve available for distribution to its shareholders as at 31 December 2006.

FOREIGN CURRENCY EXPOSURE AND HEDGING POLICY

The Acquired Group primarily earns its revenue in US$, Peso and other major international currencies while the Acquired Group primarily incurs costs and expenses in mainly Peso. In particular, the Acquired Group's business in the Philippines principally receives revenue in Peso, US$ and other major currencies while it settles its liabilities mainly in Peso. Given that Peso is a relatively weak currency, the Directors believe that the Acquired Group is not exposed to excessive foreign exchange risk. Save for the US$ cash deposited by CTF or its nominee with the relevant banks for the security of the loans denominated in Peso as a mean of hedging, the Acquired Group has not implemented any formal hedging policy.

TAXATION

The hotel operation of the Acquired Group is subject to the Philippine corporate income tax of 35% (32% prior to 1 November 2005). The provision for Philippines income tax is based on the estimated taxable income for Philippines taxation purposes at the rate of taxation applicable to each of the period during the Track Record Period. No provision for Philippines taxation had been made in the financial statements as the subsidiaries in the Philippines incurred tax losses during the Track Record Period. According to the relevant regulations, the Acquired Group was entitled to an exemption from Philippines profit and value added tax on the rental income received or receivable from PAGCOR. Under the Republic Act, the tax exemption status of PAGCOR has repealed with effect from 1 November 2005.

Macau profit tax has been provided for during the Track Record Period in accordance with the tax return submitted to the Macau Tax Authority.

The directors of the Acquired Company confirmed that as at the Latest Practicable Date, the Acquired Group had made all the required tax filings in the relevant jurisdictions.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Directors and are based upon management's then-current judgement. "Significant accounting polices" in the accountant's report sets out in Appendices IV and V to this circular includes summaries of the principal accounting policies adopted by the Acquired Group and ATD. Critical accounting policies are most important to both of the Acquired Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that may change in subsequent period. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from the management's current judgement. The Directors believe the following critical accounting policies involve the most significant judgement and estimates used in the preparation of financial information.

Depreciation of property, plant and equipment

It is the Acquired Group's accounting policy on the depreciation of the cost of property, plant and equipment, other than construction in progress, using a straight-line method over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value. The Acquired Group's accounting policy is adopted by making reference to the physical conditions of the property, plant and equipment and the industry's practice.

Impairment

At each balance sheet date, the directors of the Acquired Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Provision for obsolete inventories

The Acquired Group's inventories are stated at the lower of cost (on a first-in, first-out basis) and net realizable value. Inventories will be reviewed annually for obsolescence provisions if appropriate.

Allowances for doubtful accounts

The directors of the Acquired Company perform ongoing credit evaluations of the customers' financial condition and make allowances for doubtful accounts based on the outcome of the credit valuations. They also evaluate the collectibility of the Acquired Group's accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and the age of past due receivables. Unanticipated changes in the liquidity or financial position of the Acquired Group's customers may require additional allowances for doubtful accounts.

PROPERTY INTERESTS

As at the Latest Practicable Date, the Acquired Interests had the following owned and leased properties, details of which are also set out in Appendix VII to this circular:

Properties owned in the Philippines

As at the Latest Practicable Date, the Acquired Group owned the following properties in the Philippines:

Location	Uses
A 31 storey tower with 9-storey podium hotel/casino/residence complex located at 1588 Pedro Gil cor. M.H. Del Pilar Malate, Manila	Hotel, casino and ancillary facilities purposes

Properties leased in the Philippines

As at the Latest Practicable Date, the Acquired Group leased and occupied the following properties:

Landlord	Location	Uses	Rental	Tenancy
Harbour View Properties and Holdings, Inc.	A parcel of land with site area of approximately 7,255.3 sq.m. located at 1588 Pedro Gil cor. M.H. Del Pilar, Malate, Manila	Hotel, casino and residences	Annual rent of Peso 8,700,000	25 years commencing from 13 February 2004 with an option to renew for another 25 years
Pacific Bayview Properties, Inc.	6 commercial condominium units 10A, 11A, 12A, 14A, 15A and 16A with total gross floor area of approximately 5,882.16 sq.m. in the Marina Square Suites, 1588 Pedro Gil cor. M.H. Del Pilar, Malate, Manila	The premises were renovated as additional hotel floors	Annual rent of Peso 21,175,000	25 years commencing from 15 September 2004 with an option to renew for another 25 years
Pacific Bayview Properties, Inc.	6 residential condominium units 22D, 22H, 22I, 22J, 23C and 30A with total gross floor area of approximately 465 sq.m. in the Marina Square Suites, 1588 Pedro Gil cor. M.H. Del Pilar, Malate, Manila	Staff quarters	Annual rent of Peso 1,674,000	20 years commencing from 1 June 2004 with an option to renew for another 20 years

Properties owned in Macau

As at the Latest Practicable Date, ATD owned the following properties in Macau:

Location	Uses
A parcel of land with a total site area of approximately 7,128 sq.m. located at Novos Aterros de Porto Exterior, Macau	The property is currently under construction

Environmental compliance for the Hotel Property

The hotel/casino/residential complex at Pedro Gil Street, Malate, Manila (partly owned and partly leased by the Hotel Group as mentioned above) was originally developed under an environmental compliance certificate obtained in respect of "The Marina Residential Suites". The original clearance described the project as a residential condominium project. The previous owners of the project had failed to apply for the amendment of the project use from residential use to hotel, residential and commercial uses and had also failed to give notification of the change of ownership or name of the project within the period prescribed under the Philippines laws and regulations. An amended environmental compliance certificate has since been applied for and been issued to MSPI, NCHI, PBPI and Marina Square Suites Condominium Association, Inv. on 11th May, 2005. Related notifications for, changes to, and reissue of ancillary permits have also been effected thereafter. The Company has been advised by its Philippine counsel that, based on their discussions with the relevant government agencies in 2005, in view of the fact that an amended environmental compliance certificate has been issued and the willingness of the relevant owner entities to cooperate with these agencies, the liability of the relevant members of the Hotel Group for prior breaches is likely to be limited to fines. The Hotel Group had not received any demand for payment of any fines as at the Latest Practicable Date. CTF has agreed to indemnify the Company (on its behalf and on behalf of the Acquired Group after Completion) against any liabilities, costs, losses and expenses arising from such past violations.

A. FINANCIAL SUMMARY

The following is a summary of the audited consolidated income statements and audited consolidated balance sheets of the Group for the three years ended 31 March 2005, 2006 and 2007 as extracted from the relevant annual reports of the Group for the years presented.

Consolidated Income Statement

	Year ended 31 March,		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	137,310	274,311	34,448
Cost of sales	(204,609)	(357,328)	(35,308)
Gross loss	(67,299)	(83,017)	(860)
Other income	16,872	9,281	3,977
Selling and distribution costs	(12,786)	(21,012)	(2,424)
General and administrative expenses	(41,512)	(60,717)	(28,210)
Other expenses	–	–	(1,244)
Impairment loss recognised in respect of goodwill	–	(14,843)	–
Finance costs	(4,828)	(2,704)	(1,117)
Loss before taxation	(109,553)	(173,012)	(29,878)
Taxation	(1,260)	(22,049)	–
Loss for the year	(110,813)	(195,061)	(29,878)
Attributable to:			
Equity holders of the Company	(110,813)	(117,063)	(19,295)
Minority interests	–	(77,998)	(10,583)
	(110,813)	(195,061)	(29,878)
Loss per share			
Basic	HK$(0.47)	HK$(0.50)	HK$(0.10)
Diluted	HK$(0.47)	HK$(0.50)	HK$(0.10)

Consolidated Balance Sheet

	At 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	1,473	1,952	4,061
Intangible assets	–	–	–
Goodwill	–	–	15,764
Interests in an associate	–	–	–
Deferred tax assets	–	–	22,543
	1,473	1,952	42,368
Current assets			
Inventories	1,581	655	1,873
Film costs	59,089	198,207	441,311
Available-for-sale financial assets	13,786	–	–
Trade receivables	5,759	25,001	83,321
Other receivables, deposits and prepayments	34,761	23,295	20,312
Amounts due from related companies	41	458	584
Tax recoverable	–	15	–
Pledged bank deposits	13,853	59,861	9,014
Bank balances and cash	180,538	233,123	353,009
	309,408	540,615	909,424
Current liabilities			
Trade payables	92,859	59,371	52,650
Other payables and accrued charges	24,219	46,444	110,520
Tax liabilities	1,260	–	–
Amounts due to related companies	1,330	2,454	1,549
Loans from directors	–	3,044	3,044
Loans from related companies	–	12,582	12,582
Preference dividend payable	673	673	673
Other borrowings	–	3,374	3,374
Bank borrowings	12,853	127,133	249,510
Promissory notes	–	–	36,084
	133,194	255,075	469,986
Net current assets	176,214	285,540	439,438
Total assets less current liabilities	177,687	287,492	481,806
Capital and reserves			
Share capital	235,831	235,831	235,831
Share premium and reserves	(58,144)	51,661	168,598
Equity attributable to equity holders of the Company	177,687	287,492	404,429
Minority interests	–	–	77,377
Total equity	177,687	287,492	481,806

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the unqualified audited consolidated financial statements of the Group for each of the two years ended 31 March 2006 and 2007 together with notes thereto as extracted from the Group's 2007 annual report:

Consolidated Income Statement
For the Year Ended 31 March 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Turnover	*6*	137,310	274,311
Cost of sales		(204,609)	(357,328)
Gross loss		(67,299)	(83,017)
Other income	*8*	16,872	9,281
Selling and distribution costs		(12,786)	(21,012)
Impairment loss recognised in respect of goodwill		–	(14,843)
General and administrative expenses		(41,512)	(60,717)
Finance costs	*9*	(4,828)	(2,704)
Loss before taxation	*10*	(109,553)	(173,012)
Taxation	*13*	(1,260)	(22,049)
Loss for the year		(110,813)	(195,061)
Attributable to:			
Equity holders of the Company		(110,813)	(117,063)
Minority interests		–	(77,998)
		(110,813)	(195,061)
Loss per share	*14*		
Basic		HK$(0.47)	HK$(0.50)
Diluted		HK$(0.47)	HK$(0.50)

Consolidated Balance Sheet
At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	1,473	1,952
Goodwill	16	–	–
Interest in an associate	17	–	–
		1,473	1,952
Current assets			
Inventories	18	1,581	655
Film costs	19	59,089	198,207
Available-for-sale financial assets	20	13,786	–
Trade receivables	21	5,759	25,001
Other receivables, deposits and prepayments		34,761	23,295
Amounts due from related companies	22	41	458
Tax recoverable		–	15
Pledged bank deposits	23	13,853	59,861
Bank balances and cash	23	180,538	233,123
		309,408	540,615
Current liabilities			
Trade payables	24	92,859	59,371
Other payables and accrued charges		24,219	46,444
Tax liabilities		1,260	–
Amounts due to related companies	25	1,330	2,454
Loans from directors	26	–	3,044
Loans from related companies	27	–	12,582
Preference dividend payable		673	673
Other borrowings	28	–	3,374
Bank borrowings	29	12,853	127,133
		133,194	255,075
Net current assets		176,214	285,540
Total assets less current liabilities		177,687	287,492
Capital and reserves			
Share capital	30	235,831	235,831
Share premium and reserves		(58,144)	51,661
Equity attributable to equity holders of the Company		177,687	287,492
Minority interests		–	–
Total equity		177,687	287,492

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note)	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2005	235,831	263,832	53,022	–	(2,793)	(145,968)	403,924	77,377	481,301
Exchange differences on translation to presentation currency	–	–	–	–	631	–	631	621	1,252
Loss for the year	–	–	–	–	–	(117,063)	(117,063)	(77,998)	(195,061)
Total recognised income and expense for the year	–	–	–	–	631	(117,063)	(116,432)	(77,377)	(193,809)
At 31 March 2006	235,831	263,832	53,022	–	(2,162)	(263,031)	287,492	–	287,492
Fair value change in available-for-sale financial assets	–	–	–	188	–	–	188	–	188
Exchange differences on translation to presentation currency	–	–	–	–	820	–	820	–	820
Net income recognised directly in equity	–	–	–	188	820	–	1,008	–	1,008
Loss for the year	–	–	–	–	–	(110,813)	(110,813)	–	(110,813)
Total recognised income and expense for the year	–	–	–	188	820	(110,813)	(109,805)	–	(109,805)
At 31 March 2007	235,831	263,832	53,022	188	(1,342)	(373,844)	177,687	–	177,687

Note: Merger reserve of the Group represents the difference between the share capital and share premium of HKCYBER whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation.

Consolidated Cash Flow Statement
For the Year Ended 31 March 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	(109,553)	(173,012)
Adjustments for:		
Interest income	(10,036)	(9,227)
Interest expenses	4,828	2,704
Allowance for bad and doubtful debts	1,085	11,874
Allowance for obsolete inventories	45	–
Loss on disposal of property, plant and equipment	152	–
Loss on write-off of property, plant and equipment	–	67
Impairment loss recognised in respect of film costs	102,815	100,748
Impairment loss recognised in respect of goodwill	–	14,843
Depreciation of property, plant and equipment	1,417	2,647
Gain on disposal of available-for-sale financial assets	(5,434)	–
Amortisation of film costs	88,862	235,577
Dividend income	(300)	–
Operating cash flows before movements in working capital	73,881	186,221
Increase in film costs	(44,839)	(66,930)
(Increase) decrease in inventories	(971)	1,218
Decrease in trade receivables	18,157	58,320
Increase in other receivables, deposits and prepayments	(11,731)	(14,538)
Decrease in amounts due from related companies	417	126
Increase in trade payables	31,581	6,721
Decrease in other payables and accrued charges	(22,225)	(65,233)
(Decrease) increase in amounts due to related companies	(1,124)	905
Cash generation from operations	43,146	106,810
Hong Kong Profits Tax refunded (paid)	15	(15)
NET CASH FROM OPERATING ACTIVITIES	43,161	106,795

	2007	2006
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Interest received	10,301	8,908
Dividend income	300	–
Purchase of property, plant and equipment	(1,067)	(600)
Proceeds on disposal of property, plant and equipment	13	–
Decrease (increase) in pledged bank deposits	46,327	(50,550)
Purchase of available-for-sale financial assets	(27,164)	–
Proceeds of disposal of available-for-sale financial assets	19,000	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	47,710	(42,242)
FINANCING ACTIVITIES		
Interest paid	(8,276)	(17,651)
Repayment of loans from related companies	(12,582)	–
New bank borrowings	–	31,679
Repayment of bank borrowings	(116,454)	(161,088)
Repayment of promissory notes	–	(36,084)
Repayment of other borrowings	(3,374)	–
Repayment of loans from directors	(3,044)	–
NET CASH USED IN FINANCING ACTIVITIES	(143,730)	(183,144)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(52,859)	(118,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	233,123	350,858
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	274	856
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	180,538	233,123

Notes to the Consolidated Financial Statements

For the Year Ended 31 March 2007

1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 July 2000. Its immediate holding company is Mediastar International Limited (incorporated in British Virgin Islands). Its intermediate holding company and ultimate holding company are Chow Tai Fook Enterprises Limited ("CTF") (incorporated in Hong Kong) and Cheng Yu Tung Family (Holdings) Limited (incorporated in British Virgin Islands) respectively. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the group entities is United States dollars ("USD"), the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Hong Kong dollars as the directors consider that it is more appropriate presentation for a company listed in Hong Kong and for the convenience of the shareholders.

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 38 to the consolidated financial statements.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 23 (Revised)	Borrowing costs [2]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions [6]
HK(IFRIC) – INT 12	Service concession arrangements [7]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.
[5] Effective for annual periods beginning on or after 1 November 2006.
[6] Effective for annual periods beginning on or after 1 March 2007.
[7] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Investments in associates

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

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

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

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

Financial instruments

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

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that requires delivery of assets with the time frame established by regulation or convention in the market price. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to related companies, loans from directors, loans from related companies, preference dividend payable and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share option reserve.

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

Revenue recognition

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

Engineering service income is recognised over the relevant contract period on straight line basis.

Other service income is recognised when the services are rendered.

Fee licensing income is recognised when the film production is completed, the ownership of the production has been passed to the distributors, the licensing contract is signed with a fixed or determinable fees and the collectibility of proceeds is reasonable assured.

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

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Film costs

Film costs represents film rights and films and animation series produced by the Group or acquired by the Group.

Film rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense when the employee have rendered service entitling them to the contribution.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates concerning future. The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Estimated impairment and amortisation of film costs

Once there is an indication of impairment of film costs, the management of the Group reviews the fair values of film costs on a film-by-film basis by referring to respective present value which was calculated based on the estimated future income. The income forecast calculation requires the Group to estimate the future income expected to arise. Where the actual income less than expected, impairment loss of film costs may arise. Besides, the Group amortises its film costs based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights. The Group assesses the total estimated income on a regular basis and if the expectation differs from the original estimate, such difference will impact the amortisation charge in the year in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, available-for-sale financial assets, pledged bank deposits, bank balances, trade payables, other payables, amounts due to related companies, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest rate risk

Interest bearing financial assets comprise bank balances and pledged bank deposits which are all short-term in nature and are therefore not exposed to significant fair value interest rate risk.

The Group's cash flow interest rate risk mainly relates to variable-rate borrowings. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

Fair value

The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices. The fair value of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

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

6. TURNOVER

	2007	**2006**
	HK$'000	*HK$'000*
The Group's turnover comprises:		
Sales of goods	7,824	8,112
Service income	10,869	8,727
Film licensing income	118,617	257,472
	137,310	274,311

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely network solutions, project services and entertainment business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Network solutions	–	Providing total system solution including data networking solution, synchronisation solution, timing solution, wireless local area network solution and network access control solution
Project services	–	Providing infrastructure installation services for customers which include cellular base station and antenna system installation service, structural cabling installation service and microwave installation service
Entertainment business	–	Production and licensing of theatrical motion pictures in a variety of genres

Segment information about these businesses is presented below.

Income statement for the year ended 31 March 2007

	Network solutions	Project services	Entertainment business	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
External sales	7,824	9,469	118,617	1,400	137,310
RESULTS					
Segment results	2,268	2,640	(111,634)	988	(105,738)
Other income					16,872
Unallocated expenses					(15,859)
Finance costs					(4,828)
Loss before taxation					(109,553)
Taxation					(1,260)
Loss for the year					(110,813)

Balance sheet at 31 March 2007

	Network solutions *HK$'000*	**Project services** *HK$'000*	**Entertainment business** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
ASSETS					
Segment assets	3,376	3,540	80,919	–	87,835
Unallocated corporate assets					223,046
Consolidated total assets					310,881
LIABILITIES					
Segment liabilities	3,380	3,195	106,567	674	113,816
Unallocated corporate liabilities					19,378
Consolidated total liabilities					133,194

Other information for the year ended 31 March 2007

	Network solutions *HK$'000*	**Project services** *HK$'000*	**Entertainment business** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Additions to property, plant and equipment and film costs	–	–	48,547	807	49,354
Depreciation and amortisation	116	–	89,115	1,048	90,279
Loss on disposal of property, plant and equipment	–	–	–	152	152
Impairment loss recognised in respect of film costs	–	–	102,815	–	102,815
Allowance for obsolete inventories	7	38	–	–	45
Allowance for bad and doubtful debts	32	–	1,053	–	1,085

Income statement for the year ended 31 March 2006

	Network solutions	Project services	Entertainment business	Others	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	8,112	6,796	257,472	1,931	–	274,311
Inter-segment sales	105	–	–	–	(105)	–
Total	8,217	6,796	257,472	1,931	(105)	274,311
Inter-segment sales are charged at prevailing market prices						
RESULTS						
Segment results	(2,500)	1,641	(162,672)	983	–	(162,548)
Other income						9,281
Unallocated expenses						(17,041)
Finance costs						(2,704)
Loss before taxation						(173,012)
Taxation						(22,049)
Loss for the year						(195,061)

Balance sheet at 31 March 2006

	Network solutions	Project services	Entertainment business	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	1,040	1,198	240,837	422	243,497
Unallocated corporate assets					299,070
Consolidated total assets					542,567
LIABILITIES					
Segment liabilities	1,515	2,407	95,132	1,005	100,059
Unallocated corporate liabilities					155,016
Consolidated total liabilities					255,075

Other information for the year ended 31 March 2006

	Network solutions *HK$'000*	**Project services** *HK$'000*	**Entertainment business** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Additions to property, plant and equipment and film costs	38	–	83,411	176	83,625
Depreciation and amortisation	168	–	235,838	2,218	238,224
Loss on write-off of property, plant and equipment	–	–	–	67	67
Impairment loss recognised in respect of film costs	–	–	100,748	–	100,748
Impairment loss recognised in respect of goodwill	4,807	–	10,036	–	14,843
Allowance for bad and doubtful debts	–	–	11,874	–	11,874

Geographical segments

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC") and the United States of America (the "USA").

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2007 *HK$'000*	**2006** *HK$'000*
Hong Kong	20,321	14,669
Elsewhere in the PRC	1,022	2,170
USA	46,301	127,978
Europe	65,358	112,596
Asia other than Hong Kong and the PRC	4,308	16,898
	137,310	274,311

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and film costs, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and film costs	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	15,100	27,798	1,417	25,692
Elsewhere in the PRC	943	676	55	9
USA	71,792	215,023	47,882	57,924
	87,835	243,497	49,354	83,625

8. OTHER INCOME

	2007	**2006**
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale financial assets	5,434	–
Interest income on bank deposits	10,036	9,227
Sundry income	1,102	54
Dividend income from listed securities	300	–
	16,872	9,281

9. FINANCE COSTS

	2007	**2006**
	HK$'000	*HK$'000*
Interest on bank overdrafts and bank borrowings	7,838	17,651
Interest on loans from related companies	308	510
Interest on loans from directors	65	111
Interest on other borrowings	65	111
Imputed interest expense on promissory notes	–	416
	8,276	18,799
Less: Amount capitalised in film costs	(3,448)	(16,095)
	4,828	2,704

10. LOSS BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	1,085	11,874
Allowance for obsolete inventories (included in cost of sales)	45	–
Amortisation of film costs (included in cost of sales)	88,862	235,577
Auditors' remuneration	2,469	1,800
Underprovision in previous year	210	–
	2,679	1,800
Cost of inventories recognised as an expense	12,097	11,034
Depreciation of property, plant and equipment	1,417	2,647
Impairment loss recognised in respect of film costs (included in cost of sales) *(note 19)*	102,815	100,748
Loss on write-off of property, plant and equipment	–	67
Loss on disposal of property, plant and equipment	152	–
Net foreign exchange loss	220	376
Rental expenses under operating leases on		
– premises	3,998	3,699
– equipment	283	394
Staff costs, including directors' emoluments		
– Salaries and allowances	25,478	25,875
– Retirement benefits schemes contributions *(note 33)*	509	495
	25,987	26,370

11. DIRECTORS' EMOLUMENTS

	2007	2006
	HK$'000	*HK$'000*
Directors' fees	2,037	660
Other emoluments:		
Salaries and other benefits	500	501
Contributions to retirement benefits scheme	12	12
	512	513
	2,549	1,173

The emoluments paid or payable to each of the nine (2006: eight) directors were as follows:

	Cheng Kar Shun	Lo Lin Shing, Simon	To Hin Tsun, Gerald	Choi Wing Kin	So Kam Wing	Wu Wing Kin	Cheung Hon Kit	Kwee Chong Kok, Michael	Wong Chi Keung	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007										
Fees:										
Executive directors	500	500	377	100	100	–	–	–	–	1,577
Non-executive directors	–	–	–	–	–	120	110	110	120	460
Other emoluments:										
Salaries and other benefits	–	–	–	–	500	–	–	–	–	500
Contributions to retirement benefits scheme	–	–	–	–	12	–	–	–	–	12
Total emoluments	500	500	377	100	612	120	110	110	120	2,549

	Cheng Kar Shun	Lo Lin Shing, Simon	Choi Wing Kin	So Kam Wing	Wu Wing Kin	Cheung Hon Kit	Kwee Chong Kok, Michael	Wong Chi Keung	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006									
Fees:									
Executive directors	100	100	–	–	–	–	–	–	200
Non-executive directors	–	–	–	–	120	110	110	120	460
Other emoluments:									
Salaries and other benefits	–	–	–	501	–	–	–	–	501
Contributions to retirement benefits scheme	–	–	–	12	–	–	–	–	12
Total emoluments	100	100	–	513	120	110	110	120	1,173

During the year, no emolument was paid by the Group to the directors as discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director had waived or agreed to waive any remuneration.

12. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group did not include any director of the Company (2006: nil). The emoluments of the five (2006: five) individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	8,576	8,405
Contributions to retirement benefits scheme	97	118
	8,673	8,523

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$1,000,001 to HK$1,500,000	2	2
HK$1,500,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$2,500,000	2	1
	5	5

13. TAXATION

	2007	2006
	HK$'000	*HK$'000*
Current tax – Hong Kong	1,260	–
Deferred taxation *(note 31)*	–	22,049
	1,260	22,049

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year. No taxation arising in other jurisdiction has been made in the financial statements as its overseas operations have no assessable profits for the year.

No provision for Hong Kong Profits Tax or taxation arising in other jurisdiction was made in the 2006 financial statements as the Company and its subsidiaries have no assessable profits for the year ended 31 March 2006.

The income tax rate of the Group's subsidiaries operating in Hong Kong is 17.5% (2006: 17.5%).

The income tax rate of the Group's subsidiaries operating in the USA is 36.8% (2006: 36.8%).

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	USA		Hong Kong		Total	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss before taxation	(91,286)	(150,197)	(18,267)	(22,815)	(109,553)	(173,012)
Tax at the domestic rates applicable to profits in the country concerned	(33,593)	(55,272)	(3,197)	(3,993)	(36,790)	(59,265)
Tax effect of expenses not deductible for tax purpose	13,535	2,370	2,924	2,631	16,459	5,001
Tax effect of income not taxable for tax purpose	–	–	(1,716)	(1,545)	(1,716)	(1,545)
Tax effect of utilisation of tax losses not previously recognised	–	–	(23)	–	(23)	–
Tax effect of tax losses and deductible temporary not recognised	20,058	52,902	3,280	2,904	23,338	55,806
Effect of different tax rates of subsidiaries operating in other jurisdiction	–	–	(158)	(6)	(158)	(6)
Reversal of deferred tax assets due to change in estimate	–	22,049	–	–	–	22,049
Others	–	–	150	9	150	9
Tax charge for the year	–	22,049	1,260	–	1,260	22,049

Details of the deferred taxation are set out in note 31 to the consolidated financial statements.

14. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company for the year ended 31 March 2007 together with the comparative figures for 2006 are based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	(110,813)	(117,063)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	235,831,447	235,831,447

	2007	2006
	HK$	*HK$*
Loss per share		
Basic and diluted loss per share	(0.47)	(0.50)

The computation of diluted loss per share does not assume the exercise of the subsidiary's outstanding share options since their exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Computer hardware	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 April 2005	2,074	892	6,706	9,672
Exchange adjustments	1	7	–	8
Additions	383	27	190	600
Write-off	–	–	(102)	(102)
At 31 March 2006	2,458	926	6,794	10,178
Exchange adjustments	(1)	(116)	–	(117)
Additions	773	–	294	1,067
Disposals	(1,985)	(262)	(717)	(2,964)
At 31 March 2007	1,245	548	6,371	8,164
DEPRECIATION AND IMPAIRMENT				
At 1 April 2005	698	198	4,715	5,611
Exchange adjustments	1	2	–	3
Provided for the year	1,296	313	1,038	2,647
Eliminated on write-off	–	–	(35)	(35)
At 31 March 2006	1,995	513	5,718	8,226
Exchange adjustments	(3)	(150)	–	(153)
Provided for the year	271	267	879	1,417
Eliminated on disposals	(1,890)	(216)	(693)	(2,799)
At 31 March 2007	373	414	5,904	6,691
CARRYING VALUES				
At 31 March 2007	872	134	467	1,473
At 31 March 2006	463	413	1,076	1,952

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	Over the rental lease terms or 30%, whichever is the shorter period
Furniture, fixtures and equipment	15% – $33^1/_3$%
Computer hardware	15% – $33^1/_3$%

16. GOODWILL

	HK$'000
COST	
At 1 April 2005, at 31 March 2006 and at 31 March 2007	14,843
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	–
Impairment loss recognised	14,843
At 31 March 2006 and at 31 March 2007	14,843
CARRYING VALUES	
At 31 March 2007	–
At 31 March 2006	–

17. INTEREST IN AN ASSOCIATE

	2007 HK$'000	**2006** HK$'000
Cost of investment in an associate, unlisted	–	–
Share of post-acquisition losses	–	(1,271)
	–	(1,271)
Amount due from an associate	–	3,500
	–	2,229
Impairment loss recognised	–	(2,229)
	–	–

At 31 March 2007, Target Wise Holdings Limited ("Target Wise") ceased to be the associate of the Group upon the dissolution of Flash Star Group Limited, which held 50% equity interest in Target Wise, during the year ended 31 March 2007.

At 31 March 2006, the amount due from an associate was unsecured, non-interest bearing and has no fixed repayment terms.

18. INVENTORIES

	2007 HK$'000	**2006** HK$'000
Raw materials	–	49
Work in progress	750	470
Finished goods	831	136
	1,581	655

19. FILM COSTS

	HK$'000
COST	
At 1 April 2005	471,806
Exchange adjustments	17,944
Additions during the year	83,025
At 31 March 2006	572,775
Exchange adjustments	8,634
Additions during the year	48,287
At 31 March 2007	629,696
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	30,495
Exchange adjustments	7,748
Provided for the year	235,577
Impairment loss recognised	100,748
At 31 March 2006	374,568
Exchange adjustments	4,362
Provided for the year	88,862
Impairment loss recognised	102,815
At 31 March 2007	570,607
CARRYING VALUES	
At 31 March 2007	59,089
At 31 March 2006	198,207

Amortisation of film costs is determined on a film-by-film basis in accordance with the proportion of actual income earned during the year to the total estimated income from the sale of films.

The directors reassessed the recoverability of the film costs as at 31 March 2007 by reference to the future prospect and present value of expected revenue to be generated from the films derived from discounting the projected cash flows by a discount rate of 12.50% (2006: 12.00%) and determined that an impairment loss of approximately HK$102,815,000 (2006: HK$100,748,000) be recognised in the consolidated income statement.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	**2006**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong at fair value	13,786	–

21. TRADE RECEIVABLES

The credit terms of the Group range from 0 to 90 days. A longer period is granted to few film distributors with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Aged:		
0 – 30 days	3,306	1,112
31 – 60 days	750	172
61 – 90 days	779	6,624
Over 90 days	924	17,093
	5,759	25,001

22. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are disclosed as follows:

Name of related company	**Relationship**	**2007**	**2006**
		HK$'000	*HK$'000*
New World CyberBase (Greater China) Limited ("NWC")	Common director, Mr. Lo Lin Shing, Simon	13	–
New World CyberBase (Shanghai) Limited	Common director, Mr. Lo Lin Shing, Simon	28	28
上海創時信息系統有限公司	Subsidiary of NWC	–	405
廣州易圖通信息技術有限公司	Subsidiary of NWC	–	14
Cyber On-Air (BVI) Ltd.	Common director, Mr. Choi Wing Kin ("Mr. Choi")	–	11
		41	458

The amounts are unsecured, non-interest bearing and repayable on demand.

23. OTHER CURRENT FINANCIAL ASSETS

Bank deposits are short term highly liquid investments carrying interest at market rate which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

The bank balances (included in bank balances and cash) and pledged bank deposits carry fixed interest rate ranging from 1.00% to 4.98% (2006: 0.25% to 4.17%) and 2.90% to 5.19% respectively (2006: 2.15% to 4.38%).

24. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Aged:		
0 – 30 days	3,821	2,871
31 – 60 days	390	253
61 – 90 days	270	65
Over 90 days	88,378	56,182
	92,859	59,371

25. AMOUNTS DUE TO RELATED COMPANIES

Related companies are companies in which directors of the Company have beneficial interests.

The amounts are unsecured, non-interest bearing and repayable on demand.

26. LOANS FROM DIRECTORS

	2007	2006
	HK$'000	*HK$'000*
Mr. Choi	–	2,849
Mr. So Kam Wing ("Mr. So")	–	195
	–	3,044

The amounts were unsecured and repayable on demand. As at 31 March 2006, included in the total amount of HK$3,044,000 was approximately HK$1,776,000 which carried interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum. The remaining balance was non-interest bearing. The loans from directors were fully repaid during the year.

27. LOANS FROM RELATED COMPANIES

Related companies are companies in which a director of the Company has a beneficial interest.

As at 31 March 2006, the Group obtained loan advances of HK$11,800,000 from Cyber Network Technology Limited ("Cyber Network"). Included in this amount was HK$1,200,000, which carried interest at the best lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited, and subject to a corporate guarantee issued by the Company and repayable on 30 June 2006. The loan advance of HK$1,200,000 was fully repaid during the year. Besides, approximately HK$800,000, which carried interest at HIBOR plus 2% per annum, was unsecured as at 31 March 2006 and repayable on demand. The loan advance of HK$800,000 was fully repaid during the year. The remaining balance of HK$9,800,000, which carried interest at HIBOR plus 2% per annum, was subject to a corporate guarantee issued by the Company and repayable on 30 June 2006. The loan advance of HK$9,800,000 was fully repaid during the year.

As at 31 March 2006, the Group also obtained loan advances from Wellington Equities Inc. ("Wellington") amounting to approximately HK$782,000. Included in this amount was HK$456,000, which carried interest at HIBOR plus 2% per annum, unsecured and repayable on demand. The remaining balance of HK$326,000 was interest free. The loan advances of HK$782,000 was fully repaid during the year.

28. OTHER BORROWINGS

As at 31 March 2006, the amounts were unsecured and repayable on demand. Included in this amount was approximately HK$1,968,000 which carried interest at the prevailing market rates. The remaining balance was non-interest bearing and repayable on demand. The amounts were fully repaid during the year.

The Group's other borrowings were denominated in Hong Kong dollars, which is the same functional currency of the group entity.

29. BANK BORROWINGS

	2007	**2006**
	HK$'000	*HK$'000*
Secured bank loans, repayable within one year	12,853	127,133

The bank borrowings of the Group are variable-rate borrowings that carry interests in excess of the announced base rate of interest of Bank of America Corporation ranging from 0.75% to 1.50% during the year ended 31 March 2007 (2006: 0.75% to 1.25%). All of the Group's borrowings are denominated in USD, which is the same functional currency of the group entities.

The effective interest rates on the Group's bank borrowings are also equal to contracted interest rates.

As at balance sheet date, the Group's undrawn borrowing facility amounted to HK$1,000,000 (2006: HK$7,806,000) with floating rate expiring within one year.

30. SHARE CAPITAL

	Par value of shares	**Number of shares**	**Value**
	HK$		*HK$'000*
Authorised:			
Ordinary shares			
At 1 April 2005, 31 March 2006 and 2007	1.00 each	500,000,000	500,000
Issued and fully paid:			
Ordinary shares			
At 1 April 2005, 31 March 2006 and 2007	1.00 each	235,831,447	235,831

31. DEFERRED TAXATION

The following are the major deferred tax assets recognised and the movements thereon during the current and the prior reporting years:

	Accelerated accounting depreciation and amortisation *HK$'000*	Estimated tax losses *HK$'000*	Total *HK$'000*
At 1 April 2005	10,662	11,881	22,543
Exchange adjustments	(234)	(260)	(494)
Charge to income statement	(10,428)	(11,621)	(22,049)
At 31 March 2006 and 2007	–	–	–

At the balance sheet date, the Group had estimated unused tax losses of approximately HK$637,305,000 (2006: HK$542,494,000) and deductible temporary differences of HK$157,000 (2006: HK$1,422,000) available for offset against future profits. As at 31 March 2007, no deferred tax assets has been recognised (2006: nil) of such losses due to the unpredictability of future profit streams. Tax losses amounting to HK$274,657,000 (2006: HK$260,880,000) may be carried forward indefinitely. The remaining HK$48,489,000 and HK$314,159,000 will expire before 2016 and 2027 respectively (2006: HK$31,636,000 and HK$249,978,000 will expire before 2015 and 2026 respectively).

32. SHARE OPTION SCHEMES

The Company

Share option scheme adopted on 20 August 2004

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, a share option scheme was adopted to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company (the "Shares") for the benefit of the Company and the shareholders of the Company (the "Shareholders") as a whole.

The categories of the participant under this share option scheme are any full-time employee, any director (whether executive or non-executive including independent non-executive director), any supplier, independent contractor, consultant, and/or adviser of the Company or any subsidiary of the Company.

The maximum number of shares in respect of which options may be granted to grantees under this share option scheme and other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time (the "Scheme Limit"). The maximum number of shares in respect of which options may be granted under this share option scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on the adoption date of this share option scheme (the "Scheme Mandate Limit"), which is 20,483,144 shares, representing approximately 8.69% of the issued share capital as at the date of this annual report. Option lapsed in accordance with the terms of this share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may grant options beyond the scheme mandate if approval is obtained from Company's shareholders in general meetings.

The maximum number of shares in respect of which options may be granted to a participant under this share option scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12 month period exceed 1% of the shares in issue (the "Individual Limit"). The Company may grant options beyond the Individual Limit to a participant at any time if approval is obtained from Company's shareholders in general meetings.

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates shall be subject to the prior approval of the independent non-executive directors of the Company (excluding an independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares on the date of grant, in excess of HK$5 million (or such other amount as may from time to time be specified by the Stock Exchange), such grant of options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll) on which all connected persons of the Company shall abstain from voting in favour but (for the avoidance of doubt), any connected person may without affecting the validity of the relevant resolution vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

The period within which the shares must be taken up under the option, which is to be notified by the committee of the board of directors (the "Committee") to each grantee at the time of making an offer of a grant of an option which shall not expire later than 10 years from the date of grant of an option.

Options granted must be taken up within 28 days of the date of grant upon payment of HK$10 as consideration for the grant.

The exercise price is determined by the board of directors in its absolute discretion and will not be less than the average closing price of the shares for the five trading days immediately preceding the offer date or the closing price of the shares on the offer date, whichever is the higher, provided that the exercise price should not be lower than the nominal value of a share.

This share option scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 20 August 2004.

There were no share options granted under this share option scheme.

A Subsidiary of the Company

Share option scheme of M8 Entertainment Inc. ("M8")

During 1994, the board of directors of M8 formally established the Amended and Restated 1994 Stock Option Plan ("the Plan"), which provides for the granting of stock options to acquire Class B M8 shares to employees, officers, directors and independent service providers to M8 or any of its subsidiaries.

The total number of shares available for issue under the Plan is 23,582,762 shares, representing approximately 5.62% of the issued share capital of M8 as at the date of this annual report.

The number of shares which may be reserved for issuance to any one person shall not exceed 5% of the issued shares.

The exercise period of option granted under the Plan may not exceed 10 years from the date of grant. However, the Plan allows for accelerated expiry dates under certain conditions.

Save as determined by the board of directors of M8 and provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period nor a performance target which must be achieved before it can be exercised.

No payment is required on acceptance of option.

The exercise price of an option granted under the Plan is set at the time of grant, but cannot in any event be less than the closing price of the Class B M8 Shares on the Toronto Stock Exchange on the last business day prior to the trading day the option is granted.

The Plan shall continue as long as the board of directors of M8 does not terminate it. Details of the share options outstanding as at 31 March 2007 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Vesting period	Exercisable period	Exercise price per share *CAD*	At 1 April 2005	Options cancelled during the year	At 31 March 2006	Options cancelled during the year *(Note)*	At 31 March 2007
Employee	25 May 2000	–	26 May 2000 – 25 May 2010	0.120	100,000	–	100,000	–	100,000
Employee	29 August 2000	30 August 2000 – 29 August 2002	30 August 2002 – 29 August 2010	0.100	137,500	–	137,500	(137,500)	–
Employee	29 August 2000	30 August 2000 – 29 August 2003	30 August 2003 – 29 August 2010	0.100	306,250	–	306,250	(212,500)	93,750
Employee	29 August 2000	30 August 2000 – 29 August 2004	30 August 2004 – 29 August 2010	0.100	306,250	–	306,250	–	306,250
Employee	24 May 2001	–	25 May 2001 – 24 May 2011	0.035	200,000	(100,000)	100,000	–	100,000
Employee	15 February 2002	16 February 2002 – 15 February 2003	16 February 2003 – 15 February 2012	0.075	1,230,000	(400,000)	830,000	(320,000)	510,000
Employee	13 May 2002	–	14 May 2002 – 31 May 2012	0.170	100,000	(100,000)	–	–	–
Employee	13 May 2002	14 May 2002 – 13 May 2003	14 May 2003 – 13 May 2012	0.170	850,000	(100,000)	750,000	(700,000)	50,000
Employee	13 May 2002	14 May 2002 – 13 May 2004	14 May 2004 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2002 – 13 May 2005	14 May 2005 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2002 – 13 May 2006	14 May 2006 – 13 May 2012	0.170	1,150,000	–	1,150,000	–	1,150,000
Employee	28 August 2002	29 August 2002 – 28 August 2004	29 August 2004 – 28 August 2012	0.160	1,200,000	–	1,200,000	–	1,200,000
Employee	1 May 2003	–	2 May 2003 – 1 May 2013	0.075	6,970,000	(1,000,000)	5,970,000	(50,000)	5,920,000
Total					14,850,000	(1,700,000)	13,150,000	(1,420,000)	11,730,000

No option was exercised or granted during the year ended 31 March 2006 and 2007.

Note: The options were cancelled due to cessation of employment of participants with the subsidiary.

33. RETIREMENT BENEFITS SCHEMES

The Group participates in a mandatory provident fund scheme in Hong Kong. The scheme assets are held under a mandatory provident fund operated by HSBC Life (International) Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Scheme Ordinance) on a monthly basis.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 31% to 32% (2006: 31% to 32%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to the retired staff.

The relevant USA subsidiaries participates in a 401K retirement plan, a defined contribution scheme. The administrator of the plan is Nationalwide Life Insurance. During the year ended 31 March 2007, the relevant subsidiaries make contributions to the plan in a range of 1.5% to 4.0% (2006: 1.5% to 4.0%) of the basic salary of the employees under the plan on bi-weekly basis.

The Group's contributions to the retirement benefits schemes charged to the income statements are as follows:

	2007				2006			
	Hong Kong	PRC	USA	Total	Hong Kong	PRC	USA	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Employers' contributions	265	52	192	509	244	68	183	495

34. PLEDGE OF ASSETS

As at 31 March 2007, the Group obtained general banking facilities from various banks upon the following securities:

(a) Pledged bank deposits owned by the Group of approximately HK$13,853,000 (2006: HK$59,861,000).

(b) Mortgages of copyright and assignments of licensing agreements with the film costs of approximately HK$76,319,000 at 31 March 2006.

(c) Floating charges on assets of M8 and its subsidiaries, including trade receivables, other receivables, deposits and prepayments of approximately HK$32,183,000 at 31 March 2006.

35. CONTINGENT LIABILITIES

The directors of the Company, after considering the status of the following claims and the advices by legal advisers, are of the opinion that no provision is required to be made in the consolidated financial statements of the Group:

On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment, a subsidiary of the Company under an agreement between the parties dated 14 August 2000, together with damages and costs amounting to approximately US$553,000 (equivalent to approximately HK$4,313,000). The Group has been advised by its US legal advisers that the claims made are unfounded. Accordingly, Media 8 Entertainment has applied for a dismissal of the claim made against it and also applied for summary judgment or adjudication on this matter. The parties requested for arbitration. As at the date of this report, the arbiter is considering the motion for summary judgment and the hearing date of the arbitration is pending.

DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. ("Blockbuster") and First Look Studios, Inc. ("First Look") (as plaintiffs) filed a claim against Media 8 Entertainment and MDP Distribution, Inc. a subsidiary of the Company (as defendants) for declaratory relief to the effect that DEJ, Blockbuster and First Look owe no additional money to Media 8 Entertainment and MDP Distribution, Inc. under the licence agreement entered by Media 8 Entertainment and MDP Distribution, Inc. and DEJ on 20 September 2006 before the courts in Texas, USA this originally having been a complaint lodged by M8 and MDP Distribution, Inc. (as plaintiffs) against DEJ, Blockbuster and First Look (as defendants) on 26 January 2006 before the courts in Los Angeles which was subsequently transferred to Texas in respect of a claim by Media 8 Entertainment and MDP Distribution, Inc. for the share of revenue to which they have been underpaid but which are entitled in respect of the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, damages and costs, which amounted to not less than US$8,559,674 (equivalent to approximately HK$66,765,000). As at the date of this report, this case is in pre-trial discovery phase.

36. OPERATING LEASE COMMITMENTS

At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	2,843	3,013
In the second to fifth year inclusive	1,441	2,307
	4,284	5,320

Operating lease payments represent rentals payable by the Group for certain of its office premises and lease of other assets. Leases are negotiated for an average term of two years and rentals are fixed for the lease period.

37. RELATED PARTY TRANSACTIONS

A. Apart from the related party transactions as disclosed in notes 22, 25, 26 and 27, the Group entered into the following transactions with related parties during the year:

	2007	**2006**
	HK$'000	*HK$'000*
Rentals and office administrative expenses *(note a)*	625	644
Rental expenses *(note b)*	1,334	1,003
Finance costs to related companies *(note c)*	308	510
Finance costs to directors *(note d)*	65	111
Project service income *(note e)*	639	3,267

Notes:

(a) A company, in which Mr. Lo Lin Shing, Simon ("Mr. Lo"), a director of the Company has a beneficial interest, provided office space for the Group and shared certain office administrative expenses and the above sum was charged.

(b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has managerial duties and significant influence in the financial and operating policy, leased office premises to the Group.

(c) Companies, in which Mr. Lo, a director of the Company has a beneficial interest, provided loans to the Group. Details of the interest rate and terms of the loans are disclosed in note 27.

(d) The amounts included finance costs paid in respect of loans from Mr. Choi and Mr. So, directors of the Company. Details of interest rate and terms of the loans are disclosed in note 26.

(e) Project service income represented service provided to a company, in which Dr. Cheng is a director of the Company and Dr. Cheng has managerial duties and significant influence in the financial and operating policy.

B. On 23 November 2004, Cross Growth Co., Ltd. (a company wholly-owned by CTF, the Company's intermediate holding company), CTF and the Company entered into a conditional agreement ("Acquisition Agreement") pursuant to which Cross Growth Co., Ltd. agreed to sell its entire equity interest in Fortune Gate Overseas Limited ("Fortune Gate") and the shareholders loans due to CTF and its subsidiaries (excluding the Company and its subsidiaries) ("CTF Group") for a purchase price of HK$850 million (subject to adjustment) and Cross Growth Co., Ltd. and CTF granted the Company an option ("Purchase Option") to purchase (through Fortune Gate) the 40% equity interest in Arc of Triumph Development Company Limited ("ATD") and the 40% of the related shareholders' loans ("Macau Interest") from Cheung Hung Development (Holdings) Limited ("Cheung Hung") at a price of HK$363.2 million (subject to adjustment). The purchase price of HK$850 million will be settled as to HK$400 million by the convertible note (which will due in 3 years and convertible into a share of the Company at an initial conversion price of HK$2 per share (subject to adjustment)) issued by the Company and as to the remaining HK$450 million (subject to adjustment) by cash. If the Company exercises the Purchase Option, the purchase price will be increased by HK$363.2 million (which will be settled by cash) and the shareholders' loans will be increased by the 40% of the related shareholders' loan due to CTF Group. In order to finance the acquisitions, the Company proposed to raise about HK$1,229 million by way of right issue at HK$1.5 per right share (the "Rights Issue"). The principal asset of Fortune Gate will be the 51% equity in a hotel group ("Hotel Group") whose principal asset is a property in Manila partly owned and partly leased by the Hotel Group for the operation of the Hyatt Hotel and Casino Manila. ATD, a company incorporated in Macau and its principal asset is a parcel of land in Macau, is 40% owned by Cheung Hung. On 17 March 2005, the Company exercised the option and will acquire the Macau Interest.

On 27 June 2007, the Company, Cross-Growth and CTF entered into a supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") pursuant to which Foreign Holiday Philippines, Inc. shall be excluded from the Hotel Group. The total purchase price would be adjusted to HK$1,198.2 million (subject to adjustments). The Rights Issue would be increased to approximately HK$1,415 million.

CTF holds a 100% equity interest in Fortune Gate, which was incorporated in the British Virgin Islands and is investment holding and holds a 73% attributable interest in the Hotel Group, CTF and Mr. Cheng Yu Tung and his family members owns a 48.75% equity interest in Cheung Hung respectively. Cross Growth Co., Ltd. and CTF have undertaken to effect a corporate reorganization to transfer 51% equity interest in the Hotel Group and the associated shareholders' loans and the Macau Interest from the CTF Group and its associate to Fortune Gate before the completion of acquisitions in accordance with the Acquisition Agreement.

The completion of the acquisition of Fortune Gate and the purchase of the Macau Interest is subject to the approvals from the independent shareholders of the Company and the listing committee of the Stock Exchange as well as other conditions precedent set out in the Acquisition Agreement.

At the date of this report, the acquisition of Fortune Gate and the purchase of the Macau Interest have not yet been completed.

C. **Compensation of key management personnel**

The remuneration of other members of key management exclude emoluments of directors and the five (2006: five) employees with the highest emoluments in the Group as disclosed in note 11 and note 12 respectively during the year was as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Short-term benefits	742	3,683

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance and experience of individuals and market trends.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Anbo Global Company Limited	Hong Kong	Limited company	Ordinary	HK$2	–	100	Investment holding
China On-Air Inc.	British Virgin Islands	Limited company	Ordinary	HK$1	–	100	Investment holding
Cyber On-Air (Asia) Limited	Hong Kong	Limited company	Ordinary	HK$100 HK$100,000* Non-voting deferred	–	100	Sales of telecommunication products, provision of network installation and engineering services
Cyber On-Air Group Limited	British Virgin Islands	Limited company	Ordinary	HK$100	100	–	Investment holding
Five Stories, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Future Growth Limited	Hong Kong	Limited company	Ordinary	HK$2	100	–	General business
Gugo Entertainment Company Limited	Hong Kong	Limited company	Ordinary	HK$21,260,100	–	75	Animation/ development of cartoon services, licensing and merchandising distribution
Image Organisation, Inc.	USA	Limited company	Ordinary	US$1,382,494	–	50.4	Film production and distribution

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Happy Noodle	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Loverwrecked, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Lucky Genius Limited	British Virgin Islands	Limited company	Ordinary	US$1	100	–	Investment holding
M8	Canada	Limited company	Ordinary	Class A CAD 4,520,000 Class B CAD 103,246,000 "Class B M8 Shares" Class C CAD 24,171,000 "Class C M8 Shares"	–	50.4	Film production and distribution
M8 Production 2 Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production
Man About Town Films Inc.	Canada	Limited company	Ordinary	CAD1	–	50.4	Film production and distribution
Media 8 Distribution I	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution II	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution III	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution IV	USA	Limited company	Ordinary	US$100	–	50.4	Film production and financing
Media 8 Distribution V	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Media 8 Distribution VI	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
IEC Production Limited (formerly known as "Media 8 Entertainment Limited")	Hong Kong	Limited company	Ordinary	HK$1	–	100	Media related business
IEC Record Production Company Limited	Hong Kong	Limited company	Ordinary	HK$1	–	100	Record production
Media 8 Entertainment	USA	Limited company	Ordinary	US$10,000	–	50.4	Film production and distribution

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Mediamaster Limited	British Virgin Islands	Limited company	Ordinary	HK$1	100	–	Investment holding
Media 8 Holdings (formerly known as "MDP Holdings USA, Inc.")	USA	Limited company	Ordinary	US$100,000	–	50.4	Investment holding
MDP Licensing Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
MDP Production, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production and financing
Mystic Demons Publishing	USA	Limited company	Ordinary	US$100	–	50.4	Film production
Running Scared, Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Stuhall Production Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Tropical Production Inc.	USA	Limited company	Ordinary	US$1,000	–	50.4	Film production
Young Racers, Inc.	USA	Limited company	Ordinary	US$12,000	–	50.4	Film production
Zodiac Productions Inc.	USA	Limited company	Ordinary	US$2,000	–	50.4	Film production
廣州創博數碼科技有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of US$210,000	–	100	Provision of telecom systems installation and maintenance service
北京國娛匯星文化傳播有限公司	PRC	Wholly-owned foreign enterprise	–	Registered capital of HK$3,000,000	–	100	Media related business

* *The deferred shares carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.*

None of the subsidiaries had issued any debt securities at the end of the year or during the year.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong:

Deloitte.
德勤

29 June 2007

To the Board of Directors
International Entertainment Corporation
Taifook Capital Limited
Somerley Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Fortune Gate Overseas Limited ("Fortune Gate") and the Fortune Gate Subsidiaries (defined below, together with Fortune Gate, hereinafter collectively referred to as the "Fortune Gate Group") for each of the three years ended 31 December 2006 (the "Relevant Periods") for inclusion in the circular of International Entertainment Corporation (the "Company") to its shareholders dated 29 June 2007 (the "Circular") in connection with the acquisition of the entire issued share capital of Fortune Gate.

Fortune Gate was incorporated and registered as an exempted company with limited liability in the British Virgin Islands ("BVI") on 8 November 2004. Pursuant to a group reorganisation (the "Group Reorganisation"), as described in the section headed "Corporate reorganisation of the Acquired Interests" in Appendix IX to the Circular, Fortune Gate will become the holding company of the companies comprising the Fortune Gate Group.

Upon the completion of the Group Reorganisation, Fortune Gate will have the following subsidiaries (together with Foreign Holiday Philippines, Inc. referred to as the "Fortune Gate Subsidiaries") and associate, all of which are private limited companies incorporated outside Hong Kong.

Name of subsidiary	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Fortune Gate Group	Principal activities
Maxprofit International Limited* ("Maxprofit")	BVI 8 November 2004	Ordinary US$1	51%	Investment holding
Flexi-Deliver Holding Limited ("Flexi-Deliver")	BVI 8 May 2002	Ordinary US$1	51%	Investment holding
Starcharm Limited ("Starcharm")	BVI 18 October 2004	Ordinary US$1	51%	Provision of finance to group company
Pride Ever Resources Limited ("Pride Ever")	BVI 9 July 2002	Ordinary US$1	51%	Inactive
CTF Hotel and Entertainment, Inc. ("CTFHE")	Philippines 7 October 2002	Ordinary Peso10,468,600	51%	Investment holding
CTF Properties (Philippines), Inc. ("CTFP")	Philippines 3 October 2002	Ordinary Peso10,468,600	51%	Investment holding
Great Holiday Entertainment Services Inc. ("GHES")	Philippines 10 February 2005	Ordinary Peso11,361,000	51%	Guest entertainment
Great Holiday Health & Spa Inc. ("GHHS")	Philippines 3 February 2005	Ordinary Peso11,361,000	51%	Spa operation
Marina Square Properties, Inc. ("MSPI")	Philippines 11 October 2002	Ordinary Peso2,722,930,653	51%	Property investment
New Coast Hotel, Inc. ("NCHI")	Philippines 11 October 2002	Ordinary Peso621,444,867	51%	Hotel owner

* *Directly held by Fortune Gate.*

Name of associate	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to/ proportion of interest held by the Fortune Gate Group	Principal activities
Arc of Triumph Development Company Limited#	Macau 7 September 2000	MOP180,000	40%	Investing and running hotel and casino business

A separate accountants' report for the associate is set out in Appendix V to the Circular.

The following subsidiary directly held by CTFP as at 31 December 2004 and 2005, was disposed of on 30 June 2006.

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Fortune Gate Group	Principal activities
Foreign Holiday Philippines, Inc. ("FHPI")	Philippines 1 April 2003	Ordinary Peso 10,419,000 Preferred Peso 210,000	51%	Tour operator

All the companies comprising the Fortune Gate Group have adopted 31 December as their financial year end date.

We have acted as auditors of Fortune Gate, Maxprofit, Flexi-Deliver, Starcharm and Pride Ever during the Relevant Periods or since their respective dates of incorporation to 31 December 2006, where this is a shorter period.

The statutory financial statements of the following companies were prepared in accordance with Philippine Financial Reporting Standards and audited by certified public accountants registered in Philippines as follows:

Name of company	Financial period/year	Auditors
CTFHE	Each of the years ended 31 December 2004, 2005 and 2006	SyCip Gorres Velayo & Co. ("SGV")
CTFP	Each of the years ended 31 December 2004, 2005 and 2006	SGV

Name of company	Financial period/year	Auditors
GHES	Period from 10 February 2005 to 31 December 2005	SGV
	Year ended 31 December 2006	
GHHS	Period from 3 February 2005 to 31 December 2005	SGV
	Year ended 31 December 2006	
FHPI	Each of the years ended 31 December 2004 and 2005	SGV
	Year ended 31 December 2006	Jaime B. Santos
MSPI	Each of the years ended 31 December 2004, 2005 and 2006	SGV
NCHI	Each of the years ended 31 December 2004, 2005 and 2006	SGV

We have examined the audited financial statements of the companies comprising the Fortune Gate Group (the "Underlying Financial Statements") for the Relevant Periods, or since the respective dates of incorporation of the companies now comprising the Fortune Gate Group to 31 December 2006, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information of the Fortune Gate Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section (A), after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section (A) below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Fortune Gate Group and Fortune Gate as at 31 December 2004, 2005 and 2006, and of the combined results and cash flows of the Fortune Gate Group for the Relevant Periods.

(A) FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December		
		2004	2005	2006
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Revenue	*6*	54,571	198,911	319,224
Direct operating costs		(47,267)	(126,455)	(155,890)
Gross profit		7,304	72,456	163,334
Other income		377	1,735	14,515
General and administrative expenses		(16,402)	(41,776)	(52,804)
Other expenses		(381)	(1,019)	(3,824)
Finance costs	*8*	(36,549)	(86,727)	(103,268)
(Loss) profit before taxation		(45,651)	(55,331)	17,953
Taxation credit	*9*	1,687	7,800	10,901
(Loss) profit for the year from continuing operations		(43,964)	(47,531)	28,854
Discontinued operation				
Loss for the year from discontinued operation	*10*	(9,240)	(7,886)	(8,847)
(Loss) profit for the year	*11*	(53,204)	(55,417)	20,007
Attributable to:				
Equity holders of Fortune Gate		(27,134)	(28,263)	10,204
Minority interests		(26,070)	(27,154)	9,803
		(53,204)	(55,417)	20,007

Combined balance sheets of the Fortune Gate Group and balance sheets of Fortune Gate

		THE FORTUNE GATE GROUP			FORTUNE GATE		
		As at 31 December			As at 31 December		
		2004	2005	2006	2004	2005	2006
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets							
Property, plant and equipment	*13*	583,722	612,816	563,578	–	–	–
Investment property	*14*	334,033	339,266	404,996	–	–	–
Other assets	*15*	12,934	13,861	13,447	–	–	–
Pledged bank deposits	*19*	–	–	351,718	–	–	–
		930,689	965,943	1,333,739	–	–	–
Current assets							
Inventories	*16*	660	2,581	2,836	–	–	–
Trade receivables	*17*	7,494	41,547	29,973	–	–	–
Amount due from a related company	*18*	–	–	140	–	–	–
Other receivables, deposits and prepayments		20,067	13,483	9,862	–	–	–
Bank balances and cash	*19*	21,657	35,871	94,335	–	–	–
		49,878	93,482	137,146	–	–	–
Assets classified as held for sale	*20*	–	37,130	–	–	–	–
		49,878	130,612	137,146	–	–	–
Current liabilities							
Trade payables	*21*	1,584	7,141	5,830	–	–	–
Other payables and accrued charges		12,258	23,743	17,821	–	–	–
Amounts due to related companies	*22*	–	2,163	5,421	–	–	–
Bank borrowings – repayable within one year	*23*	40,570	146,362	34,811	–	–	–
		54,412	179,409	63,883	–	–	–
Liabilities associated with assets classified as held for sale	*20*	–	41,732	–	–	–	–
		54,412	221,141	63,883	–	–	–
Net current (liabilities) assets		(4,534)	(90,529)	73,263	–	–	–
Total assets less current liabilities		926,155	875,414	1,407,002	–	–	–
Non-current liabilities							
Amounts due to related companies	22	664,313	700,180	1,028,530	–	–	–
Bank borrowings – repayable after one year	*23*	229,898	144,561	172,474	–	–	–
Deferred tax liabilities	*24*	17,123	16,947	29,528	–	–	–
Provision for long service payment		–	289	187	–	–	–
		911,334	861,977	1,230,719	–	–	–
		14,821	13,437	176,283	–	–	–
Equity							
Share capital	*25*	–	–	–	–	–	–
Reserves		7,559	6,853	89,904	–	–	–
Minority interests		7,262	6,584	86,379	–	–	–
		14,821	13,437	176,283	–	–	–

Combined statements of changes in equity

	Attributable to equity holders of Fortune Gate						
	Share capital HK$'000	Shareholder's contribution reserve HK$'000 (note a)	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004	–	16,972	(2,625)	(11,603)	2,744	2,636	5,380
Loss for the year	–	–	–	(27,134)	(27,134)	(26,070)	(53,204)
Exchange differences arising on translation of foreign operation and income recognised directly in equity	–	–	(2,193)	–	(2,193)	(2,107)	(4,300)
Total recognised income and expense for the year	–	–	(2,193)	(27,134)	(29,327)	(28,177)	(57,504)
Deemed contribution from shareholders *(note b)*	–	45,658	–	–	45,658	43,867	89,525
Deferred tax charged to shareholders' contribution reserve	–	(11,516)	–	–	(11,516)	(11,064)	(22,580)
At 31 December 2004	–	51,114	(4,818)	(38,737)	7,559	7,262	14,821
Loss for the year	–	–	–	(28,263)	(28,263)	(27,154)	(55,417)
Exchange differences arising on translation of foreign operation	–	–	9,320	–	9,320	8,954	18,274
Deferred tax arising from unrealised foreign exchange gains *(note 24)*	–	–	(1,902)	–	(1,902)	(1,826)	(3,728)
Net income recognised directly in equity	–	–	7,418	–	7,418	7,128	14,546
Total recognised income and expense for the year	–	–	7,418	(28,263)	(20,845)	(20,026)	(40,871)
Deemed contribution from shareholders *(note b)*	–	22,775	–	–	22,775	21,881	44,656
Deferred tax charged to shareholders' contribution reserve *(note 24)*	–	(2,636)	–	–	(2,636)	(2,533)	(5,169)
At 31 December 2005	–	71,253	2,600	(67,000)	6,853	6,584	13,437
Profit for the year	–	–	–	10,204	10,204	9,803	20,007
Exchange differences arising on translation of foreign operation	–	–	18,055	–	18,055	17,348	35,403
Deferred tax arising from unrealised foreign exchange gains *(note 24)*	–	–	(4,801)	–	(4,801)	(4,611)	(9,412)
Transfer to profit or loss on disposal of foreign operation	–	–	(156)	–	(156)	(150)	(306)
Net expense recognised directly in equity	–	–	13,098	–	13,098	12,587	25,685
Total recognised income and expense for the year	–	–	13,098	10,204	23,302	22,390	45,692
Disposal of a subsidiary to a subsidiary of Chow Tai Fook Enterprises Limited ("CTF") *(note 26) (note b)*	–	13,474	–	–	13,474	12,944	26,418
Deemed contribution from shareholders *(note b)*	–	52,696	–	–	52,696	50,630	103,326
Deferred tax charged to shareholders' contribution reserve *(note 24)*	–	(6,421)	–	–	(6,421)	(6,169)	(12,590)
At 31 December 2006	–	131,002	15,698	(56,796)	89,904	86,379	176,283

Notes:

(a) The amount is consisted of deemed contribution from shareholders (net of the corresponding deferred tax, if applicable) attributable to (1) the non-current interest-free loans from related companies, and (2) the disposal of a subsidiary to a subsidiary of Chow Tai Fook Enterprises Limited ("CTF").

(b) The portion of deemed contribution from shareholders attributable to minority shareholders of Fortune Gate Subsidiaries, which is arising from interest free loans from related companies and the disposal of a subsidiary to a subsidiary of CTF (see note 26), is accounted for as equity transactions and recognized directly in equity.

Combined cash flow statements

		Year ended 31 December		
		2004	**2005**	**2006**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES				
(Loss) profit before taxation		(54,363)	(65,355)	7,049
Adjustments for:				
Interest income		(414)	(1,460)	(12,325)
Interest expenses		18,064	26,061	23,854
Depreciation and amortisation of property, plant and equipment and investment property		22,099	75,252	96,712
Loss on disposal of property, plant and equipment		80	–	–
Increase (decrease) on provision for long service payments		–	289	(102)
Imputed interest in amounts due to related companies		18,485	60,767	79,414
Operating cash flows before movements in working capital		3,951	95,554	194,602
(Increase) decrease in other assets		(5,808)	(1,032)	519
Increase in inventories		(660)	(1,921)	(255)
(Increase) decrease in trade receivables		(7,494)	(34,053)	11,574
(Increase) decrease in other receivables, deposits and prepayments		(17,143)	117	4,115
Increase (decrease) in trade payables		1,584	5,557	(1,311)
Increase (decrease) in other payables and accrued charges		10,131	11,897	(4,992)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(15,439)	76,119	204,252

		Year ended 31 December		
		2004	2005	2006
	NOTE	HK$'000	HK$'000	HK$'000
INVESTING ACTIVITIES				
Disposal of a subsidiary	26	–	–	(2,157)
Purchases of property, plant and equipment and investment property		(546,172)	(92,868)	(40,599)
Interest received		414	1,460	12,325
Repayment from (advance to) related companies		694	–	(140)
Increase in pledged bank deposits		–	–	(351,718)
NET CASH USED IN INVESTING ACTIVITIES		(545,064)	(91,408)	(382,289)
FINANCING ACTIVITIES				
Interest paid		(18,064)	(26,061)	(23,854)
Increase in amounts due to related companies		367,332	49,810	339,267
New borrowings raised		215,315	6,209	62,724
Repayment of borrowings		–	–	(146,362)
NET CASH FROM FINANCING ACTIVITIES		564,583	29,958	231,775
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,080	14,669	53,738
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		17,774	21,657	37,464
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(197)	1,138	3,133
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		21,657	37,464	94,335

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

(a) The Financial Information of the Fortune Gate Group has been prepared by applying the principles of merger accounting as set out in note 3. The combined income statements, combined statements of changes in equity and the combined cash flow statements include the results, changes in equity and cash flows of the companies comprising the Fortune Gate Group as if the group structure after the Group Reorganisation had been in existence throughout the Relevant Periods or since the respective dates of incorporation of the relevant group companies, where this is a shorter period other than FHPI of which its revenue and expenses as well as the disposed cash flows had been combined during the Relevant Periods until 30 June 2006, the date of disposal of FHPI, and Arc of Triumph Development Company Limited, which has not been equity accounted for during the Relevant Periods. Arc of Triumph Development Company Limited was not included in the Financial Information as Fortune Gate will only acquire 40% of its equity interest, which does not meet the definition of business combination under common control in the principles of merger accounting. The combined balance sheets of the Fortune Gate Group as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the Fortune Gate Group as if the group structure after the Group Reorganisation had been in existence at those dates other than FHPI of which its assets and liabilities had been combined as at 31 December 2004 and 2005, and the exclusion of Arc of Triumph Development Company Limited for the reason stated above. Details of the disposal of FHPI are set out in note 26.

During the Relevant Periods, CTF held 100% and 73% indirect equity interest in Fortune Gate and the Fortune Gate Subsidiaries, respectively. Through the Group Reorganisation, the Company will acquire 100% equity interest in Fortune Gate which in turn will hold 51% equity interest in the Fortune Gate Subsidiaries. The remaining 22% equity interest in the Fortune Gate Subsidiaries attributable to CTF will be held by another subsidiary of CTF and is accounted for as a minority interest in the Financial Information of the Fortune Gate Group.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

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

(b) The functional currency of Fortune Gate is Philippine peso ("Peso"), the currency of the primary economic environment in which the Group operates. For the purpose of the Financial Information and convenience of the Financial Information users, the results and financial position of the Fortune Gate Group are expressed in Hong Kong dollars, the presentation currency for the Financial Information.

(c) The principal activity of Fortune Gate is investment holding. The immediate holding company of Fortune Gate is Cross-Growth Co., Ltd., a company incorporated in the BVI.

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

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKAS(s)") and Hong Kong Financial Reporting Standards ("HKFRS(s)") and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. For the purposes of preparing and presenting the combined financial statements of the Relevant Periods, the Fortune Gate Group has adopted all these New HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendment and INTs that are not yet effective. The Fortune Gate Group has not early adopted these new and revised standards, amendment and INTs. The directors of Fortune Gate anticipate that the application of these new and revised standards, amendment and INTs will have impact on the presentation of operating segments but will have no material impact on how the results and financial position of the Fortune Gate Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK(IFRIC)-INT 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis in accordance with the accounting policies set out below which are in conformity with HKFRSs.

Merger accounting for business combinations under common control

The combined Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised when services are rendered.

Rental income from properties let to Philippine Amusement and Gaming Corporation ("PAGCOR") under operating leases, less franchise tax, is recognised at a certain percentage of net gaming revenue of the casino or a fixed rental amount, whichever is higher. Rental income is recognised in the income statement in the periods in which they are earned.

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment property

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight line method.

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

Non-current assets held for sale

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

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

Liabilities of the disposed group are classified as liabilities associated with assets held for sale. The liabilities are measured at fair value and this condition is regarded as met only when the sale is highly probable.

Inventories

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

Impairment

At each balance sheet date, the Fortune Gate Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Taxation

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

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

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

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

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise.

For the purpose of presenting the combined Financial Information, the assets and liabilities of the entities within the Fortune Gate Group are translated from their functional currencies to the presentation currency of Fortune Gate (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are classified as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Leases

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

The Fortune Gate Group as lessor

Rental income from operating leases to PAGCOR is recognised at a certain percentage of net gaming revenue of the casino or fixed rental amount, whichever is higher. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Fortune Gate Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Retirement benefit costs

Payments to defined contributed retirement benefit plans are charged as expenses when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Financial instruments

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

Financial assets

The Fortune Gate Group's financial assets are generally classified as loans and receivables. The accounting policy adopted in respect of the financial assets is set out below.

Loans and receivables

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

Financial liabilities and equity

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

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including bank borrowings, trade payables, other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Fortune Gate Group after deducting all of its liabilities.

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

Derecognition

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Fortune Gate Group's accounting policies which are described in note 3, the management has made the following estimates concerning future. The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months are discussed below.

Deferred income tax assets

The Fortune Gate Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income/liability will be available to allow all or part of the deferred tax assets to be utilised. Details of unused tax losses not recognised amounted to approximately HK$154,677,000 as at 31 December 2006 (see disclosed in note 24). The unused tax losses not recognised may be crystallised if the actual future profits generated are more than expected.

As at 31 December 2006, deferred tax assets of HK$4,038,000 has been recognised and offset against deferred tax liabilities. If there is no sufficient taxable income/liability available to allow all or part of deferred tax assets to be utilised, the deferred tax assets may be derecognised.

Useful lives of property, plant and equipment and investment property

The Fortune Gate Group estimated the useful lives of its property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The Fortune Gate Group reviews annually the estimated useful lives of property, plant and equipment and investment property based on factors that include asset utilisation, internal technical evaluation, technological and environmental changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property, plant and equipment and investment property would increase depreciation expense and decrease non-current assets.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Fortune Gate Group's major financial instruments include bank balances, trade receivables, other receivables, amount due from a related company, trade payables, other payables, amounts due to related companies and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several companies now comprising the Fortune Gate Group have amounts due to related companies denominated in foreign currency (United States dollars), which expose the Fortune Gate Group to foreign currency risk. The Fortune Gate Group currently does not have a foreign currency hedging policy. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Cash flow interest rate risk

The Fortune Gate Group has exposure to cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 23 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

(iii) Fair value interest rate risk

The Fortune Gate Group has exposure to fair value interest rate risk through the impact of the rate changes on short-term bank deposits and amounts due to related companies (see note 22 for details). The Fortune Gate Group currently does not have an interest rate hedging policy.

Credit risk

The Fortune Gate Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the balance sheet dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the Fortune Gate Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Fortune Gate Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Fortune Gate consider that the Fortune Gate Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Apart from the receivable from PAGCOR, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

Fortune Gate Group relies on bank borrowings and advances from related companies as a significant source of liquidity. Fortune Gate Group had net current liabilities as at 31 December 2004 and 2005. Fortune Group had net current assets of approximately HK$73,263,000 as at 31 December 2006.

Fair value

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values.

6. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue represents the amounts received and receivable for leasing of property, less franchise tax, and hotel operation during the Relevant Periods.

Business segments

For management purposes, the Fortune Gate Group is currently organised into two operating divisions – hotel and leasing. These divisions are the basis on which the Fortune Gate Group reports its primary segment information.

Principal activities are as follows:

Leasing	–	leasing of properties
Hotel	–	operation of hotel business

The Group was also involved in the tour operator business, whose principal activity is to introduce foreign guests to the casino at the hotel. The operation was discontinued on 30 June 2006 (see notes 10, 20 and 26).

Segment information about these businesses is presented below.

Combined income statement for the year ended 31 December 2004

THE FORTUNE GATE GROUP

	Leasing	**Hotel**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	49,011	5,560	–	54,571
Inter-segment sales	157	–	(157)	–
Total revenue from continuing operations	49,168	5,560	(157)	54,571

Inter-segment sales are charged at prevailing market rates.

	Leasing	**Hotel**	**Elimination**	**Total**
RESULTS				
Segment results from continuing operations	14,277	(23,381)	–	(9,104)
Unallocated corporate expenses				(375)
Other income				377
Finance costs				(36,549)
Loss before taxation from continuing operations				(45,651)
Taxation credit				1,687
Loss for the year from continuing operations				(43,964)
Loss for the year from discontinued operation – tour operation				(9,240)
Loss for the year				(53,204)

Combined balance sheet as at 31 December 2004

THE FORTUNE GATE GROUP

	Continuing operations			Discontinued operation	
	Leasing	**Hotel**	**Total**	**Tour operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	517,668	446,482	964,150	7,618	971,768
Unallocated corporate assets					8,799
Combined total assets					980,567
LIABILITIES					
Segment liabilities	1,950	11,652	13,602	234	13,836
Unallocated corporate liabilities					951,910
Combined total liabilities					965,746

Other information for the year ended 31 December 2004

THE FORTUNE GATE GROUP

	Continuing operations				Discontinued operation	
	Leasing	**Hotel**	**Unallocated**	**Total**	**Tour operator**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions of property, plant and equipment	48,599	344,225	123	392,947	264	393,211
Depreciation and amortisation	19,629	2,301	113	22,043	56	22,099

Combined income statement for the year ended 31 December 2005

THE FORTUNE GATE GROUP

	Leasing *HK$'000*	**Hotel** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	132,105	66,806	–	198,911
Inter-segment sales	542	–	(542)	–
Total revenue from continuing operations	132,647	66,806	(542)	198,911

Inter-segment sales are charged at prevailing market rates.

	Leasing *HK$'000*	**Hotel** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
RESULTS				
Segment results from continuing operations	72,659	(36,807)	–	35,852
Unallocated corporate expenses				(6,191)
Other income				1,735
Finance costs				(86,727)
Loss before taxation from continuing operations				(55,331)
Taxation credit				7,800
Loss for the year from continuing operations				(47,531)
Loss for the year from discontinued operation – tour operation				(7,886)
Loss for the year				(55,417)

Combined balance sheet as at 31 December 2005

THE FORTUNE GATE GROUP

	Continuing operations			Discontinued operation	
	Leasing *HK$'000*	**Hotel** *HK$'000*	**Total** *HK$'000*	**Tour operation** *HK$'000*	**Total** *HK$'000*
ASSETS					
Segment assets – continuing operations	536,103	510,759	1,046,862	37,130	1,083,992
Unallocated corporate assets					12,563
Combined total assets					1,096,555
LIABILITIES					
Segment liabilities	10,050	21,091	31,141	41,732	72,873
Unallocated corporate liabilities					1,010,245
Combined total liabilities					1,083,118

Other information for year ended 31 December 2005

THE FORTUNE GATE GROUP

	Continuing operations				Discontinued operation	
	Leasing *HK$'000*	**Hotel** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*	**Tour operator** *HK$'000*	**Total** *HK$'000*
Additions of property, plant and equipment	5,180	58,942	–	64,122	28,746	92,868
Depreciation and amortisation	39,456	35,716	80	75,252	–	75,252

Combined income statement for the year ended 31 December 2006

THE FORTUNE GATE GROUP

	Leasing	**Hotel**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	212,782	106,442	–	319,224
Inter-segment sales	580	–	(580)	–
Total revenue from continuing operations	213,362	106,442	(580)	319,224

Inter-segment sales are charged at prevailing market rates.

RESULTS				
Segment results from continuing operations	148,937	(31,715)	–	117,222
Unallocated corporate expenses				(10,516)
Other income				14,515
Finance costs				(103,268)
Profit before taxation from continuing operations				17,953
Taxation credit				10,901
Profit for the year from continuing operations				28,854
Loss for the year from discontinued operation – tour operation				(8,847)
Profit for the year				20,007

Combined balance sheet as at 31 December 2006

THE FORTUNE GATE GROUP

	Continuing operations			Discontinued operation	
	Leasing	**Hotel**	**Total**	**Tour operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets – continuing operations	528,298	547,075	1,075,373	–	1,075,373
Unallocated corporate assets					395,512
Combined total assets					1,470,885
LIABILITIES					
Segment liabilities	3,424	20,286	23,710	–	23,710
Unallocated corporate liabilities					1,270,892
Combined total liabilities					1,294,602

Other information for year ended 31 December 2006

THE FORTUNE GATE GROUP

	Continuing operations				Discontinued operation	
	Leasing	**Hotel**	**Unallocated**	**Total**	**Tour operator**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions of property, plant and equipment	10,493	30,106	–	40,599	–	40,599
Depreciation and amortisation	45,151	51,481	80	96,712	–	96,712

Geographical segments

The operations of the Fortune Gate Group are mainly located in the Philippines. Accordingly, no analysis of geographical segments is presented.

7. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration

There was no remuneration paid or payable to Fortune Gate for each of the three years ended 31 December 2006. None of the directors of Fortune Gate has waived any emoluments during the Relevant Periods.

Employees' remuneration

Details of remuneration for the five highest paid employees of the Fortune Gate Group for each of the three years ended 31 December 2006 are as follows:

	THE FORTUNE GATE GROUP Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	10,077	9,671	9,934
Contributions to retirement benefits schemes	94	106	111
	10,171	9,777	10,045

Their emoluments were within the following bands:

	THE FORTUNE GATE GROUP Year ended 31 December		
	2004	**2005**	**2006**
	Number of employees	*Number of employees*	*Number of employees*
Nil to HK$1,000,000	–	1	–
HK$1,000,001 to HK$1,500,000	2	2	2
HK$1,500,001 to HK$2,000,000	2	1	2
HK$4,000,001 to HK$4,500,000	1	1	1
	5	5	5

8. FINANCE COSTS

	THE FORTUNE GATE GROUP Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Interests on bank borrowings wholly repayable within five years	18,064	26,061	23,854
Imputed interest expense on non-current interest-free amounts due to related companies	18,485	60,666	79,414
	36,549	86,727	103,268

9. TAXATION CREDIT

	THE FORTUNE GATE GROUP		
	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Deferred tax credit (charge)			
Current year	1,687	8,222	10,901
Attributable to a change in tax rate	–	(422)	–
	1,687	7,800	10,901
Discontinued operation *(note 10)*			
Deferred tax (charge) credit			
Current year	(528)	2,182	2,057
Attributable to a change in tax rate	–	(44)	–
	(528)	2,138	2,057
Taxation credit	1,159	9,938	12,958

Taxation arising in the Philippines is calculated at the rates prevailing in the jurisdiction.

Pursuant to the Republic Act No. 9337 of Philippines, the corporate income tax rate increased from 32% to 35% effective on 1 November 2005. The effective tax rate applicable in year 2005 is 32.5%.

For each of the three years ended 31 December 2004, 2005 and 2006, no provision for Philippines profits tax has been made in the combined Financial Information as the subsidiaries in the Philippines either incurred tax losses or were exempted from Philippines profits tax (as explained below) during the respective years.

The taxation credit for the year can be reconciled to the (loss) profit per the combined income statement as follows:

	THE FORTUNE GATE GROUP		
	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation			
Continuing operations	(45,651)	(55,331)	17,953
Discontinued operation	(8,712)	(10,024)	(10,904)
	(54,363)	(65,355)	7,049
Taxation at the applicable tax rate of 32%, 32.5% and 35% respectively	(17,396)	(21,240)	2,467
Tax effect of expenses not deductible for tax purposes	15,532	22,195	41,223
Tax effect of income not taxable for tax purposes	(15,835)	(43,545)	(77,472)
Tax effect of tax losses and deferred tax assets not recognised	16,540	32,186	20,824
Tax effect of changes in tax rate	–	466	–
Taxation credit for the year	(1,159)	(9,938)	(12,958)

On 14 March 2003, MSPI had entered into a lease agreement with PAGCOR, a company solely owned by the Philippines Government, whereby PAGCOR leases certain gaming premises and office premises (the "Lease Agreement") from MSPI for a period of 12 years. According to the Lease Agreement, MSPI is entitled to an exemption from Philippines profits tax on the rental income received or receivable from PAGCOR.

10. DISCONTINUED OPERATION

In 2005, the directors of CTFP had resolved to dispose of FHPI to a subsidiary of CTF. FHPI carried on all of the Fortune Gate Group's tour operator business in Philippines. The disposal was completed on 30 June 2006.

The loss before taxation for the year from the discontinued operation is analysed as follows:

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Loss before taxation of tour operator business	(8,712)	(10,024)	(10,904)

The results of FHPI for each of the years ended 31 December 2004 and 2005, and the period from 1 January 2006 to 30 June 2006, which have been included in the combined income statements were as follows:

	Year ended 31 December		Six months period ended 30 June
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	–	–	–
Other income	53	23	–
General and administrative expenses	(8,765)	(9,946)	(10,904)
Imputed interest expense in amounts due to related companies	–	(101)	–
Loss before taxation	(8,712)	(10,024)	(10,904)
Taxation (charge) credit *(note 9)*	(528)	2,138	2,057
Loss for the year/period	(9,240)	(7,886)	(8,847)

No tax charge or credit arose on gain of disposal of the tour operator business.

The cash flows of FHPI for the year/period are as follows:

	Year ended 31 December		Six months period ended 30 June
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Net cash used in operating activities	(13,410)	(10,983)	(5,407)
Net cash used in investing activities	(5,445)	(22,699)	(59)
Net cash from financing activities	19,982	32,612	6,062

The carrying amounts of the assets and liabilities of FHPI as at 31 December 2005 and the date of disposal are disclosed in notes 20 and 26, respectively.

11. (LOSS) PROFIT FOR THE YEAR

	THE FORTUNE GATE GROUP		
	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):			
Auditors' remuneration			
– continuing operations	25	160	151
– discontinued operation	4	28	–
	29	188	151
Depreciation of property, plant and equipment			
– continuing operations	9,708	61,506	80,383
– discontinued operation	56	102	–
	9,764	61,608	80,383
Depreciation of investment property			
– continuing operations	12,335	13,644	16,329
Total depreciation	22,099	75,252	96,712
Net exchange (gain) loss			
– continuing operations	–	–	254
– discontinued operation	(16)	45	(11)
	(16)	45	243
Staff costs			
– continuing operations	23,062	28,367	29,255
– discontinued operation	4,927	8,350	5,839
	27,989	36,717	35,094
Retirement benefits expenses			
– continuing operations	477	319	119
– discontinued operation	–	39	29
	477	358	148
Total staff costs	28,466	37,075	35,242

	THE FORTUNE GATE GROUP		
	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Loss on disposal of property, plant and equipment			
– continuing operations	80	–	–
Operating lease payments in respect of rented premises			
– continuing operations	2,780	5,420	4,754
– discontinued operation	–	309	344
	2,780	5,729	5,098
and after crediting:			
Interest income			
– continuing operations	377	1,440	12,325
– discontinued operation	37	20	–
	414	1,460	12,325
Gross rental income from leased properties	49,011	132,105	212,782
Less: Direct operating expenses from leased properties that generated rental income	(34,734)	(59,446)	(63,845)
	14,277	72,659	148,937

12. LOSS PER SHARE

Loss per share is not presented herein as the directors of Fortune Gate do not consider such information to be meaningful in the context of the Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Leasehold improvement	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Entertain-ment equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE FORTUNE GATE GROUP								
COST								
At 1 January 2004	552,641	–	–	–	100	388	–	553,129
Exchange adjustments	(6,382)	–	–	–	–	(4)	–	(6,386)
Additions	305,762	–	–	7,029	20,914	–	59,506	393,211
Transfers	(107,986)	–	68,661	414	211	–	38,700	–
Transfer to investment property	(346,359)	–	–	–	–	–	–	(346,359)
Disposals	(40)	–	–	–	(40)	–	–	(80)
At 31 December 2004	397,636	–	68,661	7,443	21,185	384	98,206	593,515
Exchange adjustments	20,320	–	3,616	402	1,106	20	5,172	30,636
Additions	63,954	–	–	747	6,561	–	21,606	92,868
Transfer to investment property	(1,692)	–	–	–	–	–	–	(1,692)
Transfers	(354,818)	–	190,669	107,713	56,436	–	–	–
Reclassified as assets held for sales	–	–	–	–	(518)	–	(28,611)	(29,129)
At 31 December 2005	125,400	–	262,946	116,305	84,770	404	96,373	686,198
Exchange adjustments	11,035	–	21,989	9,727	7,268	34	8,060	58,113
Additions	7,289	85	14,777	7,730	6,311	–	4,407	40,599
Transfer to investment property	(56,904)	–	–	–	–	–	–	(56,904)
Transfers	(86,820)	3,839	54,475	23,665	4,841	–	–	–
At 31 December 2006	–	3,924	354,187	157,427	103,190	438	108,840	728,006
DEPRECIATION								
At 1 January 2004	–	–	–	–	4	25	–	29
Provided for the year	–	–	897	662	831	80	7,294	9,764
At 31 December 2004	–	–	897	662	835	105	7,294	9,793
Exchange adjustments	–	–	388	238	555	8	956	2,145
Provided for the year	–	–	9,639	20,243	15,468	78	16,180	61,608
Reclassified as assets held for sales	–	–	–	–	(164)	–	–	(164)
At 31 December 2005	–	–	10,924	21,143	16,694	191	24,430	73,382
Exchange adjustments	–	2	1,561	3,696	2,436	20	2,948	10,663
Provided for the year	–	45	13,713	29,038	18,256	80	19,251	80,383
At 31 December 2006	–	47	26,198	53,877	37,386	291	46,629	164,428
CARRYING VALUES								
At 31 December 2004	397,636	–	67,764	6,781	20,350	279	90,912	583,722
At 31 December 2005	125,400	–	252,022	95,162	68,076	213	71,943	612,816
At 31 December 2006	–	3,877	327,989	103,550	65,804	147	62,211	563,578

The above items of property, plant and equipment, other than construction in progress are depreciated on a straight-line basis, at the following rates per annum:

Leasehold improvements	Over the term of the leases
Buildings	Over the term of the leases
Plant and machinery	20%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%
Entertainment equipment	20%

The Fortune Gate Group's buildings situated in the Philippines are held under medium-term leases.

The construction in progress as at 31 December 2004 and 2005 represented buildings under construction which were situated in the Philippines.

The following table discloses details of certain plant and equipment of the Fortune Gate Group which were held for use under operating leases as at 31 December 2004, 2005 and 2006:

As at 31 December 2004

	Cost	**Accumulated depreciation**	**Carrying values**
	HK$'000	*HK$'000*	*HK$'000*
Entertainment equipment	98,206	7,294	90,912

As at 31 December 2005

	Cost	**Accumulated depreciation**	**Carrying values**
	HK$'000	*HK$'000*	*HK$'000*
Entertainment equipment	96,373	24,430	71,943

As at 31 December 2006

	Cost	**Accumulated depreciation**	**Carrying values**
	HK$'000	*HK$'000*	*HK$'000*
Entertainment equipment	108,840	46,629	62,211

14. INVESTMENT PROPERTY

THE FORTUNE GATE GROUP

	HK$'000
COST	
At 1 January 2004	–
Transfer from construction in progress	346,359
At 31 December 2004	346,359
Exchange adjustments	18,350
Transfer from construction in progress	1,692
At 31 December 2005	366,401
Exchange adjustments	28,195
Transfer from construction in progress	56,904
At 31 December 2006	451,500
ACCUMULATED DEPRECIATION	
At 1 January 2004	–
Exchange adjustments	(9)
Provided for the year	12,335
At 31 December 2004	12,326
Exchange adjustments	1,165
Provided for the year	13,644
At 31 December 2005	27,135
Exchange adjustments	3,040
Provided for the year	16,329
At 31 December 2006	46,504
CARRYING VALUES	
At 31 December 2004	334,033
At 31 December 2005	339,266
At 31 December 2006	404,996

The above investment property is held under a medium-term lease in the Philippines. Depreciation is provided to write off the cost of investment property over the lease term of 25 years on a straight-line basis.

The fair value of the Fortune Gate Group's investment property at 31 December 2004, 2005 and 2006 were approximately HK$1,307 million, HK$1,372 million and HK$1,443 million and the fair value has been arrived at on the basis of a valuation carried out by Sallmanns (Far East) Limited ("Sallmanns"), independent valuers not connected with the Fortune Gate Group. Sallmanns is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to both the Valuation Standards issued by Royal Institution of Chartered Surveyors and Hong Kong Institute of Surveyors, is arrived at by reference to the market evidence of transaction price for similar properties.

15. OTHER ASSETS

The amounts represent the value added tax receivables which can be utilised to set off the value added tax payables in the future. In the opinion of the directors of Fortune Gate, the amounts at each balance sheet date will not be utilised in the next twelve months since the respective balance sheet dates. According to the regulation of the Philippines, the value added tax receivables can be carried forward indefinitely.

16. INVENTORIES

The amounts represent the costs of consumables, food and beverages for the operations of the hotel business.

17. TRADE RECEIVABLES

The Fortune Gate Group allows a normal credit period ranging from 15 to 30 days to its customers. An aging analysis of the Fortune Gate Group's trade receivables at the respective balance sheet dates is as follows:

	THE FORTUNE GATE GROUP		
	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	7,410	37,260	28,753
31 – 60 days	84	2,617	1,059
61 – 90 days	–	1,219	68
Over 90 days	–	451	93
	7,494	41,547	29,973

18. AMOUNT DUE FROM A RELATED COMPANY

As at 31 December 2006, the amount represented amount due from FHPI, which is unsecured, interest free and have no fixed repayment terms. FHPI was disposed of to a subsidiary of CTF on 30 June 2006.

19. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposit, bank balances and cash comprise cash held by the Fortune Gate Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carried annual interest rates ranging from 0.8% to 0.93%, from 0.8% to 0.93% and from 0.9% to 5.1% for each of the three years ended 31 December 2006, respectively. Pledged bank deposits are pledged for the bank borrowings disclosed in note 23.

20. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The amount as at 31 December 2005 represented the assets and liabilities attributable to the operation of FHPI, which were expected to be sold within twelve months from 31 December 2005, and were presented separately in the combined balance sheet.

The disposal of FHPI was completed on 30 June 2006.

The major classes of assets and liabilities comprising the disposal group classified as held for sale as at 31 December 2005 are as follows:

	THE FORTUNE GATE GROUP As at 31 December 2005 *HK$'000*
Property, plant and equipment	28,965
Other assets	105
Other receivables, deposits and prepayments	6,467
Bank balances and cash	1,593
Total assets classified as held for sale	37,130
Other payables and accrued charges	412
Amounts due to related companies	41,320
Total liabilities associated with assets classified as held for sale	41,732

The impact of FHPI on the results and cash flows of the Fortune Gate Group during the Relevant Periods is disclosed in note 10.

21. TRADE PAYABLES

An aging analysis of the Fortune Gate Group's trade payables at the respective balance sheet dates is as follows:

	THE FORTUNE GATE GROUP		
	As at 31 December		
	2004 *HK$'000*	**2005** *HK$'000*	**2006** *HK$'000*
0 – 30 days	732	7,141	5,578
31 – 60 days	661	–	252
61 – 90 days	65	–	–
Over 90 days	126	–	–
	1,584	7,141	5,830

22. AMOUNTS DUE TO RELATED COMPANIES

	THE FORTUNE GATE GROUP As at 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
CTF	377,973	378,025	385,058
Chow Tai Fook Nominee Limited ("CTFN")	23	22	23
Double Delights Enterprises Limited ("DDE")	283,695	322,133	643,449
Harbour View Properties and Holdings Inc. ("HVPH")	1,246	1,119	1,149
Pacific Bayview Properties, Inc. ("PBPI")	1,362	1,044	4,272
Blue Marine Properties, Inc. ("BMPI")	14	–	–
	664,313	702,343	1,033,951
Less: Amounts due within one year shown under current liabilities	–	(2,163)	(5,421)
Amounts due after one year	664,313	700,180	1,028,530

As at 31 December 2004, the amounts due to CTFN, DDE and BMPI were unsecured, interest free and not repayable within the next twenty-four months from 31 December 2004. As at 31 December 2005, the amounts due to CTFN and DDE were unsecured, interest free and not repayable within the next twelve months from 31 December 2005. As at 31 December 2006, the amounts due to CTFN and DDE were unsecured, interest free and not repayable within the next twelve months from 31 December 2006. As at 31 December 2004, 2005 and 2006, the amount due to CTF was unsecured, interest free and not repayable within the next twelve months from the respective balance sheet date.

As at 31 December 2004, the amounts due to HVPH and PBPI were unsecured, interest free and not repayable within the next twelve months from 31 December 2004. As at 31 December 2005 and 2006, the amounts due to HVPH and PBPI were unsecured, interest free and have no fixed repayment terms.

CTFN, DDE and Fortune Gate have the same ultimate holding company. As confirmed by the directors of Fortune Gate, the shareholders with significant voting power of HVPH, BMPI and PBPI are close members of the family of a key management personnel of Fortune Gate. The fair value of the amounts due to related companies are determined based on effective interest rates ranging from 8.82% to 12.80% per annum on initial recognition.

The advances from related companies that are denominated in Hong Kong dollars, which is other than the functional currency of the individual group entities, are set out below:

	THE FORTUNE GATE GROUP As at 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
CTF	46	46	408
CTFN	3	3	23
	49	49	431

23. BANK BORROWINGS

	THE FORTUNE GATE GROUP As at 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans	–	–	207,285
Unsecured bank loans	270,468	290,923	–
	270,468	290,923	207,285
Carrying amount repayable:			
On demand or within one year	40,570	146,362	34,811
More than one year but not exceeding two years	229,898	32,124	52,217
More than two years but not more than five years	–	112,437	120,257
	270,468	290,923	207,285
Less: Amounts due within one year shown under current liabilities	(40,570)	(146,362)	(34,811)
Amounts due after one year	229,898	144,561	172,474

As at 31 December 2004 and 2005, the unsecured bank loans of the Fortune Gate Group were under the guarantee of letters of credit issued by two banks in Hong Kong. The letters of credit were secured by a pledge of CTFN's deposits of approximately US$62 million. These loans bore interest at an average rate of 10% per annum.

As at 31 December 2006, the unsecured bank loans of the Fortune Gate Group were under the guarantee of letters of credit issued by a bank in Hong Kong. The letters of credit were secured by a pledge of Starcharm's deposits of approximately US$44 million. These loans bore interest at an average rate of 10% per annum.

The ranges of effective interest rates (which also equal to contracted interest rates) on the borrowings of the Fortune Gate Group are as follows:

	2004	2005	2006
Effective interest rate per annum:			
Variable-rate borrowings	8.94% to 9.84%	7.76% to 10.32%	7.56% to 10.32%

24. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movement thereon during the Relevant Periods.

	Unamortised imputed interest of non-interest bearing loans	Unrealised foreign exchange losses (gains)	Others	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE FORTUNE GATE GROUP					
At 1 January 2004	–	1,597	1,858	890	4,345
(Charge) credit to combined income statement for the year	–	(1,592)	(1,626)	4,377	1,159
Exchange adjustments	–	(17)	(20)	(10)	(47)
Charge to equity for the year	(22,580)	–	–	–	(22,580)
At 31 December 2004	(22,580)	(12)	212	5,257	(17,123)
Credit (charge) to combined income statement for the year	11,180	–	542	(1,318)	10,404
Exchange adjustments	(708)	(198)	27	14	(865)
Charge to equity for the year	(5,169)	(3,728)	–	–	(8,897)
Effect of change in tax rate	(609)	–	6	137	(466)
At 31 December 2005	(17,886)	(3,938)	787	4,090	(16,947)
Credit (charge) to combined income statement for the year	13,904	–	(769)	(177)	12,958
Exchange adjustments	(2,875)	(769)	53	54	(3,537)
Charge to equity for the year	(12,590)	(9,412)	–	–	(22,002)
At 31 December 2006	(19,447)	(14,119)	71	3,967	(29,528)

At 31 December 2004, 2005 and 2006, the Fortune Gate Group had unused tax losses of approximately HK$53,244,000, HK$135,774,000 and HK$166,011,000 available for offset against future profits respectively. A deferred tax asset has been recognised in respect of such losses amounting to HK$16,428,000, HK$12,585,000 and HK$11,334,000 as at 31 December 2004, 2005 and 2006. No deferred tax asset has been recognised in respect of the remaining HK$36,816,000, HK$123,189,000 and HK$154,677,000 as at 31 December 2004, 2005 and 2006 respectively due to the unpredictability of future profit streams.

At 31 December 2004, 2005 and 2006, the Group had deductible temporary differences of approximately HK$14,871,000, HK$27,532,000 and HK$39,697,000 respectively. No deferred tax assets has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The tax losses in Philippines can be carried forward for three years only according to the tax legislation in Philippines, the tax losses will be expired as follows.

	2005	2006	2007	2008	2009	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2004	–	2,812	50,432	–	–	53,244
As at 31 December 2005	–	2,812	50,432	82,530	–	135,774
As at 31 December 2006	–	–	50,432	82,530	33,049	166,011

25. SHARE CAPITAL

Fortune Gate was incorporated in BVI on 8 November 2004 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share of US$1 was issued nil paid to the subscriber on date of incorporation.

For the purpose of this report, the share capital of the Fortune Gate Group as at 31 December 2004, 2005 and 2006 represented the aggregate share capital of Fortune Gate, Flexi-Deliver, Starcharm and Pride Ever. Each company has issued and fully paid share capital of US$1 at each balance sheet date.

26. DISPOSAL OF A SUBSIDIARY

As set out in note 10, on 30 June 2006, the Fortune Gate Group disposed of its subsidiary, FHPI, to DDE, a subsidiary of CTF, for a consideration of Peso 100,000.

The net liabilities of FHPI at the date of disposal were as follows:

	30 June 2006 *HK$'000*
NET LIABILITIES DISPOSED OF	
Property, plant and equipment	28,771
Other receivables, deposits and prepayments	5,973
Bank balances and cash	2,171
Other payables and accrued charges	(1,342)
Amounts due to related companies	(61,671)
	(26,098)
Exchange gain credited to translation reserve realised	(306)
	(26,404)
Contribution by equity holders attributable to:	
Shareholders of Fortune Gate	13,474
Minority interests	12,944
Total consideration – satisfied by cash	14
Net cash outflow arising on disposal:	
Cash consideration	14
Bank balances and cash disposed of	(2,171)
	(2,157)

The contribution of FHPI to the Fortune Gate Group's results and cash flows during the Relevant Periods is disclosed in note 10.

27. CONTINGENT LIABILITIES

As at 31 December 2004, 2005 and 2006, the Fortune Gate Group and Fortune Gate had no significant contingent liabilities.

28. OPERATING LEASES

The Fortune Gate Group as lessor

On 14 March 2003, MSPI signed a contract with PAGCOR to lease equipped gaming premises and office premises for a period of twelve years commencing from 31 March 2004. The monthly rental would be based on a certain percentage of net gaming revenue of the casino operated by PAGCOR or a fixed rental amount, whichever is higher. Casino rental income earned during each of the three years ended 31 December 2006 was HK$49,011,000, HK$132,105,000 and HK$212,782,000, respectively.

PAGCOR is chartered under Presidential Decore No. 1869, as amended ("PAGCOR Charter") to operate the casino in the Philippines. The PAGCOR Charter is currently due to expire on 10 July 2008. The entire legislative procedure for the charter extension had not yet been completed, which includes, amongst other things, approval of the extension by the Senate and the President of the Philippines. If the renewal of the PAGCOR Charter is not approved by the President of the Philippines, the lease between the Fortune Gate Group and PAGCOR in respect of the casino at the Fortune Gate Group's property will expire on 10 July 2008 (and not on expiry of the 12 year term envisaged in the lease).

The Fortune Gate Group as lessee

At the balance sheet dates, the Fortune Gate Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leasehold land, condominium units, office premises and staff quarters which fall due as follows:

	THE FORTUNE GATE GROUP		
	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	4,683	4,758	5,098
In the second to fifth year inclusive	18,733	19,033	20,391
Over five years	88,719	85,384	86,379
	112,135	109,175	111,868

Leases are negotiated for an average term of 20 years.

Fortune Gate did not have any operating lease commitments as at 31 December 2004, 2005 and 2006.

29. COMMITMENTS

(a) Capital commitments

	THE FORTUNE GATE GROUP		
	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the combined Financial Information	8,239	2,616	282

Fortune Gate did not have any capital commitments as at 31 December 2004, 2005 and 2006.

(b) Other commitments

(i) On 12 December 2003, NCHI entered into a license agreement with Hotel Project Systems, Pte. Limited ("HPSL"), a wholly-owned subsidiary of Hyatt International Corporation, to lease the technology and know-how of hotel technical systems and related services, and license the name "Hyatt" and related trademarks for use in the hotel to be owned by NCHI. In consideration thereof, NCHI will pay a royalty during the operating term based on a certain percentage of the gross operating profit. The license agreement is effective for an initial term from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HPSL"). NCHI and HPSL will each have the option to extend the agreement for an additional period of five years after the Initial Period of HPSL, and thereafter for another additional period of three years. For the year ended 31 December 2004, there was no royalty charge paid by NCHI. For each of the two years ended 31 December 2005 and 2006, the royalty charges paid by NCHI were approximately HK$284,000 and HK$707,000 respectively.

(ii) On 12 December 2003, NCHI entered into a sale and marketing agreement with Hyatt International – SEA (Pte) Limited ("HISPL"), a wholly owned subsidiary of Hyatt International Corporation, pursuant to which HISPL agreed to provide (a) appropriate sale and marketing services and (b) advertising and promotional services for the hotel operation. In consideration thereof, HISPL will be entitled to receive a certain percentage of the total revenue of the hotel operation as a sale and marketing fee. The agreement is effective from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HISPL"). NCHI and HISPI will each have the option to extend the agreements for an additional period of five years after the Initial Period of HISPL, and thereafter for another additional period of three years. For each of the three years ended 31 December 2006, the sale and marketing fee paid or payable amounted to approximately HK$680,000, HK$1,335,000 and HK$1,773,000 respectively.

30. RETIREMENT BENEFITS SCHEME

According to the regulations of the Philippines, subsidiaries of Fortune Gate incorporated in the Philippines are required to make contributions to long service payment for employees who have provided at least five years services to the subsidiaries. The Fortune Gate Group has not joined any retirement benefits scheme for long service payment as all of its employees have been employed for less than five years, the provision has been made during the Relevant Periods based on management estimation of the expected obligation.

In addition, the Fortune Gate Group operates a defined contribution retirement benefit plans for several executive employees and the assets of the plans are held separately from those of the Fortune Gate Group, in funds under the control of trustees. The only obligation of the Fortune Gate Group with respect of the defined contribution retirement benefit plans is to make the specific contributions.

31. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related companies as set out on the combined balance sheets and the related party transactions as disclosed in notes 18, 22, 23 and 26, the Group had the following related party transactions during the Relevant Periods:

		THE FORTUNE GATE GROUP		
		Year ended 31 December		
Name of related company	**Nature of transaction**	**2004**	**2005**	**2006**
		HK$'000	*HK$'000*	*HK$'000*
Hip Hing Construction Company Limited *(Note i)*	Project management fee and purchase of construction materials	20,024	5,965	–
Extensive Trading Co. Ltd. *(Note i)*	Purchase of construction materials	180	–	–
New Waly Interior Products Ltd. *(Note i)*	Purchase of construction materials	1,174	103	–
Tennyson Co. Ltd. *(Note i)*	Purchase of construction materials	474	–	–
Far East Engineering Co. Ltd. *(Note i)*	Provision of mechanical and electrical installation services	–	–	–
HK Island Landscape Co. Ltd. *(Note i)*	Provision of landscape consultancy services	84	17	–
New World Development Company Limited *(Note i)*	Provision of rental services	275	62	–
PBPI *(Note ii)*	Provision of rental services	314	3,531	3,783
HVPH *(Note ii)*	Provision of rental services	1,069	1,227	1,315

Notes:

(i) These related companies and Fortune Gate are subsidiaries of CTF.

(ii) The shareholders of these related companies are close members of the family of a key management of Fortune Gate.

Compensation of key management personnel

The remuneration of the key management personnel during the Relevant Periods was as follows:

	THE FORTUNE GATE GROUP		
	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Short-term benefits	14,394	15,477	17,032

32. ULTIMATE HOLDING COMPANY

The directors of Fortune Gate regard Cheng Yu Tung Family (Holdings) Limited, a company incorporated in Hong Kong with limited liability, as its ultimate holding company.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Fortune Gate or any of the companies now comprising the Fortune Gate Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong:

Deloitte.
德勤

29 June 2007

To the Board of Directors
International Entertainment Corporation
Taifook Capital Limited
Somerley Limited

Dear Sirs,

We set out below our report on the financial information regarding to Arc of Triumph Development Company Limited ("ATD") (formerly known as Tong Ieong Development Company Limited) for each of the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods"), for inclusion in the circular of International Entertainment Corporation (the "Company") dated 29 June 2007 (the "Circular") in connection with, inter alia, the acquisition of a 40% issued share capital of ATD.

ATD was incorporated and registered in the Macau Special Administrative Region ("Macau") as an exempted company with limited liability on 7 September 2000. Through a group reorganisation as described in the section headed "Corporate reorganisation of the Acquired Interests" in Appendix IX to the Circular (the "Group Reorganisation"), ATD will become an associate of the Company.

ATD's principal asset is a piece of land in Macau. ATD has obtained approval for the development of the land. According to the current development plan, ATD intends to build a hotel, residential and commercial complex with casino facilities on such land. The construction is expected to be completed in 2008.

We have acted as auditors of ATD for the Relevant Periods. The audited financial statements of ATD for the Relevant Periods were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have examined the audited financial statements of ATD for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The preparation of the audited financial statements of ATD for the Relevant Periods (the "Underlying Financial Statements") is the responsibility of the directors of ATD who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of ATD as at 31 December 2004, 2005 and 2006 and of the results and cash flows of ATD for the Relevant Periods.

(A) FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue		–	–	–
Other income		–	–	442
General and administrative expenses		(6,539)	(94)	(213)
Finance costs	*7*	–	–	–
(Loss) profit before taxation	*8*	(6,539)	(94)	229
Income tax expense	*10*	–	–	–
(Loss) profit for the year		(6,539)	(94)	229

BALANCE SHEETS

		As at 31 December		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*13*	8,282	85,230	203,570
Prepaid lease payments	*14*	15,037	11,806	23,711
Pledged bank deposits	*17*	–	–	76,048
		23,319	97,036	303,329
Current assets				
Property under development for sales	*15*	–	38,848	169,139
Other receivables and deposits	*16*	208	208	7,901
Prepaid lease payments	*14*	669	856	3,150
Bank balances	*17*	10,002	16,583	96,192
		10,879	56,495	276,382
Current liabilities				
Accruals and other payables	*18*	20	56	679
Deposits received on sales of properties		–	–	90,420
Construction cost payables	*19*	–	53,880	67,552
Amount due to a related company	*20*	–	–	4,099
Amount due to a director	*21*	6,505	–	–
		6,525	53,936	162,750
Net current assets		4,354	2,559	113,632
		27,673	99,595	416,961
Capital and reserves				
Share capital	*22*	175	175	175
Reserves		(7,465)	164	18,233
Total equity		(7,290)	339	18,408
Non-current liabilities				
Bank borrowings – repayable after one year	*23*	–	–	190,905
Amounts due to shareholders	*24*	34,754	97,994	203,953
Deferred tax liabilities	*25*	209	1,262	3,695
		34,963	99,256	398,553
		27,673	99,595	416,961

CASH FLOW STATEMENTS

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation before movements in working capital	(6,539)	(94)	229
Adjustments for:			
Interest income	–	–	(339)
Depreciation on property, plant and equipment	–	–	4
Operating cash flows before movements in working capital	(6,539)	(94)	(106)
Increase in properties under development for sales	–	–	(123,922)
Increase in other receivables and deposits	–	–	(7,693)
(Decrease) increase in accruals and other payables	(95)	36	623
Increase in deposits received on sales of properties	–	–	90,420
NET CASH USED IN OPERATING ACTIVITIES	(6,634)	(58)	(40,678)
INVESTING ACTIVITIES			
Land premium paid	(3,106)	(3,106)	(17,349)
Construction costs paid	(467)	(52,847)	(94,248)
Purchase of property, plant and equipment	–	–	(20)
Interest received	–	–	339
Increase in pledged bank deposits	–	–	(76,048)
NET CASH USED IN INVESTING ACTIVITIES	(3,573)	(55,953)	(187,326)
FINANCING ACTIVITIES			
New bank loans raised	–	–	190,905
Increase in amount due to a related company	–	–	4,099
Increase in amounts due to shareholders	13,650	69,097	114,145
Increase (decrease) in amount due to a director	6,505	(6,505)	–
Interest paid	–	–	(1,536)
NET CASH FROM FINANCING ACTIVITIES	20,155	62,592	307,613
INCREASE IN CASH AND CASH EQUIVALENTS	9,948	6,581	79,609
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	54	10,002	16,583
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances	10,002	16,583	96,192

STATEMENTS OF CHANGES IN EQUITY

The statements of changes in equity for the year ended 31 December 2004, 2005 and 2006 are set out below:

	Share capital	Shareholders' contribution reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	175	290	(2,745)	(2,280)
Loss for the year and total expenses recognised	–	–	(6,539)	(6,539)
Deemed contribution from shareholders	–	1,738	–	1,738
Deferred tax charged to shareholders' contribution	–	(209)	–	(209)
At 31 December 2004	175	1,819	(9,284)	(7,290)
Loss for the year and total expenses recognised	–	–	(94)	(94)
Deemed contribution from shareholders	–	8,776	–	8,776
Deferred tax charged to shareholders' contribution	–	(1,053)	–	(1,053)
At 31 December 2005	175	9,542	(9,378)	339
Profit for the year and total income recognised	–	–	229	229
Deemed contribution from shareholders	–	20,273	–	20,273
Deferred tax charged to shareholders' contribution	–	(2,433)	–	(2,433)
At 31 December 2006	175	27,382	(9,149)	18,408

Shareholders' contribution reserve represents the fair value adjustment of amounts due to shareholders classified under non-current liabilities.

(B) NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The financial information is presented in Hong Kong dollars, which is different from the functional currency of ATD, i.e. Macau Pataca ("MOP"), because the management of ATD considers that, for the purpose of the Circular, Hong Kong dollars is preferable in presenting the performance and financial position of ATD.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)") and Interpretations ("INT(s)") (herein collectively referred to as "New HKFRSs") which are effective for accounting period beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. For the purpose of preparing and presenting financial information of the Relevant Periods, ATD has adopted all these New HKFRSs consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendment and INTs that are not yet effective. ATD has not early adopted these new standards, amendment and INTs. The directors of the ATD anticipate that the application of these new and revised standards, amendment and INTs will have no material impact on how the results and financial position of the ATD are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK(IFRIC)-INT 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost basis except for certain financial instruments which are measured at fair values.

The financial information has been prepared in accordance with accounting policies which conform with HKFRS. The principal accounting policies adopted are as follows:

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included and is recognised in the income statement in the year in which the item is derecognised.

Properties under development for sales

Properties under development for sales are stated at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized, less applicable selling expenses and the anticipated costs to completion.

Development cost of property comprises construction costs, borrowing costs capitalized according to ATD's accounting policy and direct costs incurred during the development period. On completion, the properties are transferred to properties held for sale.

Impairment

At each balance sheet date, ATD reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible.

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

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

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

Foreign currencies

The functional currency of ATD is MOP. For the purpose of the financial information, the results and financial position of ATD are presented in Hong Kong dollars.

In preparing the financial information of ATD, transactions in currencies other than the functional currency of ATD (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which ATD operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the year.

For the purpose of presenting the financial information, the assets and liabilities of ATD (including comparatives) are translated into the presentation currency (i.e. Hong Kong dollars) using exchange rates prevailing on the balance sheet date and the income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are classified as a separate component of equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Leasehold land under development for future owner-occupied purpose

When the leasehold land are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction.

Leasing

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

ATD as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Financial instruments

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

Financial assets

ATD's financial assets are mainly loans and receivables. The accounting policy is set out below.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of ATD after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including construction cost payables, amount due to a related company, amount due to a director, bank borrowings and amounts due to shareholders are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the ATD's accounting policies which are described in note 3, the key assumptions concerning the key sources of estimation uncertainty at the balance sheet dates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Valuation of property under development for sales

Property under development for sales are stated at the lower of the cost or net realisable value. The estimated net realisable value is estimated selling price less selling expenses and estimated cost of completion (if any), which are estimated based on best available information. The valuation of property under development for sales will be affected by the fluctuation of market value in the future.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

ATD's major financial instruments include other receivables, pledged bank deposits, bank balances, other payables, construction cost payables, amount due to a related company, amount due to a director, bank borrowings and amounts due to shareholders. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

ATD's bank balances and bank borrowings have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and bank borrowings which are carried at prevailing market interest rates.

ATD's fair value interest rate risk relates primarily to the non-interest bearing borrowings due to shareholders.

Credit risk

ATD's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

ATD's concentration of credit risk by geographical location is mainly in Macau. ATD's bank deposits mainly placed in banks with high credit rating.

Fair value

The fair value of financial assets and financial liabilities carried at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial information approximate their fair values.

6. SEGMENT INFORMATION

For management purposes, ATD is currently organised into two operating divisions – property development and hotel and casino business. These divisions are the basis on which ATD reports its primary segment information.

Principal activities are as follows:

Property development	–	developing and selling of properties in Macau
Hotel and casino business	–	operating of a hotel and casino in Macau

Segment information about these businesses is presented below.

Balance sheet

	As at 31 December 2004		
	Property development	**Hotel and casino business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	–	24,196	24,196
Unallocated corporate assets			10,002
Total assets			34,198
Liabilities			
Unallocated corporate liabilities and total liabilities			41,488

Other information

	For the year ended 31 December 2004		
	Property development	**Hotel and casino business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Additions to property, plant and equipment	–	1,426	1,426
Amortisation of prepaid lease payments	–	669	669

Balance sheet

	As at 31 December 2005		
	Property development	**Hotel and casino business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	38,848	97,892	136,740
Unallocated corporate assets			16,791
Total assets			153,531
Liabilities			
Unallocated corporate liabilities and total liabilities			153,192

Other information

	For the year ended 31 December 2005		
	Property development	**Hotel and casino business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Additions to property, plant and equipment	–	109,950	109,950
Amortisation of prepaid lease payments	–	304	304

Balance sheet

	As at 31 December 2006		
	Property development	**Hotel and casino business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	169,139	230,431	399,570
Unallocated corporate assets			180,141
Total assets			579,711
Liabilities			
Unallocated corporate liabilities and total liabilities			561,303

Other information

	For the year ended 31 December 2006			
	Property development	**Hotel and casino business**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to property, plant and equipment	–	118,324	20	118,344
Amortisation of prepaid lease payments	–	3,150	–	3,150

ATD has not yet commenced business, an analysis of revenue and operating results of ATD is not presented.

All significant identifiable assets and liabilities of ATD are located in Macau. Accordingly, no geographical segmental analysis is presented.

7. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Imputed interest on amounts due to shareholders	290	2,919	12,087
Interest expense on amount due to a related company	–	–	957
Interest expenses on bank borrowings	–	–	579
Total	290	2,919	13,623
Less:			
Amount capitalised in construction in progress	(290)	(2,090)	(7,254)
Amount capitalised in property under development for sales	–	829	(6,369)
	–	–	–

8. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation has been arrived at after charging (crediting):			
Auditors' remuneration	19	19	56
Directors' remuneration	–	–	–
Depreciation of property, plant and equipment	–	–	4
Net exchange loss	–	22	34
Bank interest income	–	–	(339)
Amortisation of prepaid lease payments	669	304	3,150
Less: Amount capitalised in construction in progress	(669)	(304)	(3,150)
	–	–	–

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

There were no directors' and employees' remuneration for ATD for the year ended 31 December 2004, 2005 and 2006.

10. INCOME TAX EXPENSE

Macau Profits Tax is calculated at 12% on taxable profits for each of the three years ended 31 December 2006.

No provision for taxation was made as there was no assessable income arising during the Relevant Periods.

The Macau Profits Tax provision for the year can be reconciled to the (loss) profit per the income statement as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(6,539)	(94)	229
Taxation at the domestic income tax rate of 12%	(785)	(11)	27
Tax effect of income not taxable for tax purpose	–	–	(42)
Tax effect of expenses not deductible for tax purpose	785	11	15
Taxation for the year	–	–	–

11. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2004, 2005 and 2006, nor has any dividend been proposed since the balance sheet date.

12. (LOSS) PROFIT PER SHARE

(Loss) profit per share is not presented herein as such information is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Office equipment HK$'000	Total HK$'000
COST			
At 1 January 2004	6,856	–	6,856
Additions	1,426	–	1,426
At 31 December 2004	8,282	–	8,282
Additions	109,950	–	109,950
Transfer to properties under development for sales	(33,002)	–	(33,002)
At 31 December 2005	85,230	–	85,230
Additions	118,324	20	118,344
At 31 December 2006	203,554	20	203,574
DEPRECIATION			
At 1 January 2004, 31 December 2004 and 31 December 2005	–	–	–
Provided for the year	–	4	4
At 31 December 2006	–	4	4
CARRYING VALUES			
At 31 December 2004	8,282	–	8,282
At 31 December 2005	85,230	–	85,230
At 31 December 2006	203,554	16	203,570

The above items of property, plant and equipment are depreciated on a straight line basis at the following rate per annum:

Office equipment 20%

The construction in progress represents buildings under construction which are situated in Macau.

Included in the cost of construction in progress is net interest capitalised of approximately HK$2,472,000, HK$3,859,000 and HK$10,125,000 at 31 December 2004, 2005 and 2006 respectively.

14. PREPAID LEASE PAYMENTS

	As at 31 December		
	2004 HK$'000	2005 HK$'000	2006 HK$'000
Leasehold land in Macau under medium term leases	15,706	12,662	26,861
Analysed for reporting purposes as:			
Non-current asset	15,037	11,806	23,711
Current asset	669	856	3,150
	15,706	12,662	26,861

15. PROPERTIES UNDER DEVELOPMENT FOR SALES

The properties under development for sales situated on land use rights in Macau are held under medium term leases and will not be realised within twelve months from the respective balance sheet dates.

Included in the cost of properties under development for sales is net interest capitalised of approximately HK$1,532,000 and HK$8,889,000 at 31 December 2005 and 2006 respectively.

16. OTHER RECEIVABLES AND DEPOSITS

Other receivables and deposits at the balance sheet dates comprise mainly amounts receivable from third parties.

17. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged bank deposits represent deposits pledged to bank to secure banking facilities granted to ATD. For the year ended 31 December 2006, the pledged bank deposits carry effective interest rate of 3.13%. As the banking facilities granted to ATD are not wholly repayable within the next twelve months, the pledged bank deposits were classified as non-current assets.

Bank balances comprise short-term bank deposits carrying interest at market rates, which range from 2.25% to 2.56%, with an original maturity of three months or less.

18. ACCRUALS AND OTHER PAYABLES

Accruals and other payables principally comprise amounts outstanding for ongoing costs.

19. CONSTRUCTION COST PAYABLES

Included in the construction cost payables, approximately HK$17,413,000 and HK$44,776,000 are due to a related company, Hip Hing Engineering (Macau) Co. Ltd. ("Hip Hing"), as at 31 December 2005 and 2006 respectively.

20. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest bearing at Hong Kong interbank offer rate (the "HIBOR") per annum and repayable on demand.

21. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest free and repayable on demand. The amount was fully settled during the year ended 31 December 2005.

22. SHARE CAPITAL

Quota shares of MOP1 each	*MOP'000*
Authorised:	
At 1 January 2004, 31 December 2004, 31 December 2005 and 31 December 2006	180
Issued and fully paid:	
At 1 January 2004, 31 December 2004, 31 December 2005 and 31 December 2006	180
Shown in the financial information as	HK$175,000

23. BANK BORROWINGS

	As at 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans, repayable more than two years but not more than five years	–	–	190,905

On 31 August 2006, ATD entered into a facility agreement with various banks for a term loan facility in an aggregate amount equal to HK$1,500,000,000. The secured bank loans of ATD are variable-rate borrowings that carry interests at HIBOR plus 0.7% during the year ended 31 December 2006 and are repayable in full on the final maturity date as stipulated in the facility agreement. All of ATD's borrowings are denominated in Hong Kong dollars.

At 31 December 2006, ATD had undrawn borrowing facility amounting to HK$1,309,095,000 with floating rate that will expire after one year.

The effective interest rates on ATD's bank borrowings are also equal to contracted interest rates.

24. AMOUNTS DUE TO SHAREHOLDERS

The amounts are unsecured and interest free. The shareholders have confirmed that the amounts will not be repaid within the next twelve months as at each balance sheet date. The fair value of the amounts due to shareholders are determined based on the comparable market interest rates on initial recognition as at 31 December 2004, 2005 and 2006 respectively. At 31 December 2004, 2005 and 2006, the effective interest rates of the amounts due to shareholders were 5.00%, 7.75% and 7.75% respectively.

Pursuant to the subordination agreement dated 6 September 2006 entered into between the Company, the shareholders and the security agent of the secured bank loans, the amounts due to shareholders are subordinated in claim and right to the secured bank loans as set out in note 23.

25. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movement thereon during the three years.

	Imputed interest of non-interest bearing amounts due to shareholders
	HK$'000
At 1 January 2004	–
Charge to equity for the year	209
At 31 December 2004	209
Charge to equity for the year	1,053
At 31 December 2005	1,262
Charge to equity for the year	2,433
At 31 December 2006	3,695

26. PLEDGE OF ASSETS

At 31 December 2006, the bank loans were secured by:

(a) pledged bank deposits with a carrying value of approximately HK$76,048,000;

(b) mortgage of leasehold land in Macau with an aggregate carrying value of approximately HK$53,825,000, of which approximately HK$26,861,000 and HK$26,964,000 had been included in prepaid lease payments and property under development for sales respectively;

(c) the entire issued quota shares of ATD;

(d) floating charge over all of ATD's assets; and

(e) assignment of the revenues, rights and benefits in connection with the development of the leasehold land for construction in progress and property under development for sales.

27. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2004, an amount of approximately HK$16,745,000 included in other payables representing an advance from an individual to ATD was assigned to the shareholders of ATD.

During the year ended 31 December 2005, ATD transferred approximately HK$33,002,000 and HK$5,846,000 from construction in progress and prepaid lease payments to property under development for sales respectively.

28. CONTINGENT LIABILITIES

As at 31 December 2004, 2005 and 2006, ATD had no significant contingent liabilities.

29. COMMITMENTS

Pursuant to the Gazette dated 13 August 2003 issued by the Government of Macau, ATD is required to pay annual rates for the use of the leasehold land included in prepaid lease payments and property under development for sales. During the construction period, the annual rental is approximately MOP214,000 (equivalent to HK$208,000). The construction period is limited to 6 years from 13 August 2003. Upon completion of the construction, the annual rates will be calculated based on the gross construction area on the following amount per a square meter:

(a) residential property, car park and open area: MOP10 and

(b) commercial property and hotel: MOP15.

Based on the aforesaid, at the balance sheet date, ATD had outstanding commitments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	208	208	208
In the second to fifth year inclusive	1,508	3,279	5,049
After five years	36,817	34,840	32,862
	38,533	38,327	38,119

Other commitments

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	3,106	22,184	42,538
In the second to fifth year inclusive	9,319	17,499	71,842
	12,425	39,683	114,380

Other commitments represent land use right payable by ATD for the use of leasehold land situated in Macau.

30. CONSTRUCTION COMMITMENTS

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Construction commitment contracted for but not provided in respect of the acquisition of property, plant and equipment and property under development for sales	561	21,308	14,621
Construction commitment authorised but not contracted for in respect of the acquisition of property, plant and equipment and property under development for sales	–	21,882	30,282

31. RELATED PARTY TRANSACTIONS

The balances with a related company, a director and shareholders are set out on the balance sheets on page V-3. The terms are set out in notes 20, 21 and 24 respectively.

During the year ended 31 December 2006, ATD paid interest expenses of approximately HK$957,000 and loan arrangement fee of approximately HK$126,000 to Chow Tai Fook Jewellery Co. Ltd., a related company. Such interest expenses and loan arrangement fee were capitalised in the construction in progress and property under development for sales.

During the year ended 31 December 2005 and 2006, ATD gave construction contracts with total sums of approximately HK$79,613,000 and HK$207,471,000 respectively to its related company, Hip Hing. Also, ATD paid construction costs of approximately HK$79,613,000 and HK$182,562,000 to Hip Hing during the year ended 31 December 2005 and 2006 respectively, of which approximately HK$56,995,000 and HK$97,214,000 were capitalised in the construction in progress during the year ended 31 December 2005 and 2006 respectively and approximately HK$22,618,000 and HK$85,348,000 were capitalised in the property under development for sales during the year ended 31 December 2005 and 2006 respectively.

During the year ended 31 December 2006, ATD appointed New World Real Estate Agency Limited ("New World"), a related company, as an agent to pre-sale the property under development. Agency fee will be paid to New World after the formal sale and purchase agreement has been signed between the buyers and ATD. During the year ended 31 December 2006, only provisional sale and purchase agreements were signed by the buyers and ATD and therefore no agency fee was paid or payable to New World for the year ended 31 December 2006.

There was no remuneration paid or payable to directors or key management personnel during the Relevant Periods.

(C) SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements have been prepared by ATD in respect of any period subsequent to 3l December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

SECTION A PRO FORMA FINANCIAL INFORMATION

The following is the text of the report, prepared for the purpose of incorporation in this circular, received from Deloitte Touche Tohmatsu, in connection with the pro forma financial information of the Enlarged Group.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF INTERNATIONAL ENTERTAINMENT CORPORATION

We report on the unaudited pro forma financial information of International Entertainment Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as enlarged by the Acquisition (hereinafter collectively referred to as the "Enlarged Group") as defined in the circular of the Company dated 29 June 2007 (the "Circular") set out in section B of Appendix VI "PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP" to the Circular in connection with the very substantial acquisition involving the acquisition of the Acquired Interests (as defined in the Circular) and possible issue of a convertible note (the "Convertible Note") and possible rights issue to raise about HK$1,415 million from Qualifying Shareholders (as defined in the Circular) at HK$1.5 per rights share (the "Rights Issue"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition, issuance of convertible note and Rights Issue might have affected the financial information presented, for inclusion in section B of Appendix VI to the Circular. The basis of preparation of the unaudited pro forma financial information on the Enlarged Group is set out on pages VI-3 to VI-11 of the Circular.

Respective responsibilities of the directors of the Company and the 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 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM 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 unadjusted financial information with 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose 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 future and may not be indicative of:

- the financial position of the Group as at 31 March 2007 or any future date; or
- the results and cash flows of the Group for the year ended 31 March 2007 or any future period.

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 31(1) of Chapter 7 of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 June 2007

SECTION B PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma income statement of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Completion (defined below) had taken place at the beginning of the fiscal year.

The unaudited pro forma income statement of the Enlarged Group is prepared as if the Acquisition, issuance of Convertible Note and Rights Issue had been completed (the "Completion") on 1 April 2006 and is based on the combined income statement of the Acquired Company and its subsidiaries (hereinafter collectively referred to as the "Acquired Group") for the year ended 31 December 2006 as extracted from the accountants' report on the Acquired Company as set out in Appendix IV to the Circular, and the consolidated income statement of the Group for the year ended 31 March 2007 as set out in Appendix III to the Circular, and after making certain pro forma adjustments as set out below.

The unaudited pro forma income statement of the Enlarged Group is prepared to provide the unaudited pro forma financial information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Group for the year ended 31 March 2007 or any future financial periods.

	The Group year ended 31.03.2007	Acquired Group year ended 31.12.2006	Total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Continuing operations						
Turnover	137,310	319,224	456,534	–		456,534
Cost of sales	(204,609)	(155,890)	(360,499)	(51,986)	*1*	(412,485)
Gross (loss) profit	(67,299)	163,334	96,035			44,049
Other income	16,872	14,515	31,387	–		31,387
Selling and distribution costs	(12,786)	–	(12,786)	–		(12,786)
General and administrative expenses	(41,512)	(52,804)	(94,316)	–		(94,316)
Other expenses	–	(3,824)	(3,824)	–		(3,824)
Finance costs	(4,828)	(103,268)	(108,096)	(12,058)	*2a, 2b*	(120,154)
Share of profit of an associate	–	–	–	92	3	92
(Loss) profit before taxation	(109,553)	17,953	(91,600)			(155,552)
Taxation (charge) credit	(1,260)	10,901	9,641	18,195	*1*	27,836
(Loss) profit for the year from continuing operations	(110,813)	28,854	(81,959)			(127,716)

	The Group year ended 31.03.2007	Acquired Group year ended 31.12.2006	Total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Discontinued operation						
(Loss) profit for the year from discontinued operation	–	(8,847)	(8,847)	–		(8,847)
(Loss) profit for the year	(110,813)	20,007	(90,806)			(136,563)
Attributable to:						
Equity holders of the parent	(110,813)	10,204	(100,609)	(29,200)	4	(129,809)
Minority interests	–	9,803	9,803	(16,557)	5	(6,754)
	(110,813)	20,007	(90,806)			(136,563)

Notes:

1. The adjustment represents the depreciation charged and the reversal of deferred tax liabilities during the year ended 31 December 2006 arising from the valuation of the properties under the Acquired Interests excluding ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of the Acquired Interests excluding ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for investment property and buildings, there is no other fair values changes to the assets and liabilities of the Acquired Interests excluding ATD at the Completion. This adjustment will have continuing effect on the Group in the subsequent financial years.

2. The adjustment includes:

2.a. The effective interest expenses of approximately HK$52,559,000 arising form the Convertible Note of HK$400,000,000 under the assumption that there is no change in the fair value of the Convertible Note at 1 April 2006 and at 31 December 2006, being the latest practicable date to value the Convertible Note. It is also assumed that there is no change in the fair value of the derivative component of the Convertible Note from the Completion on 1 April 2006 to 31 March 2007. This adjustment will have continuing effect on the Group in the subsequent financial years.

2.b. The elimination of the imputed interest of approximately HK$40,501,000 recorded in the combined income statement of the Acquired Group arising from the Sale Loans with the assumption that the Company has already acquired the Sale Loans at the beginning of the financial year. This adjustment will have continuing effect on the Group in the subsequent financial years.

3. The adjustment represents the share of result of 40% equity interest in ATD for the year ended 31 December 2006, based on the accountants' report of ATD as set out in Appendix V to this circular. This adjustment will have continuing effect on the Group in the subsequent financial years.

4. The amount represents the sum of adjustments stated in Notes 2a, 2b, 3 above and 51% of the adjustment in Note 1 as the Company will acquire 51% equity interest of the Acquired Interests upon the Completion.

5. The amount represents 49% of the adjustment in Note 1, 49% being the minority interest of the Acquired Interests upon the Completion.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma balance sheet of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if Completion had taken place on 31 March 2007.

The unaudited pro forma balance sheet of the Enlarged Group is prepared as if the Completion had taken place on 31 March 2007 and is based on the combined balance sheet of the Acquired Group as at 31 December 2006 as extracted from the accountants' report on the Acquired Company as set out in Appendix IV to the Circular, and the consolidated balance sheet of the Group as at 31 March 2007 as set out in Appendix III to the Circular and after making certain pro forma adjustments as set out below.

The unaudited pro forma balance sheet of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group as at 31 March 2007 or at any future date.

	The Group as at 31.3.2007	Acquired Group as at 31.12.2006	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-Current Assets						
Property, plant and equipment	1,473	563,578	565,051	177,453	*2a*	742,504
Investment property	–	404,996	404,996	966,244	*2a*	1,371,240
Interest in associated company	–	–	–	585,007	*2d*	585,007
Pledged bank deposits	–	351,718	351,718	–		351,718
Other assets	–	13,447	13,447	–		13,447
	1,473	1,333,739	1,335,212			3,063,916
Current Assets						
Inventories	1,581	2,836	4,417	–		4,417
Film costs	59,089	–	59,089	–		59,089
Available-for-sale financial assets	13,786	–	13,786	–		13,786
Trade receivables	5,759	29,973	35,732	–		35,732
Other receivables, deposits and prepayments	34,761	9,862	44,623	(12,869)	*1c*	31,754
Amounts due from related companies	41	140	181	–		181
Pledged bank deposit	13,853	–	13,853	–		13,853
Bank balances and cash	180,538	94,335	274,873	465,211	*1a, 1b*	740,084
	309,408	137,146	446,554			898,896

	The Group as at 31.3.2007	Acquired Group as at 31.12.2006	Total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Current Liabilities						
Trade payables	92,859	5,830	98,689	–		98,689
Other payables and accrued charges	24,219	17,821	42,040	–		42,040
Tax liabilities	1,260	–	1,260	–		1,260
Amounts due to related companies	1,330	5,421	6,751	–		6,751
Preference dividend payable	673	–	673	–		673
Derivatives	–	–	–	184,000	*3*	184,000
Bank borrowings	12,853	34,811	47,664	–		47,664
	133,194	63,883	197,077			381,077
Net Current Assets	176,214	73,263	249,477			517,819
Total Assets Less Current Liabilities	177,687	1,407,002	1,584,689			3,581,735
Non-Current Liabilities						
Bank borrowings	–	172,474	172,474	–		172,474
Amounts due to related companies	–	1,028,530	1,028,530	(563,613)	*2b*	464,917
Convertible note	–	–	–	216,000	*3*	216,000
Other liabilities	–	187	187	–		187
Deferred tax liabilities	–	29,528	29,528	400,293	*2a*	429,821
	–	1,230,719	1,230,719			1,283,399
	177,687	176,283	353,970			2,298,336
Capital and Reserves						
Share capital	235,831	–	235,831	943,326	*1b*	1,179,157
Share premium and reserves	(58,144)	89,904	31,760	636,773	*1b, 2c*	668,533
Equity attributable to equity holders of the Company	177,687	89,904	267,591			1,847,690
Minority interests	–	86,379	86,379	364,267	*4*	450,646
Total equity	177,687	176,283	353,970			2,298,336

Notes:

1.a. The adjustment represents the net effect from (i) the payment of cash consideration of HK$922,647,000, being the cash settlement portion of the purchase price of the Acquisition as adjusted in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to this circular; and (ii) the payment of the estimated expenses in relation to the Acquisition and issuance of Convertible Note of approximately HK$13,231,000. In arriving at the above numbers, it is assumed that the Company will settle all cash consideration (including adjustment to purchase price) on Completion.

1.b. The adjustment represents increase in share capital of HK$943,326,000 as a result of the Rights Issues, increase in share premium of HK$471,663,000 and the net off with the estimated expenses in relation to Rights Issue of approximately HK$13,900,000 credited to share premium reserve account. In arriving at the above numbers, the Company has assumed that there is no Excluded Shareholders for the Rights Issue.

1.c. The total estimated expenses in relation to the Acquisition and issuance of Convertible Note and Rights Issue of approximately HK$40,000,000 included HK$12,869,000 expenses already paid by the Company as at 31 March 2007 and recorded as prepayments.

2.a. The adjustment represents the fair value adjustment and the deferred tax liabilities on property of the Acquired Interest excluding ATD as at 31 December 2006 arising from the valuation of the properties under the Acquired Interests excluding ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of the Acquired Interests excluding ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for the investment property and buildings, there is no other fair values changes to the assets and liabilities of the Acquired Interests excluding ATD at the Completion.

2.b. The adjustment represents the elimination of the Sale Loans acquired by the Company.

2.c. The adjustments represents the discount on the Acquisition of the Acquired Interests of approximately HK$179,010,000 credited to shareholders contribution reserve.

2.d. The adjustment represents the equity accounting of ATD, taking into account of the fair value changes in the property of ATD and the related deferred tax liabilities as at December 2006 arising from the valuation of the properties under ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for the property under development for sale, there is no other fair values changes to the assets and liabilities of ATD as at the Completion.

3. The adjustment represents the issuance of Convertible Note of HK$400,000,000 for the Acquisition. The Convertible Note was taken up in the pro forma financial information in accordance with Hong Kong Accounting Standard 39. The fair value of the derivatives component of the Convertible Note at Completion was assumed to be the same as that at 31 December 2006, being the latest practicable date to value the Convertible Note by an independent professional valuers, and amounted to approximately HK$184,000,000.

4. The amount represents 49% of the adjustment in Note 2.a., 49% being the minority interest of the Acquired Interests upon the Completion.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma cash flow statement of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if Completion had taken place at the beginning of the fiscal year.

The unaudited pro forma cash flow statement of the Enlarged Group is prepared as if the Completion had taken place on 1 April 2006 and is based on the combined cash flow statement of the Acquired Group for the year ended 31 December 2006 as extracted from the accountants' report on the Acquired Company as set out in Appendix IV to the Circular, and the consolidated cash flow statement of the Group for the year ended 31 March 2007 as set out in Appendix III to the Circular, and after making certain pro forma adjustments as set out below.

The unaudited pro forma cash flow statement of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 March 2007 or for any future financial periods.

	The Group year ended 31.03.2007	Acquired Group year ended 31.12.2006	Total	Pro forma adjustment	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES						
(Loss) profit before taxation	(109,553)	7,049	(102,504)	(63,952)	*1, 2, 3, 4*	(166,456)
Adjustments for:						
Interest income	(10,036)	(12,325)	(22,361)	–		(22,361)
Interest expenses	4,828	23,854	28,682	52,559	*1*	81,241
Allowance for bad and doubtful debts	1,085	–	1,085	–		1,085
Allowance for obsolete inventories	45	–	45	–		45
Loss on disposal of property, plant and equipment	152	–	152	–		152
Impairment loss recognised in respect of film costs	102,815	–	102,815	–		102,815
Depreciation and amortisation of property, plant and equipment and investment property	1,417	96,712	98,129	51,986	2	150,115
Decrease on provision for long-service payment	–	(102)	(102)	–		(102)
Share of profit of an associate	–	–	–	(92)	3	(92)
Imputed interests in amounts due to related companies	–	79,414	79,414	(40,501)	*4*	38,913
Amortisation of film costs	88,862	–	88,862	–		88,862
Dividend income	(300)	–	(300)	–		(300)
Gain on disposal of available-for-sale financial assets	(5,434)	–	(5,434)	–		(5,434)
Operating cash flows before movements in working capital	73,881	194,602	268,483	–		268,483
Decrease in other assets	–	519	519	–		519
Increase in inventories	(971)	(255)	(1,226)	–		(1,226)
Increase in film costs	(44,839)	–	(44,839)	–		(44,839)
Decrease in trade receivables	18,157	11,574	29,731	–		29,731
(Increase) decrease in other receivables, deposits and prepayments	(11,731)	4,115	(7,616)	–		(7,616)
Increase in amounts due from related companies	417	–	417	–		417
Increase (decrease) in trade payables	31,581	(1,311)	30,270	–		30,270
Decrease in other payables and accrued charges	(22,225)	(4,992)	(27,217)	–		(27,217)
Increase in amounts due to related companies	(1,124)	–	(1,124)	–		(1,124)
Cash generated from operation	43,146	204,252	247,398			247,398
Income taxes refund	15	–	15	–		15
NET CASH GENERATED BY OPERATING ACTIVITIES	43,161	204,252	247,413			247,413

	The Group year ended 31.03.2007	Acquired Group year ended 31.12.2006	Total	Pro forma adjustment	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
INVESTING ACTIVITIES						
Interest received	10,301	12,325	22,626	–		22,626
Dividend income	300	–	300	–		300
Proceed on disposal of property, plant and equipment	13	–	13	–		13
Acquisition of a subsidiary	–	–	–	(616,884)	5	(616,884)
Disposal of a subsidiary	–	(2,157)	(2,157)	–		(2,157)
Purchase of property, plant and equipment and investment property	(1,067)	(40,599)	(41,666)	–		(41,666)
Advance to related companies	–	(140)	(140)	–		(140)
Decrease (increase) in pledged bank deposits	46,327	(351,718)	(305,391)	–		(305,391)
Purchases of available-for-sale financial assets	(27,164)	–	(27,164)	–		(27,164)
Proceeds on disposal of available-for-sale financial assets	19,000	–	19,000	–		19,000
NET GENERATED FROM (CASH USED) IN INVESTING ACTIVITIES	47,710	(382,289)	(334,579)			(951,463)
FINANCING ACTIVITIES						
Net proceeds from Rights issue	–	–	–	1,401,089	6	1,401,089
Interest paid	(8,276)	(23,854)	(32,130)	–		(32,130)
New bank borrowings	–	62,724	62,724	–		62,724
Repayment of bank borrowings	(116,454)	(146,362)	(262,816)	–		(262,816)
Repayment of other borrowings	(3,374)	–	(3,374)	–		(3,374)
Repayment of loans from related companies	(12,582)	–	(12,582)	–		(12,582)
Repayment of loans from directors	(3,044)	–	(3,044)	–		(3,044)
Advances from related companies	–	339,267	339,267	–		339,267
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	(143,730)	231,775	88,045			1,489,134
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(52,859)	53,738	879			785,084
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	233,123	37,464	270,587	(37,464)	5	233,123
EFFECT OF FOREIGN EXCHANGE RATES CHANGES	274	3,133	3,407	–		3,407
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented by bank balances and cash	180,538	94,335	274,873			1,021,614

Note:

1. The adjustment represents the interest expenses of approximately HK$52,559,000 arising from the Convertible Note of HK$400,000,000 under the assumption that the fair value of the Convertible Note at Completion is same as that at 31 December 2006, being the latest practicable date to value the Convertible Note, and there is no change in the fair value of the derivative component of the Convertible Note at Completion and at end of the financial year. This adjustment will have continuing effect on the Group in the subsequent financial years.

2. The adjustment represents the depreciation charged during the year ended 31 December 2006 arising from the valuation of the properties under the Acquired Interests excluding ATD as set out in Appendix VII to the Circular, assuming the valuation of the properties of the Acquired Interests excluding ATD at Completion equals to the valuation amount as shown in Appendix VII to the Circular. The Company has assumed that except for the investment property and buildings, there is no other fair values changes to the assets and liabilities of the Acquired Interests excluding ATD at the Completion.

3. The adjustment represents the share of result of 40% of equity interest in ATD for the year ended 31 December 2006 based on the accountants' report of ATD as set out in Appendix V to the Circular. This adjustment will have continuous effect on the Group in the subsequent financial years.

4. The adjustment represents elimination of the imputed interest of approximately HK$40,501,000 recorded in the combined income statement of the Acquired Group arising from 51% of Sale Loans with the assumption that the Company has already acquired Sale Loans at the beginning of the financial year.

5. The adjustment represents (i) the acquisition of the cash and cash equivalents of the Acquired Interests (ii) the payment of cash considerations of HK$637,335,000, being the cash settlement portion of the purchase price of the Acquisition as adjusted in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to the Circular and (iii) the expenses in relation to the Acquisition and issuance of Convertible Note of HK$17,013,000 (of which HK$9,087,000 was prepaid by the Company before 1 April 2006).

6. The adjustment represents from the Rights Issue of approximately HK$1,414,989,000 and the payment of the estimated expenses of HK$13,900,000 by the Company.

SECTION C INDEBTEDNESS AND WORKING CAPITAL OF ENLARGED GROUP

INDEBTEDNESS STATEMENT

As at the close of business of 30 April 2007, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this circular, the Enlarged Group had:

(1) bank borrowings of approximately HK$227.5 million, of which approximately HK$12.1 million bore interest at the announced base rate of interest of Bank of America plus 1.25% per annum and would be due within one year; approximately HK$41.4 million bore interest at the Philippine Interbank Offered Rate plus 1.5% per annum and would be due within one year; and approximately HK$174.0 million bore interest at the Philippine Interbank Offered Rate plus 1.5% per annum and would be due over one year. The bank borrowings were secured by pledged bank deposits of approximately HK$357.4 million;

(2) loans from related companies of approximately HK$1,155.4 million, which were unsecured, interest-free and no fixed term of repayment but no demand would be made within one year from 30 April 2007; and

(3) the following contingent liabilities:

(a) on 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs, amounting to approximately US$553,000 (equivalent to approximately HK$4.3 million). The Enlarged Group has been advised by its US legal advisers that the claims made are unfounded. Accordingly, Media 8 Entertainment has applied for a dismissal of the claim made against it and also applied for summary judgement or adjudication on this matter. The parties requested for arbitration. As at the date of this report, the arbitrator is considering the motion for summary judgment and the hearing date of the arbitration is pending; and

(b) DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. and First Look Studios, Inc. (as plaintiffs) filed a claim against Media 8 Entertainment and MDP Distribution Inc. (as defendants) on 20 September 2006 before the courts in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution Inc. (as plaintiffs) against DEJ Productions, Inc, Blockbuster, Inc., First Look Studios, Inc. (as defendants) on 26 January 2006 before the courts in Los Angeles which was subsequently transferred to Texas in respect of a claim by Media 8 Entertainment and MDP Distribution Inc. for the share of revenue to which they have been underpaid but which are entitled in respect of the exploitation and distribution by DEJ of the film "Monster" pursuant to a license agreement granted by them, damages and costs, which amounted to not less than US$8,559,674 (equivalent to approximately HK$66,765,000). As at the date of this report, this case is in pre-trial discovery phase.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any bank loans, bank overdrafts and liabilities under acceptances or acceptance credits or other similar indebtedness, term loans, debt securities, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding as at the close of business on 30 April 2007.

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on 30 April 2007.

WORKING CAPITAL

The Directors are of the opinion that after taking into account the estimated net proceeds from Rights Issue, the existing available banking facilities and cash flows from operations, the Enlarged Group has sufficient working capital for its present requirements for at least the next twelve months from the date of the Circular.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular, received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuation as at 30 April 2007 of the property interest of the Enlarged Group.

Sallmanns

西門

Corporate valuation and consultancy
www.sallmanns.com

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188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
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29 June 2007

The Board of Directors
International Entertainment Corporation
Rooms 1207-8
New World Tower
Nos. 16-18 Queen's Road Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which International Entertainment Corporation (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong and the United States of America ("USA"); and the properties in which Fortune Gate Overseas Limited (the "Acquired Company") and its subsidiaries (hereinafter together referred to as the "Acquired Group") and associate have interests in the Philippines and Macau, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 April 2007 (the "date of valuation").

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

In valuing the property interest in Group V, which is currently under construction, we have assumed that they will be developed and completed in accordance with the Acquired Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the valuation date and the remainder of the costs and fees to be expended to complete the developments.

In arriving our opinion of the value of the property in Group III, we have considered it as a fully operational and going concern hotel having regard to the trading accounts of previous years, where available, and taking into account the future trading potential and level of turnover likely to be achieved, following consultation with the Acquired Group. To this income stream, an appropriate annual present value discount rate has been applied to arrive at an indicated market value.

We have attributed no commercial value to the property interests in Groups I, II and IV, which are leased by the Group and Acquired Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and the Acquired Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings and all other relevant matters.

We have been, in some instances, provided by the Group and the Acquired Group with extracts of the title documents relating to the properties in the Philippines, USA and Macau and have caused searches to be made at the Hong Kong Land Registries and Conservatoria do Registo Predial ("CRP") in respect of Hong Kong properties and Macau properties respectively. Where possible, we have searched the original documents to verify the existing titles to the property interests and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the Acquired Group. We have also sought confirmation from the Group and the Acquired Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars. The exchange rates adopted in our valuations are approximately USD1 = HK$7.8, HK$1 = MOP 1.02 and HK$1 = Peso5.979 which were approximately the prevailing exchange rates as at the date of valuation.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, Macau, the United Kingdom, USA and the Asia-Pacific region (including the Philippines).

SUMMARY OF VALUES

GROUP I – PROPERTY INTERESTS LEASED BY THE GROUP IN HONG KONG

No.	Property	Capital value in existing state as at 30 April 2007 *HK$*
1.	Workshop No. 7, 6th Floor Kam Hon Industrial Building No. 8 Wang Kwun Road Kowloon Hong Kong	No commercial value
2.	Rooms 1207-1208 12th Floor New World Tower Nos. 16-18 Queen's Road Central Hong Kong	No commercial value
3.	Unit 9 on 3rd Floor Fook Hong Industrial Building No. 19 Sheung Yuet Road Kowloon Hong Kong	No commercial value
	Sub-total:	Nil

GROUP II – PROPERTY INTEREST LEASED BY THE GROUP IN USA

No.	Property	Capital value in existing state as at 30 April 2007 *HK$*
4.	Suite 2000, 20th Floor 1875 Century Park East Los Angeles California USA	No commercial value
	Sub-total:	Nil

GROUP III – PROPERTY INTERESTS HELD BY THE ACQUIRED GROUP IN THE PHILIPPINES

No.	Property	Capital value in existing state as at 30 April 2007 *HK$*
5.	Hyatt Hotel and Casino Manila 1588 Pedro Gil cor. M. H. Del Pilar, Malate Manila The Philippines	1,876,700,000
	Sub-total:	1,876,700,000

GROUP IV – PROPERTY INTERESTS LEASED BY THE ACQUIRED GROUP IN THE PHILIPPINES

No.	Property	Capital value in existing state as at 30 April 2007 *HK$*
6.	A parcel of land 1588 Pedro Gil cor. M. H. Del Pilar, Malate Manila The Philippines	No commercial value
7.	Commercial condominium units 10A, 11A, 12A, 14A, 15A and 16A in the Marina Square Suites 1588 Pedro Gil cor. M. H. Del Pilar, Malate Manila The Philippines	No commercial value
8.	Residential condominium units 22D, 22H, 22I, 22J, 23C and 30A Marina Square Suites 1588 Pedro Gil cor. M. H. Del Pilar, Malate Manila The Philippines	No commercial value
	Sub-total:	Nil

GROUP V – PROPERTY INTEREST HELD FOR DEVELOPMENT BY ATD

No.	Property		Capital value in existing state as at 30 April 2007 *HK$*
9.	A parcel of land Novos Aterros do Porto Exterior Macau		1,847,000,000
		Sub-total:	1,847,000,000
		Total:	3,723,700,000

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS LEASED BY THE GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
1. Workshop No. 7 6th Floor Kam Hon Industrial Building No. 8 Wang Kwun Road Kowloon Hong Kong	The property comprises a unit on the 6th floor of an 11-storey industrial building (plus a basement level) completed in about 1984. The property has a gross floor area of approximately 886 sq.ft. (82.31 sq.m.) The property is leased to Cyber On-Air (Asia) Limited ("Cyber On-Air") from an independent third party, namely Chan Yiu Yin, for a term of 2 years commencing from 10 November 2006 and expiring on 9 November 2008 at a monthly rental of HK$4,700, inclusive of Government rent, rates and management fees but exclusive of electricity and telephone charges and other outgoings.	The property is currently occupied by the Group for industrial purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Chan Yiu Yin and Cyber On-Air dated 11 November 2006, the property is leased to Cyber On-Air for a term of 2 years commencing from 10 November 2006 and expiring on 9 November 2008, at a monthly rental of HK$4,700, inclusive of Government rent, rates and management fees but exclusive of electricity and telephone charges and other outgoings.

2. Cyber On-Air is a wholly-owned subsidiary of the Company.

3. The registered owner of the property is Chan Yiu Yin under Assignment dated 10 September 1984 and registered at the Land Registry by Memorial No. UB2649557.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
2. Rooms 1207-1208 12th Floor New World Tower Nos. 16-18 Queen's Road Central Hong Kong	The property comprises two units on the 12th floor of a 43-storey office building completed in about 1976. The property has a total gross floor area of approximately 1,800 sq.ft. (167.22 sq.m.) The property is leased to Future Growth Limited ("Future Growth") from a connected party, namely New World Tower Company Limited, for a term of 2 years and 10 months commencing from 15 January 2007 and expiring on 14 November 2009 at a monthly rental of HK$48,600 exclusive of air-conditioning and management charges, rates and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between New World Tower Company Limited and Future Growth dated 29 January 2007, the property is leased to Future Growth for a term of 2 years commencing from 15 January 2007 and expiring on 14 November 2009, at a monthly rental of HK$48,600 exclusive of air-conditioning and management charges, rates and other outgoings.

2. Future Growth is a wholly-owned subsidiary of the Company.

3. The registered owner of the property is New World Tower Company Limited under the Assignment dated 1 July 1994 and registered at the Land Registry by Memorial No. UB6075995.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
3. Unit 9 on 3rd Floor Fook Hong Industrial Building No.19 Sheung Yuet Road Kowloon Hong Kong	The property comprises a unit on the 3rd floor of a 13-storey industrial building (plus a basement level) completed in about 1986. The property has a gross floor area of approximately 3,382 sq.ft. (314.20 sq.m.) The property is leased to Cyber On-Air (Asia) Limited ("Cyber On-Air") from an independent third party, namely Capital Fur Company Limited, for a term of 2 years commencing from 19 April 2007 and expiring on 18 April 2009, at a monthly rental of HK$37,200, inclusive of Government rent, rates and management fees but exclusive of electricity and telephone charges and other outgoings.	The property is currently occupied by the Group for industrial purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Capital Fur Company Limited and Cyber On-Air dated 21 March 2007, the property is leased to Cyber On-Air for a term of 2 years commencing from 19 April 2007 and expiring on 18 April 2009, at a monthly rental of HK$37,200, inclusive of Government rent, rates and management fees but exclusive of electricity and telephone charges and other outgoings.

2. Cyber On-Air is a wholly-owned subsidiary of the Company.

3. The registered owner of the property is Capital Fur Company Limited under the Assignment dated 20 November 2006 and registered at the Land Registry by Memorial No.06121301840017.

VALUATION CERTIFICATE

GROUP II – PROPERTY INTEREST LEASED BY THE GROUP IN USA

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
4. Suite 2000 20th Floor 1875 Century Park East Los Angeles California USA	The property comprises a portion on Level 20 of a 23-storey office building completed in about 1982. The property has a rentable floor area of approximately 14,260 sq.ft. (1,324.79 sq.m.) The property is leased to MDP Worldwide from an independent third party, namely 1875/1925 Century Park East Company, for a term commencing from 1 October 2003 and expiring on 31 January 2008 at a current monthly rental of USD33,653.60 exclusive of all outgoings charges, and with an option to renew for a further term of 4 years.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a lease agreement dated 6 September 2000 and lease amendment agreements #l and 2 respectively dated 19 November 2002 and 7 October 2003 entered into between 1875/1925 Century Park East Company (the "lessor") and MDP Worldwide (the "lessee"), the property is leased to the lessee for a term commencing from 1 October 2003 and expiring on 31 January 2008 at a monthly rental of USD33,653.60 exclusive of all outgoings charges, and with an option to renew for a further term of 4 years.

2. MDP Worldwide is a subsidiary of the Company.

3. Pursuant to a Quitclaim Deed No. 99 2030561 dated 26 October 1999, the registered owner of the property is the lessor.

VALUATION CERTIFICATE

GROUP III – PROPERTY INTERESTS HELD BY THE ACQUIRED GROUP IN THE PHILIPPINES

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
5. Hyatt Hotel and Casino Manila, 1588 Pedro Gil cor. M. H. Del Pilar Malate, Manila, The Philippines	The property comprises a portion of a building erected on 2 contiguous parcels of land. The building is a mixed-use complex comprising a hotel, casino and apartments etc. completed in 1990s and renovated in about 2003. *(Please refer to note 9.)* One of the above 2 contiguous parcels of land with a site area of 7,255.3 sq.m. on which the building (formerly known as the Plaza Building as defined in Note 10(i)), is erected is leased to Marina Square Properties, Inc. ("MSPI") from Harbour View Properties and Holdings, Inc. ("HVPHI") for a term of 25 years commencing from 13 February 2004 at an annual rental of Peso8,700,000. *(Please refer to note 4)*. For the other parcel of land with a site area of 1,514.7 sq.m., the building (known as Marina Square Suites) erected thereon is held under strata-title.	The property is currently used for hotel, casino and ancillary facilities purposes.	1,876,700,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
	The property has a total gross floor area of approximately 92,875 sq.m. or 999,707 sq.ft. The area schedule is as follows:		

Uses	Floor	Gross Floor Area *(sq.m.)*
Casino	LG – 5/F	17,650
Entertainment	G/F, 6/F – 8/F	5,100
Hotel	B2 – 5/F, 8/F – Roof (378 rooms)	44,625
PAGCOR office	LG, G/F, 4/F, 6/F & 7/F	5,350
Carpark	B2 – LG	12,850
Common area	B2 – 2/F, 5/F – 7/F, 9/F & 10/F	7,300

Out of 92,875 sq.m. or 999,707 sq.ft. of the total gross floor area of the property, 6 commercial condominium units (10A, 11A, 12A, 14A, 15A and 16A of Marina Square Suites with a total gross floor area of 5,882.16 sq.m.) are leased to New Coast Hotel, Inc. ("NCHI") from Pacific Bayview Properties, Inc. ("PBPI") for a term of 25 years commencing from 15 September 2004 at an annual rental of Peso21,175,000, and were renovated as additional hotel floors *(Please refer to note 5)*.

Notes:

1. In the valuation of this property, we have considered it as a going concern hotel and casino as well as the rental expenses for the parcel of land and portions of the building *(Please refer to notes 4 and 5)*.

2. Pursuant to a Transfer Certificate of Title ("TCT") No. 258812 dated 19 March 2003 issued by the Registry of Deeds for the City of Manila, the registered owner of the parcel of land with a site area of approximately 7,255.30 sq.m. ("HVPHI Land") is HVPHI.

3. Pursuant to 10 Condominium Certificates of Title – nos. 47656, 47657, 47658, 47659, 47660, 47661, 47662, 47663, 47664 and 47665 all dated 3 March 2003 issued by the Registry of Deeds for the City of Manila, the registered owner of unit nos. LG-A, 1-A, 2-A, 3-A, 4-A, 5-A, 6-A, 8-A, 25-F and 23-B of Marina Square Suites with a total gross floor area of 8,915.9 sq.m. ("NCHI Units") is NCHI.

4. Pursuant to a lease agreement ("LA 1") dated 2 April 2003, a supplement to lease agreement dated 30 June 2004 and a supplement to lease agreement dated 23 November 2004 (collectively "SLA 1"), entered into between HVPHI and MSPI, a parcel of land with a site area of approximately 7,255.3 sq.m. is leased to MSPI for a term of 25 years commencing from 13 February 2004 with an option to renew for another term of 25 years at an annual rental of Peso8,700,000. The parties have agreed to review the rent under LA 1 two years from the commencement of the lease and every two years thereafter, to determine if any adjustment to the rent is necessary. *(Please refer to property no. 6)*

5. Pursuant to a lease agreement ("LA 2") dated 2 April 2003, a supplement to lease agreement dated 30 June 2004 and a supplement to lease agreement dated 23 November 2004 (collectively "SLA 2") entered into between PBPI and NCHI, 6 commercial condominium units 10-A, 11-A, 12-A, 14-A, 15-A and 16-A with a total gross floor area of 5,882.16 sq.m. are leased to NCHI for a term of 25 years commencing from 15 September 2004 with an option to renew for another term of 25 years at an annual rental of Peso21,175,000, and were renovated as additional hotel floors. The parties have agreed to review the rent under LA 2 two years from the commencement of the lease and every two years thereafter, to determine if any adjustment to the rent is necessary. These 6 commercial condominium units are subject to a mortgage in favour of Asia Across Resources Ltd. ("AARL"). *(Please refer to property no. 7)*

6. Pursuant to a lease agreement ("PAGCOR Lease") dated 14 March 2003 and Addendum No. 1 to the PAGCOR Lease dated 1 August 2003 entered into between MSPI and PAGCOR, the leased premises (including gaming premises and office premises) with a total gross floor area of not less than 20,000 sq.m. are leased to PAGCOR for a term of 12 years commencing from the earlier of the date that the gaming premises are officially opened to the public at the end of the soft opening period or 31 March 2004 provided that in the event that the PAGCOR Charter is not extended or renewed on its current expiry date on 10 July 2008 the lease shall terminate on 10 July 2008 at annual rental of Peso100,000 or a fixed percentage of gaming revenue, whichever shall be the higher, excluding revenue from foreign area after deducting 5% gaming franchise tax.

7. Pursuant to a lease agreement ("Carpark Lease") entered into between MSPI and NCHI dated 31 January 2003, 160 carpark spaces on Basements 1 and 2 of the Plaza Building are leased to NCHI for a term of 25 years commencing from 1 February 2003 and expiring on 31 January 2028 at an annual rental of Peso3,840,000 renewable for a further term of 25 years.

8. Both MSPI and NCHI are wholly-owned subsidiaries of the Acquired Company.

9. The 2 contiguous parcels of land with respective site areas of 7,255.3 sq.m. and 1,514.7 sq.m. were formerly a parcel of land with a site area of 8,770 sq.m. on which erected 2 buildings, namely the Plaza Building and Marina Square Suites. The former 12-storey Plaza Building has been converted to a 31-storey building and forms part of the Hyatt Hotel and Casino Manila. Marina Square Suites is a strata-title building and some of the condominium units have been disposed in the market. The remaining portion of Marina Square Suites has been refurbished and forms a part of the Hyatt Hotel and Casino Manila.

10. The Company's Philippines legal adviser states, as follows:

(i) The annotation of MSPI's ownership of the original 12-storey plaza building constructed on the HVPHI Land ("Plaza Building") on TCT No. 258812 has been completed.

(ii) MSPI is the legal and beneficial owner of the Plaza Building and has valid title to the Plaza Building. All taxes and charges due on the transfers of the Plaza Building to MSPI were paid.

(iii) MSPI has all the rights of an owner under Philippine law, which include the absolute right to sell, dispose, mortgage, pledge or encumber the Plaza Building.

(iv) NCHI constructed 19 additional storeys ("Extension") on top of the Plaza Building. On 22 July 2005 NCHI obtained a tax declaration concerning the Extension. The annotation of ownership on TCT No. 258812 has been completed. As owner of the Extension, NCHI has all the rights of an owner under Philippine law, which include the absolute right to sell, dispose, mortgage, pledge or encumber the same.

(v) NCHI is the registered owner of the NCHI Units and has valid title to the NCHI Units. NCHI has acquired legal and beneficial title over the NCHI Units.

(vi) NCHI has the exclusive right to mortgage, pledge or encumber the NCHI Units and the absolute right to sell or dispose of the same. NCHI is free to lease the NCHI Units, provided that proper notice thereof, with such particulars as Marina Square Suites Condominium Association, Inc. ("the Condominium Corporation") may reasonably require, is given to the Condominium Corporation within 5 days from the effectivity of the lease.

(vii) Common areas of Marina Square Suites are held by the Condominium Corporation.

(viii) MSPI owns the 160 carpark spaces leased by NCHI under the Carpark Lease. MSPI is entitled to let the 160 carpark spaces to NCHI and enter into the Carpark Lease with NCHI.

(ix) The Carpark Lease is a legal and valid agreement which is binding on MSPI and NCHI and is enforceable in accordance with its terms.

(x) The Carpark Lease has been duly registered at the Register of Deeds of Manila, Philippines and the interest of NCHI is protected.

VALUATION CERTIFICATE

GROUP IV – PROPERTY INTERESTS LEASED BY THE ACQUIRED GROUP IN THE PHILIPPINES

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
6. A parcel of land 1588 Pedro Gil cor. M. H. Del Pilar Malate, Manila, The Philippines	The property comprises a parcel of land with a site area of approximately 7,255.3 sq.m. The property is leased to Marina Square Properties, Inc. ("MSPI") from Harbour View Properties and Holdings, Inc. ("HVPHI"), for a term of 25 years commencing from 13 February 2004 (as provided in the supplement to lease agreement dated 30 June 2004) at an annual rental of Peso8,700,000 with an option to renew for another term of 25 years.	The property is a mixed-use complex comprising hotel, casino and residences.	No commercial value

Notes:

1. Pursuant to a lease agreement (i.e. LA 1 as defined in note 4 of property no. 5) dated 2 April 2003, a supplement to lease agreement dated 30 June 2004 and a supplement to lease agreement dated 23 November 2004 (collectively "SLA 1" as defined in note 4 of property no. 5), entered into between HVPHI and MSPI, a parcel of land with a site area of approximately 7,255.3 sq.m. is leased to MSPI for a term of 25 years commencing from 13 February 2004 with an option to renew for another term of 25 years at an annual rental of Peso8,700,000. The parties have agreed to review the rent under LA 1 two years from the commencement of the lease and every two years thereafter, to determine if any adjustment to the rent is necessary.

2. MSPI is a wholly-owned subsidiary of the Acquired Company.

3. Pursuant to a transfer certificate of title ("TCT") No. 258812 dated 19 March 2003 issued by the Registry of Deeds for the City of Manila, the registered owner of the parcel of land with a site area of approximately 7,255.30 sq.m. (i.e. HVPHI Land as defined in note 2 of property no. 5) is HVPHI.

4. The Company's Philippines legal adviser states, as follows:

   (i) HVPHI is the registered owner of the HVPHI Land leased by MSPI under LA 1 and SLA1. MSPI is entitled to use and occupy the HVPHI Land during the term of LA 1 and SLA1, based on the express provisions of these agreements.

   (ii) LA 1 and SLA1 are legal, valid, binding and enforceable under the laws of Philippines.

   (iii) Since LA 1 is annotated on the property's TCT, third parties dealing with the property after such annotation was made are obliged to respect MSPI's right as lessee.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
7. Commercial condominium units 10A, 11A, 12A, 14A, 15A and 16A in the Marina Square Suites 1588 Pedro Gil cor. M. H. Del Pilar Malate, Manila, The Philippines	The property comprises 6 commercial condominium units of a 31-storey composite building. The property has a total gross floor area of approximately 5,882.16 sq.m. The property is leased to New Coast Hotel, Inc. ("NCHI") from Pacific Bayview Properties, Inc. ("PBPI"), for a term of 25 years commencing from 15 September 2004 (as provided in the supplement to lease agreement dated 30 June 2004) at an annual rental of Peso21,175,000 with an option to renew for another term of 25 years.	The property comprises additional hotel accommodation.	No commercial value

Notes:

1. Pursuant to a lease agreement (i.e. LA 2 as defined in note 5 of property no. 5) dated 2 April 2003, a supplement to lease agreement dated 30 June 2004 and a supplement to lease agreement dated 23 November 2004 (collectively "SLA 2" as defined in note 5 of property no. 5) entered into between PBPI and NCHI, 6 commercial condominium units 10-A, 11-A, 12-A, 14-A, 15-A and 16-A in the Marina Square Suites with a total gross floor area of 5,882.16 sq.m. are leased to NCHI for a term of 25 years commencing from 15 September 2004 with an option to renew for another term of 25 years at an annual rental of Peso21,175,000, and were renovated as additional hotel floors. The parties have agreed to review the rent under LA 2 two years from the commencement of the lease and every two years thereafter, to determine if any adjustment to the rent is necessary. These 6 commercial condominium units are subject to a mortgage in favour of Asia Across Resources Ltd. ("AARL").

2. NCHI is a wholly-owned subsidiary of the Acquired Company.

3. Pursuant to 6 Condominium Certificates of Title – nos. 47650, 47651, 47652, 47653, 47654, and 47655 all dated 3 March 2003 issued by the Registry of Deeds for the City of Manila, the registered owner of units nos. 16-A, 15-A, 14-A, 12-A, 11-A and 10-A of Marina Square Suites with a total gross floor area of 5,882.16 sq.m. is PBPI.

4. The Company's Philippines legal adviser states, as follows:

   (i) PBPI is the registered owner of the property leased by NCHI under LA 2 and SLA 2 and has acquired legal and beneficial title to the property. NCHI is entitled to use and occupy the property during the term of LA 2 and SLA 2, based on the express provisions of these agreements.

   (ii) The LA 2 and SLA 2 are legal, valid, binding and enforceable under the laws of Philippines.

   (iii) Since LA 2 and SLA 2 are annotated on the property's Condominium Certificates of Title, third parties dealing with the property after such annotation was made are obliged to respect NCHI's rights as lessee under these agreements.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
8. Residential condominium units 22D, 22H, 22I, 22J, 23C and 30A Marina Square Suites 1588 Pedro Gil cor. M. H. Del Pilar Malate, Manila, The Philippines	The property comprises 6 residential condominium units of a 31-storey composite building completed in 1990s and renovated in about 2003. The property has a total gross floor area of approximately 465 sq.m. The property is leased to New Coast Hotel, Inc. ("NCHI") from Pacific Bayview Properties, Inc. ("PBPI"), for a term of 20 years commencing from 1 June 2004 and expiring on 1 June 2024 at an annual rental of Peso1,674,000 with an option to renew for another term of 20 years.	The property is currently occupied by the Acquired Group for staff quarters purpose.	No commercial value

Notes:

1. Pursuant to a lease agreement ("LA 4") signed by PBPI and NCHI on 1 and 9 June 2004 respectively and a supplement to lease agreement ("SLA 4") entered into between PBPI and NCHI dated 23 November 2004, 6 residential condominium units 22-D, 22-H, 22-I, 22-J, 23-C and 30-A with a total gross floor area of 465 sq.m. are leased to NCHI for a term of 20 years commencing from 1 June 2004 with an option to renew for another term of 20 years at an annual rental of Peso1,674,000. The parties have agreed to review the rent under LA 4 two years from the commencement of the lease and every two years thereafter, to determine if any adjustment to the rent is necessary.

2. NCHI is a wholly-owned subsidiary of the Acquired Company.

3. Pursuant to 6 Condominium Certificates of Title – nos. 53323, 53324, 53325, 53326, 53327 and 53329 all dated 8 June 2004 issued by the Registry of Deeds for the City of Manila, the registered owner of unit nos. 22-D, 22-H, 22-I, 22-J, 23-C and 30-A of Marina Square Suites with a total gross floor area of 465 sq.m. is PBPI.

4. The Company's Philippines legal adviser states, as follows:

   (i) PBPI is the registered owner of the property leased by NCHI under LA 4 and SLA 4. NCHI is entitled to use and occupy the property during the term of LA 4 and SLA 4, based on the express provisions of these agreements.

   (ii) The LA 4 and SLA 4 are legal, valid, binding and enforceable under the laws of Philippines.

   (iii) Since LA 4 and SLA 4 are annotated on the property's Condominium Certificates of Title, third parties dealing with the property after such annotation was made are obliged to respect NCHI's rights as lessee under these agreements.

VALUATION CERTIFICATE

GROUP V – PROPERTY INTEREST HELD FOR DEVELOPMENT BY ATD

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007 *HK$*
9. A parcel of land, Novos Aterros do Porto Exterior, Macau	The property comprises a parcel of land with a total site area of approximately 7,128 sq.m. on which a building is under construction. The property is planned to be developed into a 61-storey building including 3 basement floors and 2 refuge floors. The development is scheduled to be completed by the end of 2008. The total gross floor area of the building is planned to be approximately 164,261 sq.m. and will comprise the following accommodation: **Use** — **Gross Floor Area** *(sq.m.)* High-end residential units — 68,512 Super deluxe hotel with casino facilities — 74,104 Commercial units — 2,281 Parking — 19,364 **Total** — **164,261** The total investment is estimated to be over HK$1,500 million. The land use rights of the property were granted for a term of 25 years commencing from 13 August 2003.	The property is currently under construction.	1,847,000,000

Notes:

1. Pursuant to Despacho do Secretario para os Transportes e Obras Publicas no 69/2003 dated 5 August 2003 ("Lease Hold Concession Agreement"), the land use rights of the property are granted to Arc of Triumph Development Company Limited ("ATD") for a term of 25 years commencing from 13 August 2003 at a consideration of MOP19,304,327. The land use rights can be further renewed up to 19 December 2049.

2. Pursuant to a letter issued by the Direcção dos Serviços de Solos, Obras Públicas e Transporte (i.e. Land and Public Works Department of Macau) dated 16 May 2006, the use of land of the property as mentioned in Note 1 above is to be revised as follows:

   (1) the land will be developed into a building with 61-storey (including 2 refuge floors and 3 basement floors).

   (2) the buildings will comprise the following uses:

      1) Residential (excluding the refuge floor): gross floor area of 68,512 sq.m.;

      2) Commercial: gross floor area of 2,281 sq.m.;

      3) 5-star Hotel (excluding refuge floor): gross floor area of 74,104 sq.m.;

      4) Residential car park: gross floor area of 6,713 sq.m.;

      5) Hotel car park: gross floor area of 12,651 sq.m.;

      6) Residential open area (including a swimming pool): gross floor area of 250 sq.m.;

      7) Hotel open area (including a swimming pool): gross floor area of 998 sq.m.

   Besides the amount of MOP19,304,327, the concessionaire of the land shall pay an additional premium of MOP102,650,053.

3. ATD is a 40% interest-owned associated company of the Acquired Company upon completion of the acquisition.

4. As advised by the Group, the total land premium paid up to 31 December 2006 was MOP50,598,380. In the course of our valuation, we have assumed that the premium has been fully paid as at the date of valuation.

5. By a Mortgage Deed executed on 6 September 2006, the property was mortgaged by ATD to BNP Paribas as security for any and all loans, liabilities or obligations of ATD owing to BNP Paribas up to HK$1,500,000,000.00 and all other costs and expenses of MOP150,000,000.00 incurred by BNP Paribas.

6. We have been provided with a legal opinion on the legality of the property interest issued by the Group's Macau legal adviser, which contains, inter alia, the following:

   (i) According to the Lease Hold Concession Agreement, prior to completion of the building, the transfer of the rights and obligations is subject to previous authorization from the Macau Government, which, upon transfer, may revise the terms and conditions of the aforesaid agreement.

   (ii) Given the estimated percentage of profit (which is a concept stated in the Lease Hold Concession Agreement, i.e., a function that is used to calculate the premium) applied to the calculation of the premium, the transfer of the rights and obligations of the Hotel, after the completion of the building, is subject to a previous authorization from the Macau Government, which, upon transfer, may revise the terms and conditions of the Lease Hold Concession Agreement.

(iii) After the completion of the building, ATD can freely transfer or assign all other remaining areas or rights, not stated in previous paragraphs, without obtaining prior approval of the Macau Government.

(iv) ATD is the valid and true concessionaire of the subject property.

(v) ATD is the registered owner of the land and has a good title to the land.

(vi) In addition, according to the Certificate issued by Macau Land and Public Works Department on the 28 March 2007, and also in accordance with a confirmation received informally from the same Department, ATD has paid the installments of premium in relation to the land concession, and shall proceed with the development of the land. According to Macau Land Law, the security deposit stated in clause 10 of the Lease Hold Concession Agreement is a condition for the execution of the agreement. This deposit was already made before 13th of August 2003. Furthermore, the Certificate issued by the Macau Finance Department on 29 March 2007 confirms that ATD has fulfilled all its obligations regarding the payment of the rent deriving from the Lease Hold Concession Agreement.

(vii) The conditions as stated in Note 2 above are not yet definitive, i.e. only after the publication of the revised terms and conditions in the Official Gazette of Macau, they may be considered as the new conditions. However, in accordance with the information provided by ATD, the terms set out in the revised contract have been implemented and, therefore, these terms are likely to be the definitive terms of the revised concession leasehold contract and the risk that the aforesaid terms may be revised, although possible, is rather remote. In addition, there should not be any legal impediment in obtaining the Macau Government's final approval of the aforesaid proposal.

(viii) By an agreement dated 12th November, 2004 made between ATD and Sociedade de Jogos de Macau, S.A. ("SJDM"), ATD will (inter alia) provide SJDM with floor space in the hotel complex to be contracted on the property to operate a casino. The agreement is valid up to 31 March 2020, the expiry date of the gambling licence of SJDM in Macau.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 April 2000 under the Companies Law. The Memorandum of Association of the Company (the "Memorandum") and the Articles comprise its constitution. On 17 December 2004, the Company changed its name from Cyber-On-Air Group Company Limited to International Entertainment Corporation.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21 January 2002 and amended on 20 August 2004 and 25 August 2006. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that the chairman of the board and/or the managing director of the Company, shall not, whilst holding office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) in respect of the number and class of Shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any Shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles) or by any means in such manner as may be accepted by the Designated Stock Exchange, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 2 May 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IX to this circular. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group and the Acquired Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this circular is accurate and complete in all material respects and not misleading in any material respect; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SHARE CAPITAL

The Company

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
500,000,000	Shares of HK$1.00 each	500,000,000
Issued and fully paid:		
235,831,447	Shares of HK$1.00 each	235,831,447

The entire issued share capital of the Company is listed on the GEM. No part of the share or loan capital of the Company is listed on any other stock exchange other than the Stock Exchange. The Shares are freely transferable.

The Acquired Company

The authorised and issued share capital of the Acquired Company as at the Latest Practicable Date were as follows:–

Authorised:		*US$*
50,000	Ordinary shares of US$1.00 each	50,000.00
Issued and fully paid up:		
1	Ordinary share of US$1.00 each	1.00

INFORMATION ON THE SUBSIDIARIES OF THE ACQUIRED COMPANY

Changes in share capital of the subsidiaries of the Acquired Company

The subsidiaries of the Acquired Company are listed in the Accountant's Report of the Acquired Company set out in Appendix IV to this circular. The following sets out the share capital structure of the Acquired Company's subsidiaries and the alterations in their share capital structures that have taken place within the two years immediately preceding the date of this circular.

1. CTFP

CTFP was incorporated in the Philippines on 3 October 2002 with an authorised capital stock of Peso10,468,600 divided into 104,686 shares with a par value of Peso100 per share. The authorised capital stock of CTFP is fully subscribed and paid-up in cash. On 18 June 2004, each of Dennis G. Dimagiba and May R. Flores transferred 1 share of CTFP to Flexi-Deliver at a consideration of Peso100.

2. CTFHE

CTFHE was incorporated in the Philippines on 7 October 2002 with an authorised share capital of Peso10,468,600, divided into 104,686 shares with a par value of Peso100 per share. The authorised capital stock of CTFHE was fully subscribed and paid-up in cash upon incorporation. On 18 June 2004, each of Dennis G. Dimagiba and May R. Flores transferred 1 share of CTFHE to Flexi-Deliver at a consideration of Peso100.

3. NCHI

NCHI was incorporated in the Philippines on 11 October 2002 with an authorised capital stock of Peso454,000,000, divided into 454,000,000 shares with a par value of Peso1 per share. Of this amount, Peso113,500,000 was subscribed and Peso28,375,000 was paid up in cash. On 5 November 2002, NCHI amended its articles of incorporation to increase the authorized capital stock from Peso454,000,000 to Peso621,444,867. Of this amount, Peso155,361,217 for 155,361,217 shares was subscribed and Peso38,840,305 for 38,840,305 shares was paid up in cash. On 18 June 2004, each of Dennis G. Dimagiba, May R. Flores and Martin John S. Yasay transferred 1 share of NCHI to CTFHE at a consideration of Peso1.

4. MSPI

MSPI was incorporated in the Philippines on 11 October 2002 with an authorised capital stock of Peso1,900,000,000, divided into 1,900,000,000 shares with a par value of Peso1 per share. Of this amount, Peso475,000,000 for 475,000,000 shares was subscribed and Peso118,750,000 for 118,750,000 shares was paid up in cash. On 5 November 2002, MSPI amended its articles of incorporation to increase its authorised capital stock to Peso2,722,930,653 divided into 2,722,930,653 shares with a par value of Peso1 per share. Of this amount, Peso680,732,664 for 680,732,664 shares was subscribed and Peso170,183,166 for 170,183,166 shares was paid up in cash. On 18 June 2004, each of Dennis G. Dimagiba and May Flores transferred 1 share of MSPI to CTFP at a consideration of Peso1.

5. GHES

GHES was incorporated in the Philippines on 10 February 2005 with an authorised capital stock of Peso20,000,000 divided into 200,000 shares with a par value of Peso100 per share, 113,606 shares have been subscribed and fully paid-up.

6. GHHS

GHHS was incorporated in the Philippines on 3 February 2005 with an authorised capital stock of Peso20,000,000 divided into 200,000 shares with a par value of Peso100 per share, 113,606 shares have been subscribed and fully paid-up.

Save as disclosed above and in the paragraph headed “Corporate reorganisation of the Acquired Interests” below, there has been no other alteration in the share capital of any of the subsidiaries of the Acquired Company within the two years immediately preceding the date of this circular.

Changes in the capital of the Enlarged Group

Save as disclosed in this circular, no principal operating subsidiaries of the Enlarged Group have altered their capital within the two years immediately preceding the date of this circular.

Corporate reorganisation of the Acquired Interests

The CTF Group will procure the Reorganisation to take place in order to facilitate the Completion.

Particulars of the Reorganisation are set out below:–

(1) On 8 November 2004, Maxprofit was incorporated in the BVI and will be the holding company of the Hotel Group upon completion of the Reorganisation.

(2) On 18 October, 2004, Starcharm was incorporated in the BVI and will become part of the Hotel Group upon completion of the Reorganisation.

(3) On 3 February 2005, GHES was incorporated in the Philippines by Flexi-Deliver for the night entertainment operation of the Hotel Group.

(4) On 10 February 2005, GHHS was incorporated in the Philippines by Flexi-Deliver for the spa operation of the Hotel Group.

(5) Subject to the approval of the Acquisition Agreement, the issue of the Convertible Note, the Capital Increase and the Rights Issue by the Independent Shareholders at the EGM:–

(a) Maxprofit will acquire from Double Delights the entire issued share capital of Flexi-Deliver;

(b) Maxprofit will further acquire from Double Delights the entire issued share capital of Starcharm;

(c) Maxprofit will then acquire from Double Delights the entire issued share capital of Pride Ever; and

(d) subject further to the consents from the financial institutions under a loan facility of HK$1.5 billion granted to ATD having been obtained, the Acquired Company will acquire from Cheung Hung the Macau Interest at a consideration of HK$363.2 million (subject to adjustment).

DISCLOSURE OF INTERESTS

(a) Directors' interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and 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 the provisions of 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Long positions in the Shares

Name of Directors	Capacity	Number of Shares: Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate percentage of the issued share capital of the Company
Mr. Choi Wing Kin	Beneficial owner	1,329,600	–	–	–	1,329,600	0.56%
Mr. So Kam Wing	Beneficial owner	49,200	–	–	–	49,200	0.02%
Mr. Lo Lin Shing, Simon	Interest of a controlled corporation	–	–	364,800 *(Note)*	–	364,800	0.15%

Note: These Shares are held by Wellington Equities Inc., which is wholly owned by Mr. Lo Lin Shing, Simon, an executive Director

Upon Completion, the Acquired Company will become a subsidiary of the Company. The interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the associated corporations (within the meaning of Part XV of the SFO) of the Company upon Completion (based on their interests or short positions as at the Latest Practicable Date) are as follows:

Long positions in shares

Name of associated corporation	Name of Director	Capacity	Number of ordinary shares: Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate percentage of the issued share capital
Maxprofit	To Hin Tsun, Gerald	Interest of controlled corporations	–	–	11 *(Note)*	–	11	11%

Note: Such shares of Maxprofit are held by Up-Market Franchise Ltd. (as to 10 shares) and Pure Plum Ltd. (as to 1 share), both of which are wholly owned Mr. To Hin Tsun, Gerald. Mr. To is therefore deemed to be interested in all shares in which Maxprofit is interested.

(b) Substantial Shareholders

Save as disclosed below, as at 28 June 2007, so far as is known to the Directors or chief executives of the Company, no person, other than a Director, or chief executive of the Company, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% 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 Enlarged Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital:

Long positions in the Shares

Name of Shareholders	Capacity	Number of issued Shares	Number of unissued Shares	Number of underlying Shares	Aggregate interest	Approximate percentage of the existing issued share capital of the Company
Mediastar	Beneficial owner	120,000,079	–	–	120,000,079	50.88%
Cross-Growth	Beneficial owner	–	–	200,000,000 *(Note 3)*	200,000,000	84.81%
CTF	Beneficial owner	–	463,325,472 *(Note 4)*	–		
	Interest of a controlled corporation	120,000,079 *(Note 1)*	–	200,000,000 *(Note 3)*	783,325,551	332.15%
Centennial Success Limited	Interest of a controlled corporation	120,000,079 *(Notes 1,5)*	463,325,472 *(Notes 4,5)*	200,000,000 *(Notes 3,5)*	783,325,551	332.15%
CYTFL	Interest of a controlled corporation	120,000,079 *(Notes 1,6)*	463,325,472 *(Notes 4,6)*	200,000,000 *(Notes 3,6)*	783,325,551	332.15%
Young China Investments Limited	Beneficial owner	19,000,000	–	–	19,000,000	8.06%
Chow Shiu Leung	Interest of a controlled corporation	19,000,000 *(Note 2)*	–	–	19,000,000	8.06%

Notes:

(1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 Shares held by Mediastar under the SFO.

(2) Young China Investments Limited is wholly owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 Shares held by Young China Investments Ltd. under the SFO.

(3) These underlying Shares represent the new Shares to be issued upon full conversion at the initial conversion price of HK$2 per Share of the Convertible Note to be issued by the Company to Cross-Growth (or as it may direct) pursuant to the Acquisition Agreement. Details of the Convertible Note and the Acquisition Agreement are set out in the section headed "Letter from the Board" in this circular.

Cross-Growth is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 200,000,000 underlying Shares to be held by Cross-Growth under the SFO.

(4) These unissued Shares represent the Rights Shares underwritten by CTF in respect of the Rights Issue, details of which are set out in the section headed "Letter from the Board" in this circular.

(5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 Shares held by Mediastar, 200,000,000 underlying Shares to be held by Cross-Growth, and 463,325,472 Rights Shares to be underwritten by CTF under the SFO.

(6) CYTFL is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, CYTFL is deemed to be interested in 120,000,079 Shares to be held by Mediastar, 200,000,000 underlying Shares to be held by Cross-Growth, and 463,325,472 Rights Shares to be underwritten by CTF under the SFO.

(c) Interests in other members of the Group

Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or the chief executive of the Company, no persons were directly or indirectly deemed to be interested in 10% 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.

Name of non-wholly owned subsidiaries of the Company	Name of registered substantial shareholders	Number of shares held/ amount of registered capital owned	Percentage of shareholding
Gugo Entertainment Company Limited	Mr. Chan Sik Yan	3,189,015 shares	15%
	Mr. Cheung Chun Keung	2,126,010 shares	10%
M8	Music Box Entertainment Limited	129,336,445 Class C shares	49.70% of Class C shares
廣東安博信息服務有限公司	廣東錫安人力資源有限公司 (Guangdong Xi On)	Registered capital US$150,000	30%

SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with any member of the Enlarged Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Acquired Group and ATD will not be varied solely as a result of Completion.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, including the executive Directors, who contribute to the success of the Group's operations.

Pursuant to the Share Option Scheme, the Board may, at their discretion, grant options to the eligible participant including any employee, officer, director or consultant of the Group. The maximum number of Shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the Shares in issue unless it is approved by the Shareholders in a general meeting of the Company. Any share options granted to a substantial Shareholder or an independent non-executive Director or to any of their respective associates, in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to Shareholders' approval in a general meeting of the Company.

Particulars of the Share Option Scheme are set out in the Company's circular dated 27 July 2004.

AGENCY FEES AND COMMISSIONS PAID

No commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries within the two years immediately preceding the date of this circular.

No commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Acquired Company or any of its subsidiaries within the two years immediately preceding the date of this circular.

INDEMNITIES

Estate duty

CTF has given an indemnity in favour of the Enlarged Group in connection with estate duty which might be payable by any member of the Enlarged Group (including subsidiaries from time to time) by reason of any transfer of property to the Acquired Company and its subsidiaries on or before the date of Completion.

Environmental compliance

CTF has given an indemnity in favour of the Enlarged Group in connection with any liabilities, costs, losses and expenses arising from such past violations in environmental compliance in the development of the hotel/casino/residential complex at Pedro Gil Street, Malate, Manila. Please refer to the paragraph headed "Environmental compliance for the Hotel Property" in Appendix II to this circular for details.

LITIGATION

As at the Latest Practicable Date, the Group was involved in the following litigation:

(i) Guangdong Anbo Information Services Limited (廣東安博信息服務有限公司) ("Anbo"), an indirect 70% owned subsidiary of the Company, has initiated a court action against its Chinese shareholder Guangdong Xi An Human Resources Limited (廣東錫安人力資源有限公司) ("Xi An") for its breach of obligation in respect of the capital injection of USD150,000 (equivalent to approximately HK$1,170,000) under the Sino-Foreign Joint Venture Agreement (中外合資經營企業合同) of Anbo. On 1 December 2005, 廣州市天河區人民法院 held that Xi An was liable to pay to Anbo USD150,000 (equivalent to approximately HK$1,170,000) and the interest incurred thereon (the "Judgement"), which amount has never been received by Anbo. Anbo applied to the court for enforcement of the Judgement. In August 2006, 廣州省廣州市中級人民法院 held that as Xi An did not have assets to be liquidated for settlement of the Judgement, the enforcement of the Judgement was ordered to be terminated.

(ii) DEJ Productions, Inc ("DEJ"), Blockbuster, Inc and First Look Studios, Inc. (as plaintiffs) against Media 8 Entertainment and MDP Distribution Inc. (as defendants) on 20 September 2006 before the courts in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution Inc. (as plaintiffs) against DEJ Productions, Inc, Blockbuster, Inc, First Look Studios, Inc. (as defendants) in 26 January 2006 before the courts in Los Angeles which was subsequently transferred to Texas) in respect of a claim by Media 8 Entertainment and MDP Distribution Inc. for the share of revenue to which they have been underpaid but which are entitled in respect of the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, damages and costs, which amounted to not less than US$8,559,674 (equivalent to approximately HK$66.8 million). As at the Latest Practicable Date, this case is in pre-trial discovery phase. The trial is fixed to be heard on 30 July 2007.

(iii) On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/ MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs amounting to approximately USD553,000 (equivalent to approximately HK$4.3 million). The Group has been advised by its US legal advisers that the claims made are unfounded. Accordingly, Media 8 Entertainment has applied for a dismissal of the claim made against it and also applied for summary judgement or adjudication on this matter. The parties requested for arbitration. As at the Latest Practicable Date, the arbiter is considering the motion for summary judgement and the hearing date of the arbitration is pending.

Save as disclosed above, no member of the Enlarged Group is engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against the Company or any member of the Enlarged Group.

JOINT SPONSORS

Taifook Capital and Somerley have jointly made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme and the conversion of the Convertible Note. For the purpose of the deemed new listing application of the Company, Taifook Capital is not considered as an independent sponsor pursuant to Rule 6A.07 of the GEM Listing Rules as elaborated in below.

JOINT SPONSORS' INTEREST IN THE COMPANY

The Joint Sponsors and their respective associates will receive from the Company documentation fees as Joint Sponsors of the listing application. Certain associates of the Joint Sponsors, whose ordinary businesses involving trading of and/or dealing in securities, may involve in the trading of and/or dealing in the securities of the Company.

Taifook Capital is a wholly-owned subsidiary of Taifook Securities Group Limited ("TFSGL") of which Dr. Cheng Kar Shun, Mr. Lo Lin Shing, Simon and To Hin Tsun, Gerald, all being Directors, are the chairman, deputy chairman and non-executive Director respectively. CTF is controlled by CYTFL and Dr. Cheng Kar Shun is also a director of CTF. The Joint Sponsors confirm that save as disclosed in this circular:

(i) neither the Joint Sponsors nor their respective associates have or may, as a result of the Acquisition, the issue of Convertible Note and the Rights Issue, have an interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe for such securities);

(ii) no director or employee of the Joint Sponsors who is involved in providing advice to the Company has or may, as a result of the Acquisition, the issue of Convertible Note and the Rights Issue, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities);

(iii) no director or employee of the Joint Sponsors has a directorship in the Company or any other company within the Group; and

(iv) certain fellow subsidiaries, holding companies or affiliates of TFSGL, whose ordinary businesses involve the trading of and dealing in securities, may derive commission from the trading and dealing in the securities of the Company.

JOINT SPONSORS' INTEREST IN THE ACQUIRED INTERESTS

Taifook Capital is a wholly-owned subsidiary of TFSGL of which Dr. Cheng Kar Shun and Mr. To Hin Tsun, Gerald, both directors of the Acquired Company, are the chairman and a non-executive director respectively. Mr. Chan Kam Ling, a director of the Acquired Company, resigned as a director of TFSGL on 1 July 2004. Mr. Doo Wai Hoi, William, a beneficial shareholder of the Hotel Group, is also a deputy chairman of TFSGL. As at the Latest Practicable Date, the Hotel Group was beneficially owned by CTF, Messrs. To Hin Tsun, Gerald, Doo Wai Hoi, William and Chan Kam Ling as to 73%, 11%, 8% and 3% respectively. The Joint Sponsors confirm that save as disclosed in this circular:

(i) neither the Joint Sponsors nor their respective associates have or may, as a result of the Acquisition, the issue of Convertible Note and the Rights Issue, have an interest in any class of securities of the Acquired Company or any of its subsidiaries or associated company (including options or rights to subscribe for such securities);

(ii) no director or employee of the Joint Sponsors who is involved in providing advice to the Acquired Company has or may have, as a result of the Acquisition, the issue of Convertible Note and the Rights Issue, any interest in any class of securities of the Acquired Company or any of its subsidiaries or associated company (including options or rights to subscribe for such securities; and

(iii) no director or employee of the Joint Sponsors has a directorship in the Acquired Company or any of its subsidiaries or associated company.

PRELIMINARY EXPENSES

The estimated preliminary expenses of the Company were approximately US$3,000 and were payable by the Company.

PROMOTER

Save as disclosed in this circular, no amount or benefit has been paid or given to the promoters in connection with the Acquisition or related transactions described in this circular within the two years preceding the date of this circular.

EXPERTS' DISCLOSURE OF INTERESTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

Name	Qualifications
Taifook Capital	A licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
Somerley	A licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purpose of the SFO
CIMB-GK	A licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Sallmanns (Far East) Limited	Property valuer
Quisumbing Torres ("QT")	Philippines registered lawyer
Goncalves Pereira, Rato, Ling, Vong & Cunha ("GPRLVC")	Macau registered lawyer
GFE Law Office ("GFE")	PRC registered lawyer
Richards Butler	Solicitors, Hong Kong
Conyers Dill & Pearman ("CDP")	Cayman Islands attorneys-at-law

Each of Taifook Capital, Somerley, CIMB-GK, Deloitte Touche Tohmatsu, Sallmanns (Far East) Limited, QT, GPRLVC, GFE, Richards Butler and CDP has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report or references to its name, as the case may be, in the form and context in which it is included.

As at the Latest Practicable Date, each of Taifook Capital, Somerley, CIMB-GK, Deloitte Touche Tohmatsu, Sallmanns (Far East) Limited, QT, GPRLVC, GFE, Richards Butler and CDP, did not have any shareholding or interests, directly or indirectly, in any member of the Group or the Acquired Company 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 or the Acquired Company.

Each of Taifook Capital, Somerley, CIMB-GK, Deloitte Touche Tohmatsu, Sallmanns (Far East) Limited, QT, GPRLVC, GFE, Richards Butler and CDP has, or has had, no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 March 2007, being the date to which the latest published audited consolidated accounts of the Group were made up.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are, or may be, material:

(a) the Original Agreement, the Extension Letters and the Supplemental Agreement;

(b) the Underwriting Agreement and a supplemental underwriting agreement dated 26 June 2007; and

(c) the Deed of Indemnity.

DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Save as disclosed in the announcements of the Company dated 23 November 2004 and 17 March 2005 in relation to the Acquisition, no contract or arrangement in which any of the Directors had a material interest and which is significant in relation to the business of the Enlarged Group subsisted as at the Latest Practicable Date.

Save as disclosed in the circular of the Company dated 24 November 2004 in relation to the acquisition of approximately 51.0% of the total voting rights in M8, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2007 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this circular, none of the Directors, the controlling Shareholder, management Shareholder and substantial Shareholder (as defined in the Listing Rules) and their respective associates has an interest in a business which competes or may compete with the business of the Enlarged Group or has any other conflict of interest which any such person has or may have with the Enlarged Group pursuant to Rule 11.04 of the GEM Listing Rules.

GENERAL

(a) The Company was incorporated in the Cayman Islands on 14 April 2000. The Company has registered with the Registrar of Companies in Hong Kong as an overseas company under Part XI of the Companies Ordinance on 30 May 2000 and Mr. Choi Wing Kin of Flat B, 4th Floor, Tower 13, Parc Oasis, Yau Yat Chuen, Kowloon, Hong Kong and Mr. So Kam Wing of Flat E, 1st Floor, Block 3, Bayview Garden, 633 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong have been appointed as persons in Hong Kong authorised to accept service of process and notices on its behalf.

(b) The secretary and qualified accountant of the Company is Mr. Kwok Chi Kin. Mr. Kwok is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and fellow member of The Association of Chartered Certified Accountants.

(c) The head office and principal place of business of the Company in Hong Kong is at Rooms 1207-8, New World Tower, 16-18 Queen's Road Central, Hong Kong.

(d) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(e) All the existing issued Shares are registered on the Company's branch register of members maintained by Computershare Hong Kong Investor Services Limited in Hong Kong. The Company's principal register of members is maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

(f) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(g) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

(h) The estimated expenses in relation to the Acquisition and the deemed new listing application of the Company is approximately HK$40 million.

(i) In the event of inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Rooms 1207-8, New World Tower 1, 16-18 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 1 August 2007:

– the memorandum of association and articles of association of the Company;

– the accountants' report on the Acquired Company prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix IV to this circular;

– the accountants' report on ATD prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix V to this circular;

– the written statement of adjustments prepared by Deloitte Touche Tohmatsu;

– the letter from Deloitte Touche Tohmatsu on the pro forma financial information of the Enlarged Group as set out in Appendix VI to this circular;

– the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 123 to 124 of this circular;

– the letter of advice from CIMB-GK, the text of which is set out on pages 125 to 154 of this circular;

– the letter, summary of value and valuation certificate prepared by Sallmanns (Far East) Limited relating to the property interest of the Enlarged Group, the text of which is set out in Appendix VII to this circular;

– the annual reports of the Company for the two years ended 31 March 2007;

– the Companies Law;

– the letter of advice issued by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law as referred to in Appendix VIII to this circular;

– the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

– the written consents referred to in the paragraph headed "Experts' disclosure of interests and consents" in this appendix;

– agreements entered into between Fortune and PAGCOR in June 2002 in relation to an acquisition of a 60 hectares site at the Manila Bay Reclamation Area proposed to be called Theme Park Manila;

– three tenancy agreements entered into by the Group with NWTCL for the lease of certain units on 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong dated 10 April 2004, 24 February 2005 and 23 May 2006 respectively and the termination letter dated 15 January 2007;

– a tenancy agreement entered into by the Group with NWTCL for the lease of two units on 12th Floor, New World Tower, Nos. 16–18 Queen's Road Central, Hong Kong dated 29 January 2007;

– a tenancy agreement dated 12 August 2004 entered into by MSPI with NWTCL for the lease of Unit 1902A, New World Tower, Nos. 16–18 Queen's Road Central, Hong Kong;

– an agreement dated 31 December 2001 with Guangdong Xi An Human Resources Limited (廣東錫安人力資源有限公司) to form a joint venture company, Guangdong Anbo Information Services Limited (廣東安博信息服務有限公司) in the PRC;

– synchronization licence agreement (television) of musical composition of title song with EMI Music Publishing Hong Kong ("EMI") dated 20 February 2003;

– mechanical production licence agreement (television) of musical composition of title song with EMI dated 20 February 2003;

– synchronization licence agreement (television) of lyrics of title song with EMI dated 24 December 2002;

– mechanical production licence agreement of lyrics of title song with EMI dated 24 December 2002;

– a placing and subscription agreement entered into between the Company and Mediastar dated 8 March 2004;

– the document of the Company dated 6 April 2004 in relation to, among others, the subscription and placing of new Shares for an aggregate amount of HK$200,000,000, settlement of certain loan notes of an aggregate principal amount of HK$80,000,000 issued by the Company, share consolidation and cancellation of preference shares and a possible mandatory unconditional general offer for the issued Shares;

– television programme licence agreement with Television Broadcasts Limited dated 6 September 2004;

– an agreement dated 25 October 2002 entered into between the Acquired Group and Megaworld in relation to the acquisition of MSPI;

– an agreement dated 25 October 2002 entered into between the Acquired Group and Megaworld in relation to the acquisition of NCHI;

– a coordinating agreement dated 25 October 2002 and their subsequent amendment agreements entered into among the Hotel Group, Megaworld, Fairmont, HVPI, PBPI and BMPI in relation to the acquisition and leasing of certain properties in the Philippines;

– a lease agreement dated 2 April 2003 entered into NCHI and PBPI for the leasing of six hotel/commercial units;

– a lease agreement dated 2 April 2003 entered into MSPI and HVP for the leasing of the Fairmont Land;

– a pre-opening agreement dated 12 December 2003 entered into between the Hotel Group and HPSL;

– a licence agreement dated 12 December 2003 entered into between the Hotel Group and HPSL;

– a sale and marketing agreement dated 12 December 2003 entered into between the Hotel Group and HISPL;

– a lease agreement dated 14 March 2003 entered into between MSPI and PAGCOR in relation to certain casino area in the Hotel;

– a cooperative agreement dated 12 November 2004 entered into between SJM and ATD in relation to the operation of a casino in the hotel complex to be constructed by ATD on the Macau Property;

– a project service agreement dated 18 April 2007 entered into between Cyber On-Air (Asia) Limited, a wholly-owned subsidiary of the Company, and New World Telecommunications Limited in relation to the provision of installation service of indoor cellular stations in a property in Hong Kong by Cyber On-Air (Asia) Limited;

– the circular of the Company dated 21 December 2006 in relation to the acceptance by a wholly owned subsidiary of the Company of the mandatory conditional cash offer made by Kingston Securities Limited for and on behalf of Famex Investments Limited for all, among others, the issued shares of Hanny Holdings Limited in respect of 5,000,000 shares of Hanny Holdings Limited held by it; and

– the three letters contained in the section headed "Additional information relating to the casino located in the Hotel".

INTERNATIONAL ENTERTAINMENT CORPORATION
國 際 娛 樂 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of International Entertainment Corporation (the "Company") will be held on 1 August 2007 at 11:00 a.m., at Room 605, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions, of the Company:–

ORDINARY RESOLUTIONS

1. "**THAT**

(A) the conditional agreement dated 23 November 2004 as amended by three extension letters dated 30 December 2005, 22 June 2006 and 22 December 2006 and the supplemental agreement dated 26 June 2007 (the **"Acquisition Agreement"**) entered into between Cross-Growth Co., Ltd. ("**Cross-Growth**"), the Company and Chow Tai Fook Enterprises Limited (**"CTF"**), the indirect controlling shareholder of the Company, in relation to the acquisition (**"Acquisition"**) by the Company of Cross-Growth's entire interest in Fortune Gate Overseas Limited (**"Fortune Gate"**), a company beneficially and legally owned by Cross-Growth, for a total consideration of HK$1,198.2 million (subject to adjustments), copies of which have been produced to this meeting marked "A" and signed by the chairman of the meeting for the purpose of identification, and all the transactions contemplated thereunder, including, without limitation, the issue of a convertible note by the Company to finance the Acquisition and the issue of new shares by the Company pursuant to the exercise of the conversion rights under the convertible note, be and are hereby approved, confirmed and ratified; and

(B) the directors of the Company (the "**Directors**") be and are hereby authorised to take all steps which, in their opinion, are necessary, desirable or expedient to implement and/or give effect to the terms of the Acquisition Agreement."

2. "**THAT**, conditional upon the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Increase (as defined below) the authorised share capital of the Company be increased to HK$2,000,000,000 divided into 2,000,000,000 shares of HK$1.00 each in the capital of the Company (the "Shares") by the creation of 1,500,000,000 Shares (the **"Capital Increase"**)."

3. "**THAT** (a) conditional on the passing of Ordinary Resolution No. 2 as set out in the notice convening this meeting and the Capital Increase becoming effective; and (b) subject to and conditional upon the obligations of CTF under the underwriting agreement dated 23 November 2004 as amended by the supplemental underwriting agreement dated 26 June 2007 (the **"Underwriting Agreement"**) (copies of which have been produced to this meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) becoming unconditional:

   (A) the issue of up to 943,325,788 new shares (**"Rights Shares"**) by the Company pursuant to an offer by way of rights to holders of shares in the Company (**"Shareholders"**) at HK$1.5 per Rights Share (**"Rights Issue"**) in the proportion of four Rights Shares for every existing share held by the Shareholders whose names appear on the register of members of the Company on 2 August 2007 (or such other date as CTF may agree in writing with the Company) (**"Record Date"**) other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, on and subject to the terms and conditions set out in the circular to the Shareholders dated 29 June 2007 (the "**Circular**") and on such other terms and conditions as may be determined by the Directors, be and is hereby approved; and

(B) the Directors be and are hereby authorised to issue and allot the Rights Shares on terms as set out in the Circular and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue, the Underwriting Agreement and any of the transactions contemplated thereunder."

By order of the Board
International Entertainment Corporation
Kwok Chi Kin
Company Secretary

Hong Kong, 29 June, 2007

Head office and principal place of business in Hong Kong:
Rooms 1207-8
New World Tower 1
16-18 Queen's Road Central
Hong Kong

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

As at the date of this notice, the board of directors of the Company comprises five executive directors, namely Dr. Cheng Kar Shun, Mr. Lo Lin Shing, Simon, Mr. To Hin Tsun, Gerald, Mr. Choi Wing Kin and Mr. So Kam Wing, one non-executive director, namely Mr. Wu Wing Kin, and three independent non-executive directors, namely Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Wong Chi Keung.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting of the Company may appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other, person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

3. The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting thereof at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of the meeting or any adjourned meeting thereof, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to have been revoked.

5. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.