THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Riche Multi-Media Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF A 100% INTEREST IN THE ISSUED SHARE CAPITAL OF EXCEPTIONAL GAIN PROFITS LIMITED AND A SALE LOAN

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

大華證券(香港)有限公司
GRAND CATHAY SECURITIES (HONG KONG) LIMITED

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter from the Independent Financial Adviser setting out its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 43 of this circular.

A notice convening the special general meeting of Riche Multi-Media Holdings Limited to be held at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 31 December 2007 at 12:00 noon is set out on pages 246 to 247 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

14 December 2007

CONTENTS

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

"Acquisition"	the proposed acquisition of a 100% interest in the issued share capital of Exceptional Gain and the Sale Loan;
"associate"	has the meaning as ascribed to it under the Listing Rules;
"Announcement"	the announcement dated 8 August 2007 issued by the Company in relation to the Acquisition;
"Board"	board of Directors;
"Business Day"	a day (other than a Saturday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business;
"China Star" or "Vendor"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange and a substantial Shareholder;
"Company"	Riche Multi-Media Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange;
"Completion"	the completion of the Acquisition;
"Consideration"	the consideration payable by the Purchaser for the Acquisition pursuant to the S&P Agreement, being HK$447,000,000;
"Convertible Note"	the 0% per annum convertible note to be issued by the Company in the aggregate amount of HK$447,000,000 to the Vendor (or as it may direct) on Completion;
"Conversion Period"	a period of 10 years from the date of issue of the Convertible Note;
"Conversion Price"	the initial conversion price of HK$1.00 per Conversion Share, subject to adjustment, pursuant to the terms of the Convertible Note;

"Conversion Share(s)"	the Share(s) to be allotted and issued upon the exercise of the conversion rights in respect of the Convertible Note;
"Director(s)"	director(s) of the Company;
"Enlarged Group"	the Group immediately after Completion;
"Exceptional Gain"	Exceptional Gain Profits Limited, a wholly-owned subsidiary of China Star;
"Exceptional Gain Group"	Exceptional Gain and its subsidiaries;
"Group"	the Company and its subsidiaries;
"Hong Kong"	Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	the independent board committee comprising Mr. Tang Chak Lam, Gilbert and Mr. Lien Wai Hung, all of whom are independent non-executive Directors, to advise the Independent Shareholders on the Acquisition;
"Independent Financial Adviser"	Grand Cathay Securities (Hong Kong) Limited, a licensed corporation permitted to engage in type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the S&P Agreement and the Acquisition;
"Independent Shareholders"	Shareholders other than the Vendor and its associates;
"Independent Third Party"	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules);
"KHL"	Kingsway Hotel Limited, a company incorporated in Macau whose principal asset is the Kingsway Hotel;

"Kingsway Hotel"	the hotel building (comprising the portions being operated as a hotel under the name of Kingsway Hotel and the commercial podium having a covered floor area of about 18,165.76 sq.m.) situate at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau;
"Last Trading Day"	1 August 2007, being the last trading day of the Shares on the Main Board of the Stock Exchange immediately prior to the date of the Announcement;
"Latest Practicable Date"	11 December 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Macau"	Macau Special Administrative Region of the PRC;
"Noteholder"	holder of the Convertible Note;
"Placing"	the placing of 173,000,000 existing Shares by Classical Statue Limited as announced by the Company on 25 July 2007;
"PRC"	the People's Republic of China;
"Purchaser" or "Legend Rich"	Legend Rich Limited, a wholly-owned subsidiary of the Company;
"Sale Loan"	all obligations, liabilities and debt owing by Exceptional Gain to the Vendor amounted to approximately HK$409,222,000 as at the date of the S&P Agreement;
"SGM"	a special general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things, the Acquisition;
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;

"S&P Agreement"	a conditional sale and purchase agreement entered into between the Purchaser, the Company and the Vendor dated 1 August 2007 in respect of the Acquisition;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Top-Up"	the top-up subscription of 173,000,000 Shares by Classical Statue Limited in connection with the Placing; and
"%"	per cent.

RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

Executive Directors:
Mr. Heung Wah Keung
Ms. Chen Ming Yin, Tiffany

Independent non-executive Directors:
Mr. Tang Chak Lam, Gilbert
Mr. Ho Wai Chi, Paul
Mr. Lien Wai Hung

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3408, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

14 December 2007

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
IN RELATION TO
THE PROPOSED ACQUISITION OF A 100% INTEREST
IN THE ISSUED SHARE CAPITAL OF
EXCEPTIONAL GAIN PROFITS LIMITED
AND A SALE LOAN**

INTRODUCTION

On 8 August 2007, the Board announced that on 1 August 2007 (after trading hours), the S&P Agreement was entered into between the Purchaser, the Company and the Vendor, pursuant to which the Purchaser would acquire a 100% interest in Exceptional Gain and the Sale Loan, at an aggregate consideration of HK$447,000,000. The Consideration shall be satisfied by the issue of the Convertible Note.

The purpose of this circular is to provide (i) further information in respect of the S&P Agreement and the Acquisition; (ii) the letter of advice from the Independent Board Committee to Independent Shareholders; (iii) the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement and the Acquisition; (iv) the accountants' report on the Exceptional Gain Group, the accountants' report on KHL, the independent valuation report of the Kingsway Hotel; and (v) to give you a notice of the SGM at which resolution will be proposed to consider and if thought fit, approve, inter alia, the S&P Agreement and the Acquisition.

THE S&P AGREEMENT

Date: 1 August 2007 (after trading hours)

Parties:

(i)	Purchaser:	Legend Rich, a wholly-owned subsidiary of the Company
(ii)	Vendor:	China Star, an investment holding company
(iii)	Guarantor of the Purchaser:	the Company

The Vendor is a connected person (as defined in the Listing Rules) of the Company under Chapter 14A of the Listing Rules and it is a substantial Shareholder.

The Acquisition

Pursuant to the S&P Agreement which was negotiated upon normal commercial terms, the Purchaser has agreed to acquire and the Vendor has agreed to dispose or procure disposal of a 100% interest in Exceptional Gain and the Sale Loan. Exceptional Gain is an investment holding vehicle which indirectly holds a 50% interest in the Kingsway Hotel. The Kingsway Hotel is a three star hotel named Kingsway Hotel wholly owned by KHL and is located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau.

Exceptional Gain was incorporated in the British Virgin Islands on 28 January 2000. The audited consolidated net liabilities value of the Exceptional Gain Group attributable to the equity holders of Exceptional Gain as at 30 June 2007 was approximately HK$33,318,000.

Consideration

The Consideration, being HK$447,000,000, was determined after arm's length commercial negotiations and with reference to a property valuation conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer appointed by the Vendor, on an open market basis valuing the Kingsway Hotel at approximately HK$894,000,000 as at 31 July 2007.

The Consideration shall be satisfied by the issue of the Convertible Note by the Company on Completion. The issue of the Convertible Note and the conversion thereunder will not result in a change of control of the Company.

The Vendor had acquired its 50% interest in KHL at an average consideration of approximately HK$361,688,000 which is arrived at after taking into the acquisition cost of approximately HK$231,875,000 for the 38.5% interest in KHL and the acquisition cost of approximately HK$491,500,000 for the 61.5% interest in KHL less the attributable acquisition cost of approximately HK$361,687,000 in relation to the disposal of 50% interest in KHL in June 2007. The balance of 50% interest in KHL is held by Independent Third Parties.

Condition

Completion is conditional upon, the following conditions being fulfilled and/or waived by the Purchaser as at the date of Completion:

(a) the Shares remaining listed and traded on the Stock Exchange at all times from the date of the S&P Agreement to and on the date of Completion, save for (i) suspension of less than 20 consecutive Business Days or (ii) the suspension on account of clearance of any announcement in respect of any of the transactions contemplated under the S&P Agreement;

(b) the passing of the necessary resolution(s) by the Shareholders (other than those (if any) who are required to abstain from voting under the Listing Rules) at the SGM to approve the Company's entry into of the S&P Agreement, the performance of the transactions contemplated thereunder, the issue of the Convertible Note and the Shares to be issued upon conversion of the Convertible Note;

(c) the passing of the necessary resolution(s) by the shareholders of the Vendor (other than those (if any) who are required to abstain from voting under the Listing Rules) at a general meeting of the Vendor to approve the Vendor's entry into of the S&P Agreement and the performance of the transactions contemplated thereunder;

(d) all necessary statutory governmental and regulatory obligations having been complied with and all necessary regulatory authority in Hong Kong or in Macau, governmental and third party consents and approvals (including those person entitled to any pre-emption rights) and waivers for the purposes of the transactions contemplated under the S&P Agreement having been obtained without any conditions (or subject to other conditions reasonably acceptable to the parties to the S&P Agreement); and

(e) title checking by the Company of all title deeds and documents relating to the Kingsway Hotel to the reasonable satisfaction of the Purchaser that there are no circumstances which might lead to the title of the Purchaser to the Kingsway Hotel (including the land on which the Kingsway Hotel situates) being defective or not good or marketable or restricted in any adverse way, and satisfactory review of the tenancy agreements affecting the Kingsway Hotel.

If any of the conditions has not been fulfilled on or before 31 December 2007, the Vendor or the Purchaser shall be entitled to rescind the S&P Agreement by giving written notice to the other whereupon the provisions of the S&P Agreement shall from such date have no further force and effect and no party shall have any liability under them (without prejudice to the rights of the parties in respect of any antecedent breaches).

Completion shall take place on the third Business Day after the fulfillment and/or waiver of the last of the conditions precedent in the S&P Agreement or such later date as the Vendor and the Purchaser may agree.

Other than condition (c), none of the above conditions has been fulfilled as at the Latest Practicable Date.

TERMS OF THE CONVERTIBLE NOTE

The terms of the Convertible Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK$447,000,000

Interest

The Convertible Note will not carry any interest.

Maturity

A fixed term of 10 years from the date of issue of the Convertible Note. Unless previously redeemed, converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of the Convertible Note on the maturity date.

Conversion

The Noteholder may at any time during the Conversion Period convert the whole or part (in multiples of HK$1,000,000) of the principal amount of the Convertible Note into Conversion Shares at the Conversion Price.

Subject to the conditions provided in the instrument, the Company may at any time during the Conversion Period by at least 7 days' prior notice in writing request the Noteholder to convert certain amount of the Convertible Note as specified therein and the Noteholder shall convert such amount of the Convertible Note registered in its names into Conversion Shares as so requested by the Company.

Under the respective terms of the Convertible Note, the Vendor cannot convert the Convertible Note or part thereof if upon the exercise of the conversion rights under the Convertible Note, the Vendor and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant exercise.

Conversion Price

The Conversion Price is HK$1.00 per Conversion Share subject to adjustments.

The adjustments for Conversion Price include the followings:

(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;

(vi) an issue of Shares wholly for cash at a price per Share which is less than 80% of the market price on the date of announcement of the terms of such issue; and

(vii) an issue of Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price of the date of the announcement of the terms of such issue.

The Company will issue, when applicable, an announcement in respect of any adjustment made to the Conversion Price.

The Conversion Price represents (i) a premium of approximately 29.87% over the closing price of HK$0.77 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 21.95% over the average of the closing prices of approximately HK$0.82 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day; (iii) a premium of approximately 27.39% over the average of the closing prices of HK$0.785 per Share as quoted on the Stock Exchange for the last 10 Trading Days up to and including the Last Trading Day; (iv) a premium of approximately 292.16% over the closing price of HK$0.255 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 72% to the net assets value per Share of HK$0.58 based on the audited consolidated accounts of the Group as at 31 December 2006 adjusted for the placings of new Shares as completed in March, May, July and August 2007.

The Conversion Price is arrived at after arm's length negotiation between the parties and is based on the average closing price at HK$0.785 for the last 10 trading days prior to the suspension and by taking into account the future prospect of the Group's recent expansion into the Macau property market and the adjusted net assets value per Share as at 31 December 2006.

Conversion Shares

As at the Latest Practicable Date, Classical Statue Limited is holding 276,351,000 Shares, representing approximately 21.24% of the existing issued share capital of the Company. Assuming the Vendor exercises the conversion rights attaching to the Convertible Note, the maximum Conversion Shares that the Company can allot and issue pursuant to the instrument is 162,678,000 Conversion Shares, representing (i) 12.5% of the existing share capital of the Company; and (ii) 11.11% of the issued share capital of the Company as enlarged by the 162,678,000 Conversion Shares. Upon the allotment and issue of the 162,678,000 Conversion Shares, the Vendor and Classical Statue Limited will hold an aggregate of 439,029,000 Shares, representing approximately 29.99% of the issued share capital of the Company as enlarged by the 162,678,000 Conversion Shares. The Conversion Shares will be issued pursuant to the specific mandate to be sought at the SGM.

Early redemption

The Company may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem the Convertible Note (in whole or in part) at their face value.

Ranking

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares.

Status of the Convertible Note

The Convertible Note constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Voting rights

The Convertible Note does not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Note. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

Effect on the shareholding of the Company assuming all the Convertible Note having been converted into Conversion Shares:

Shareholders	Shares in issue as at 1 August 2007 taking into account the Placing but not the Top-Up		Immediately after the Placing and Top-Up		Full conversion of the Convertible Note	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Classical Statue Limited *(Note 1)*	103,351,000	9.16	276,351,000	21.24	276,351,000	18.88
The Vendor *(Note 2)*	0	0.00	0	0.00	162,678,000	11.11
Sub-total	103,351,000	9.16	276,351,000	21.24	439,029,000	29.99
Northbay Investments Holdings Limited *(Note 3)*	129,492,174	11.48	129,492,174	9.95	129,492,174	8.85
Public Shareholders	895,396,800	79.36	895,396,800	68.81	895,396,800	61.16
Total	1,128,239,974	100.00	1,301,239,974	100.00	1,463,917,974	100.00

Notes:

1. Classical Statue Limited is a wholly-owned subsidiary of China Star Entertainment (BVI) Limited. China Star Entertainment (BVI) Limited is a wholly-owned subsidiary of the Vendor. The Vendor and China Star Entertainment (BVI) Limited are deemed to be interested in the Shares owned by Classical Statue Limited.

2. Based on the Conversion Price of HK$1.00 per Conversion Share, a maximum of 447,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights under the Convertible Note in full. For illustration purpose, assuming full conversion of the Convertible Note on the Latest Practicable Date and subject to restriction that any conversion of the Convertible Note cannot trigger off a mandatory offer under rule 26 of the Hong Kong Code on Takeovers and Mergers on the part of the Vendor, the maximum Conversion Shares that can be issued converted under the Convertible Note will only represent 29.99% of the issued share capital of the Company.

3. 35.5% and 64.5% of the shareholding of Northbay Investments Holdings Limited are respectively owned by Asia Vest Partners VII Limited and Asia Vest Partners X Limited, and both of them are indirectly wholly-owned by Mr. Andrew Nan Sherrill through Asia Vest Partners Limited. Northbay Investments Holdings Limited and its ultimate beneficial owner does not hold any management position or directorship in the Company.

As at the Latest Practicable Date, other than the 239,355,994 employee share options of the Company which have been granted but not exercised, the Company has no outstanding convertible securities.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any fund raising activities in the past 12 months before the Latest Practicable Date:

Date of announcement	**Event**	**Net proceeds (approximately)**	**Intended use of proceeds as announced**	**Actual use of proceeds**
25 July 2007	Placing of 173,000,000 existing Shares and subscription of 173,000,000 new Shares	HK$139,800,000	For expansion of the property investment business of the Group, including the property set out in the Company's announcement dated 23 July 2007	General working capital*

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
25 June 2007	Placing of 162,100,000 new Shares under general mandate	HK$78,900,000	For the expansion of the Group's property investment business	General working capital*
10 April 2007	Placing of 155,620,000 new Shares	HK$83,300,000	For financing possible diversified investments of the Group and the general working capital of the Group	General working capital*
19 March 2007	Placing of 129,686,000 existing Shares and subscription of 129,686,000 new Shares	HK$50,500,000	For financing possible diversified investments of the Group and the general working capital of the Group	General working capital*

*: The proceeds were fully utilised on the deposit payment on the proposed acquisition of a 100% equity interest in Modern Vision (Asia) Limited as announced by the Company on 23 July 2007. As the proposed acquisition was not approved by the Independent Shareholders at the special general meeting of the Company held on 21 November 2007, the deposit payment was refunded to the Company in November 2007.

INFORMATION ON EXCEPTIONAL GAIN, KHL AND THE KINGSWAY HOTEL

Information on Exceptional Gain

Exceptional Gain was incorporated in the British Virgin Islands on 28 January 2000. Exceptional Gain is an investment holding company and a wholly-owned subsidiary of the Vendor. The major asset of Exceptional Gain is its 50% equity interest in KHL. The balance of 50% interest in KHL is held by Independent Third Parties.

Previously, Exceptional Gain held a leasehold land and building for use as a staff quarter of the Vendor. In the year ended 31 December 2006, the leasehold land and building was disposed to an Independent Third Party at a consideration of HK$6,900,000.

In March 2007, Exceptional Gain acquired 38.50% equity interest in KHL from an Independent Third Party at a consideration of HK$231,777,000. In May 2007, Exceptional Gain acquired the remaining 61.50% equity interest in KHL from the Independent Third Parties at a consideration of HK$490,000,000. In June 2007, Exceptional Gain disposed 50% equity interest in KHL to two Independent Third Parties at a total consideration of HK$315,000,000.

Other than holding the leasehold land and building and the 50% equity interest in KHL, Exceptional Gain has not been carrying out any business or trading since its date of incorporation.

According to the accountants' report on the Exceptional Gain Group as shown in Appendix II to this circular, the consolidated net liabilities values of the Exceptional Gain Group as at 31 December 2005 and 2006 were HK$1,897,000 and HK$835,000 respectively and the consolidated net liabilities value of the Exceptional Gain Group attributable to the equity holders of Exceptional Gain as at 30 June 2007 was HK$33,318,000. The loss attributable to the equity holders of Exceptional Gain both before and after taxation for the year ended 31 December 2005 and the six months ended 30 June 2007 were HK$278,000 and HK$32,483,000 respectively. The profit attributable to the equity holders of Exceptional Gain both before and after taxation for the year ended 31 December 2006 was HK$1,062,000.

Information on KHL and the Kingsway Hotel

The Kingsway Hotel is a three-star hotel named Kingsway Hotel and is wholly owned by KHL. The Kingsway Hotel is located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The Kingsway Hotel opened in 1992 and had a total of 383 guests rooms. It is currently under renovation to becoming a luxury boutique hotel.

A property valuation on the Kingsway Hotel had been conducted by Vigers Appraisal and Consulting Limited, an independent professional valuer appointed by the Company, on an open market basis valuing the Kingsway Hotel at approximately HK$912,000,000 as at 31 October 2007.

According to the accountants' report on KHL as shown in Appendix III to this circular, the net assets value of KHL as at 31 December 2006 and 30 June 2007 were HK$49,138,000 and HK$53,855,000 respectively. The profit before and after taxation for the year ended 31 December 2006 were HK$17,834,000 and HK$16,961,000 respectively. The profit before and after taxation for the six months ended 30 June 2007 were HK$4,735,000 and HK$4,717,000 respectively.

In July 2007, KHL obtained banking facilities of up to HK$650,000,000 from Seng Heng Bank Limited for the purpose of financing the renovation of the Kingsway Hotel and general working capital. The banking facilities comprise a term loan of HK$450,000,000 and an overdraft of HK$200,000,000. The term loan portion is interest bearing at 2% per annum below the best lending rate offered by Seng Heng Bank Limited and maturing in July 2012. The overdraft portion is interest bearing at 1% below the best lending rate offered by Seng Heng Bank Limited; maturing in 12 months from the date of the availability of the overdraft; and renewable at Seng Heng Bank Limited's discretion. The banking facilities were secured by guarantees given by the shareholders of KHL in proportion to their percentage shareholding and a charge over the Kingsway Hotel and its staff quarters. As at the Latest Practicable Date, KHL has drawn down a term loan of HK$450,000,000, of which HK$200,000,000 was advanced to Exceptional Gain as an unsecured and interest-free loan. The unsecured and interest-free loan of HK$200,000,000 was utilised by the Vendor to pay a refundable deposit in relation to the proposed acquisition of a 51% equity interest in Best Mind International Inc. as announced by the Vendor on 30 August 2007.

In light of the unsecured and interest-free loan made to Exceptional Gain by KHL, a conditional loan agreement was entered into on 23 October 2007 between KHL, as lender, and Most Famous Enterprises Limited, (a substantial shareholder of KHL) as borrower, in respect of an unsecured and interest-free loan facility of up to HK$196,000,000. The loan facility is for a term not exceeding 3 years commencing from the drawdown date. The conditional loan agreement was approved by the shareholders (other than the parties involved in the conditional loan agreement and its associates) of the Vendor on 3 December 2007.

According to the S&P Agreement, the Vendor has to repay the HK$200,000,000 to Exceptional Gain upon completion of the Acquisition. The Directors (including the independent non-executive Directors) are of the view that the unsecured and interest-free loan of HK$200,000,000 made by KHL to Exceptional Gain (i) provides an alternative source of financing to the Group's property investment business; and (ii) may reduce the frequency of the Company's equity financing activities in future. As KHL made the unsecured and interest-free loan of HK$200,000,000 to Exceptional Gain on 17 August 2007, Most Famous Enterprises Limited has requested that in all fairness to all shareholders of KHL, a pro rated interest-free loan should also be made to the other shareholders of KHL. In light of the above, the Directors (including the independent non-executive Directors) are of the view that (i) the request by Most Famous Enterprises Limited is fair and reasonable to the shareholders of KHL (where the Group shall be a shareholder of KHL upon completion of the Acquisition) and (ii) the loan facility to Most Famous Enterprises Limited is fair and reasonable and in the interests of the Company and the Shareholders.

REASONS FOR AND FINANCIAL EFFECTS OF THE ACQUISITION

Reasons and Benefits of the Acquisition

The principal activity of the Company is investment holding. The principal subsidiaries of the Company are principally engaged in the distribution of films, sub-licencing of film rights and sale of financial assets and property investment.

With the continuing growth of Macau's economy as well as its property market, the Directors (including the independent non-executive Directors) believe that the Acquisition can enhance the investment portfolio and future earnings of the Group and thus in the interests of the Company and the Shareholders as a whole.

Furthermore, the Directors believe that the Acquisition would enable the Group to diversify its businesses and broaden its revenue base which would have a positive impact on the Group's profitability given the Directors' positive outlook of Macau hospitality sector in the near future.

Ms. Chen Ming Yin, Tiffany, an executive Director, represented the Company in the negotiations on the Acquisition.

Following Completion, the financials results of the Exceptional Gain Group will be consolidated into that of the Group. There will be no change in board composition of the Company as a result of the Acquisition. The Acquisition is not related to the very substantial acquisition of the proposed acquisition of 100% equity interest in Modern Vision (Asia) Limited as announced by the Company on 23 July 2007.

Financial Effects of the Acquisition

Net assets

As at 30 June 2007, the audited consolidated net assets value of the Group attributable to the equity holders of the Company amounted to HK$652,822,000.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix VI to this circular, the unaudited pro forma consolidated net assets value of the Enlarged Group attributable to the equity holders of the Company would be HK$887,965,000.

Earnings

The Group recorded a consolidated net loss of HK$21,294,000 for the year ended 31 December 2006. As set out in Appendix VI to this circular, the pro forma consolidated net loss of the Enlarged Group for the year ended 31 December 2006 would be HK$26,250,000.

The deterioration in the unaudited pro forma consolidated net loss of the Enlarged Group for the year ended 31 December 2006 was attributable to the recognition of a loss on disposal of 50% equity interest in KHL of HK$9,175,000 to two Independent Third Parties in June 2007 and the imputed interest of HK$16,732,000 in respect of the Convertible Note to be issued to the Vendor as the Consideration, which are partly offset by the profit from operation of HK$17,834,000 generated by KHL.

The Directors expect that, upon the completion of the renovation of the Kingsway Hotel, KHL will be able to generate sufficient earnings from hotel room sales and the leasing of the Kingsway Hotel area for casino and night-club. In view of the growing inbound tourists to Macau, the Directors believe that the Acquisition will provide the Enlarged Group with a stable source of income and diversify its earnings base.

Gearing ratio

As at 30 June 2007, the total borrowings of the Group was HK$269,400,000 and the Group's gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 41%.

As set out in the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix VI to this circular, the total borrowings of the Enlarged Group would be increased to HK$920,784,000 and the Enlarged Group's gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders would be 104%. The increase in total borrowings is attributed to the inclusion of the liability component of HK$201,384,000 of the Convertible Note to be issued as the Consideration and the drawdown of the term loan of HK$450,000,000 granted by Seng Heng Bank Limited.

In addition to the benefits of the Acquisition as explained above, the Directors consider that the pro forma gearing ratio of the Enlarged Group to be acceptable because:

(a) 0% interest rate on the Convertible Note vis-à-vis the best lending rate of 7% per annum as quoted by lending banks in Hong Kong. There is no on-going annual interest payment resulted from the Acquisition;

(b) the Convertible Note has a fixed term of 10 years from the date of its issue and shall be redeemed by the Company on the maturity date. There is no immediate cash outlay for the Acquisition and the repayment of the Convertible Note will be funded by the expected dividend income from KHL; and

(c) it is expected that the gearing ratio of the Enlarged Group will be gradually reduced after taking into the expected profit contributed by KHL.

PROSPECTS OF THE ENLARGED GROUP

As the Directors believe that the operating environment for film distribution in the PRC will not be improved in coming years, the best strategy for Group is to slow down its film distribution business and seek other suitable investment opportunities to diversify its revenue base.

With the effect of the PRC's accession into the World Trade Organisation in place and 2008 Beijing Olympic Games, Beijing is expected to see an increasing number of expatriates from multinational companies and foreign government institutions, which will lead to continual increase in demand for high-end serviced apartments. The Group's property located at No. 9 Gongyuan Xijie, Dongcheng District, Beijing, the PRC (the "Beijing Property") is under renovation and being transformed from an apartment complex into a high-end serviced apartment. Upon the completion of the renovation, the Beijing Property is expected to meet the demand. It is expected that the Beijing Property will commence operation in the fourth quarter of 2007. The Directors believe that the Beijing Property enables the Group to diversify its earnings base and provides the Group with a stable source of revenue, which will have a positive impact on the Group's profitability.

The Acquisition is in line with the Group's strategy to diversify its revenue base. Macau has successfully established itself as a world-class gaming and leisure destination in Asia in recent years. According to Macau Government Tourism Office, Macau received 22,000,000 new visitors in year 2006. More visitors, many of them coming under individual traveler agreement with 44 Mainland cities, need more hotels and related services. Currently, hotels in Macau are basically five-star and three-star and there is no stylish and luxury boutique hotel in the market. The Directors believe that there is a demand for stylish, comfort and luxury boutique hotels in Macau from the growing "middle-class" Mainland visitors. With its superb location at the center of Macau, the Directors believe that the Kingsway Hotel will capture a plenty of guests after its renovation. In addition, the Directors also believe that the value of the Kingsway Hotel will be better realised and reflected in the Enlarged Group as the Acquisition will enable the Enlarged Group to build up its own branding in hotel and hospitality sector.

Following the completion of the Acquisition, Exceptional Gain and KHL will become subsidiaries of the Group. Upon the completion of the Acquisition, whilst the Enlarged Group will continue to carry out its existing business, the Enlarged Group will carry out hotel and hospitality business in Macau via KHL. The Directors believe that the Acquisition will enable the Enlarged Group to diversify its revenue sources and provide a stable source of income to the Enlarged Group.

RECONCILIATIONS OF PROPERTY VALUATIONS ON THE KINGSWAY HOTEL AND THE INVESTMENT PROPERTIES HELD BY THE GROUP WITH THEIR CARRYING VALUES

The reconciliation between the appraised value of the Kingsway Hotel and KHL's staff quarters as at 31 October 2007 with its carrying value as at 30 June 2007 as reflected in the accountants' report on the Exceptional Gain Group as set out in Appendix II to this circular are as follows:

	HK$'000
The Kingsway Hotel and KHL's staff quarters:	
Property valuation as at 31 October 2007 as set out in Appendix VIIa	921,250
Carrying value as at 30 June 2007	(801,374)
Revaluation surplus	119,876

The reconciliation between the appraised values of the investment properties held by the Group as at 31 October 2007 with their carrying values as at 30 June 2007 as reflected in the interim financial statements of the Group for the six months ended 30 June 2007 are as follows:

	RMB$'000	*HK$'000*
Investment properties:		
Property valuation as at 31 October 2007 as set out in Appendix VIIb	790,000	813,700
Carrying value as at 30 June 2007	(680,659)	(701,079)
Additions from 1 July 2007 to 31 October 2007	(40,129)	(41,333)
Increase in fair value of investment properties	69,212	71,288

Note: RMB1 =HK$1.03

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. As the Vendor is a connected person (as defined in the Listing Rules) of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM. Classical Statue Limited, an indirect wholly-owned subsidiary of the Vendor and a substantial Shareholder, together with its associates shall abstain from voting at the SGM in respect of the resolution to approve the Acquisition.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising two independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the S&P Agreement and the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited). Grand Cathay Securities (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement and the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited). As Mr. Ho Wai Chi, Paul is an independent non-executive director of the Vendor, Mr. Ho Wai Chi, Paul is not a member of the Independent Board Committee.

PROCEDURES FOR DEMANDING A POLL

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

(i) the chairman of the meeting; or

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

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

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

THE SGM

A notice convening the SGM to be held at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 31 December 2007 at 12:00 noon for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolutions to approve the entering into of the S&P Agreement, the Acquisition and the transactions contemplated thereunder is set out on pages 246 to 247 of this circular.

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

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the S&P Agreement and the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited) to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers the Acquisition is in the interests of the Company and its Shareholders as a whole and that the terms of the S&P Agreement and the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited) are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the ordinary resolution proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 22 to 23 of this circular, the letter from the Independent Financial Adviser set out on pages 24 to 43 of this circular and the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Riche Multi-Media Holdings Limited
Heung Wah Keung
Chairman

RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

14 December 2007

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF A 100% INTEREST IN THE ISSUED SHARE CAPITAL OF EXCEPTIONAL GAIN PROFITS LIMITED AND A SALE LOAN

We refer to the circular dated 14 December 2007 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used therein unless the context requires otherwise.

We have been appointed to the Independent Board Committee to advise you in connection with the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited), details of which are set out in the letter from the Board in the Circular. Grand Cathay Securities (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited). Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 24 to 43 of the Circular.

Having considered the terms of the S&P Agreement and the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited), the interest of the Independent Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the Acquisition (including the loan facility of up to HK$196,000,000 to Most Famous Enterprises Limited) is in the interests of the Company and its Shareholders as a whole and that the terms of the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the S&P Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Tang Chak Lam, Gilbert **Mr. Lien Wai Hung**
Independent non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Grand Cathay Securities (Hong Kong) Limited, the Independent Financial Adviser, dated 14 December 2007 prepared for incorporation in this circular.

大華證券(香港)

GRAND CATHAY SECURITIES (HONG KONG) LIMITED
香港中環花園道3號中國工商銀行大廈7樓705至706室
Room 705-706, 7/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
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14 December 2007

To the Independent Board Committee
and the Independent Shareholders
of Riche Multi-Media Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF A 100% INTEREST IN THE ISSUED SHARE CAPITAL OF EXCEPTIONAL GAIN AND A SALE LOAN

INTRODUCTION

We refer to the circular dated 14 December 2007 (the "Circular") issued by the Company to its Shareholders of which this letter forms part and to our appointment as financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" (the "Letter") contained in the Circular and in which this letter is reproduced. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

On 8 August 2007, the Board announced that on 1 August 2007 (after trading hours), the S&P Agreement was entered into between the Purchaser, the Company and the Vendor, pursuant to which the Purchaser would acquire a 100% interest in Exceptional Gain and the Sale Loan, at an aggregate consideration of approximately HK$447 million. The consideration shall be satisfied by the issue of the Convertible Note.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. As the Vendor is a connected person (as defined in the Listing Rules) of the Company, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM. Classical Statue Limited, an indirect wholly-owned subsidiary of the Vendor and a substantial Shareholder, together with its associates shall abstain from voting at the SGM in respect of the resolution to approve the Acquisition.

The Independent Board Committee, comprising Mr. Tang Chak Lam, Gilbert and Mr. Lien Wai Hung, all being independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the S&P Agreement and the Acquisition are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. We advise the Independent Board Committee and the Independent Shareholders in this respect. As Mr. Ho Wai Chi, Paul is an independent non-executive director of the Vendor, Mr. Ho Wai Chi, Paul will not be a member of the Independent Board Committee.

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Acquisition, we have considered the following factors and reasons:

A. Acquisition

1. Reasons and effects of the Acquisition

(i) Business of the Group

The Group is principally engaged in the distribution of films, sub-licencing of film rights and sale of financial assets and property investment. According to the Company's annual reports for the financial year ended 2005 and 2006, the Directors consider that in view of rampant piracy and weak demand for Hong Kong-made movies in the PRC, Hong Kong film production companies adopt a cautious approach in investing films and such difficult operating environment placed strong pressure on the profitability of the Group's film distribution business. The turnover for distribution of films decreased from approximately HK$27 million in 2004 to approximately HK$164,000 in 2006 which represent a decrease of approximately 99.4% during the period and the turnover for sub-licensing of films rights decreased from approximately HK$16 million in 2004 to approximately HK$200,000 in 2006 which represent a decrease of over 98% during the period. According to data from Hong Kong Movie Archive, the number of Hong Kong-made movie published decreased from 122 in 2001 to 59 in 2006 and the box office also decreased from HK$1,040 million to HK$946 million during the same period.

In view of rampant piracy and weak demand for Hong Kong-made movies in the PRC, the Directors consider that it is the policy of the Company to diversify and broaden its revenue base which would have a positive impact on the Group's profitability. With the effect of the PRC's accession into the World Trade Organisation in place and 2008 Beijing Olympic Games, Beijing is expected to see an increasing number of expatriates from multinational companies and foreign government institution, the Group acquired 96.7% equity interest in a property located in Dongcheng District, Beijing, the PRC on 17 February 2006 and was completed on 21 June 2006. The Directors believe that the aforesaid acquisition enables the Group to diversify its earnings base and provides the Group with a stable source of revenue.

With the continuing growth of Macau's economy, the Directors (excluding the independent non-executive Directors) believe that the Acquisition can enhance the investment portfolio and future earnings of the Group and is in line of the Group's policy to diversify its earnings base and thus in the interests of the Company and the Shareholders as a whole. Furthermore, the Directors believe that the Acquisition would enable the Group to diversify its businesses and broaden its revenue base which would have a positive impact on the Group's profitability given the Directors' positive outlook of Macau hospitality sector in the near future.

According to the data from Statistics and Census Service of Macau, the gross domestic product per capita in Macau increased from approximately MOP181,600 in 2004 to approximately MOP227,500 in 2006 represented an increase of approximately 25% during the period. The number of visitor arrivals in Macau increased from approximately 16.7 million in 2004 to approximately 22 million in 2006. The hotel occupancy rate in Macau increased from approximately 70.9% in 2005 to approximately 72.3% in 2006 and further increased to approximately 74% for the 1st quarter of 2007.

Based on (i) the recent poor movie industry condition in Hong Kong; (ii) the Group's policy to diversify and broaden its revenue; and (iii) the recent upward trend of the economic and travel industry of Macau; we are of the view and concur with the view of the Directors that the Acquisition can enhance the investment portfolio and future earnings of the Group and thus in the interests of the Company and the Shareholders as a whole.

(ii) Information on Exceptional Gain, KHL and the Kingsway Hotel

Information on Exceptional Gain

Exceptional Gain was incorporated in the British Virgin Islands on 28 January 2000. Exceptional Gain is an investment holding company and a wholly-owned subsidiary of the Vendor. The major asset of Exceptional Gain is its 50% equity interest in KHL. The balance of 50% interest in KHL is held by Independent Third Parties.

Information on KHL and the Kingsway Hotel

The Kingsway Hotel is a three-star hotel and is wholly-owned by KHL. The Kingsway Hotel is located at Rua Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The Kingsway Hotel open in 1992 and had a total of 383 guests rooms. It is currently under renovation to becoming a luxury boutique hotel.

A property valuation on the Kingsway Hotel had been conducted by Vigers Appraisal and Consulting Limited, an independent professional valuer, appointed by the Company (the "Valuer"), on a market value basis valuing the Kingsway Hotel at approximately HK$912 million as at 31 October 2007 which is set out in as appendix VIIa to the Circular (the "Valuation Report").

In July 2007, KHL obtained the banking facilities of up to HK$650,000,000 from Seng Heng Bank Limited. The banking facilities comprise a term loan of HK$450,000,000 and an overdraft of HK$200,000,000. The term loan portion is interest bearing at 2% per annum below the best lending rate offered by Seng Heng Bank Limited and maturing in July 2012. The overdraft portion is interest bearing at 1% below the best lending rate offered by Seng Heng Bank Limited; maturing in 12 months from the date of the availability of the overdraft; and renewable at Seng Heng Bank Limited's discretion. The banking facilities were secured by the guarantees given by the shareholders of KHL in proportion to their percentage holdings and a charge over the Kingsway Hotel and its staff quarters. As at the Latest Practicable Date, KHL has drawn down a term loan of HK$450,000,000, of which HK$200,000,000 was advanced to Exceptional Gain as an unsecured and interest-free loan and $196,000,000 was advanced to Most Famous Enterprises Limited, a substantial shareholder of KHL, as an unsecured and interest-free loan. The loan facility to Most Famous Enterprises Limited is for a term not exceeding 3 years commencing from the drawdown date.

According to the S&P Agreement and as stated in the Letter, the Vendor has to repay the loan of HK$200 million (which is unsecured and interest-free) to Exceptional Gain upon completion of the Acquisition. We are of the view and concur with the view of the Directors (including the independent non-executive Directors) that the unsecured and interest-free loan of HK$200 million made by KHL to Exceptional Gain (i) provides an alternative source of financing to the Group's property investment business; and (ii) may reduce the frequency of the Company's equity financing activities in the future.

Due to the fact that, KHL made the unsecured and interest-free loan of HK$200 million to Exceptional Gain on 17 August 2007, Most Famous Enterprises Limited (one of the shareholders of KHL) has requested that in all fairness to all shareholders of KHL, a pro rated interest-free loan should also be made to the other shareholders of KHL. The aforesaid conditional loan agreement was approved by the independent shareholders (other than the parties involved in the conditional loan agreement and its associates) of the Vendor on 3 December 2007.

We are of the view and concur with the view of the Directors (including the independent non-executive Directors) that (i) upon completion of the Acquisition, the loan to Exceptional Gain from KHL would be utilised by the Group; and (ii) the request by Most Famous Enterprises Limited is fair and reasonable to the shareholders of KHL (where the Group shall be shareholder of KHL upon completion of the Acquisition).

The ultimate beneficial owner of Most Famous Enterprises Limited is Mr. Li Chi Keung, who is the Chairman of the Macau Golden Group, a casino in Macau and the Vice-Chairman of the General Association of Administrators & Promoters for Macau Gaming Industry. In addition, as advised by the Directors, when KHL acquired the HK$650 million banking facilities from Seng Heng Bank Limited, Mr. Li Chi Keung had, in conjunction with the Vendor, given security in favour of Seng Heng Bank Limited. Nevertheless, Shareholders should note that there is a risk that Most Famous Enterprises may not be able to make repayment to KHL upon the maturity of the unsecured and interest-free loan. If the repayment were not made, the financial position of the Group would be affected.

As advised by the Directors, we understand that other than the investment properties in Beijing which have been pledged to a bank, the Group does not have any tangible assets which can be utilized as securities to obtain bank borrowing and the Directors believe that the total interest expenses will be higher than the existing arrangement if the Group directly borrows from banks without any securities. Given the amount of the banking facilities from Seng Heng Bank Limited are up to HK$650 million, the Directors consider that the existing arrangement is suitable to the Group under the current financial conditions of the Group.

Please refer to the section headed "Information on Exceptional Gain, KHL and the Kingsway Hotel" in the Letter for the detailed information of Exceptional Gain, KHL and the Kingsway Hotel.

(iii) Benefits of the Acquisition

According to the Company annual report for the year ended 2006 (the "Annual Report"), the Group recorded a turnover of approximately HK$17.5 million, representing a decrease of approximately 54% to the previous year. According to the Directors, the substantial decrease in the Group's turnover was mainly due to (a) the decrease in the turnover generated from distribution of films (decreased from approximately HK$9.4 million, representing approximately 25% of total turnover in 2005, to approximately HK$164,000, representing approximately 1% of total turnover in 2006) and (b) the decrease in the turnover generated from the sub-licensing of film rights (decreased from approximately HK$11 million, representing approximately 27% of total turnover in 2005, to approximately HK$200,000, representing approximately 1% of total turnover in 2006). Amongst the turnover, approximately HK$15.2 million and HK$1.9 million came from the sale of financial assets and property investment respectively which representing approximately 87% and 11% of the Group's total turnover in 2006.

The Board is of the view that, with the continuing growth of Macau's economy and travel industry, the Acquisition can enhance the investment portfolio and future earnings of the Group and is beneficial to the Group and the Shareholders as a whole.

As stated above, according to the data from Statistics and Census Service of Macau, the gross domestic product per capita increased from approximately MOP181,600 in 2004 to approximately MOP227,500 in 2006 represented an increase of approximately 25% during the period. The number of visitor arrivals in Macau increased from approximately 16.7 million in 2004 to approximately 22 million in 2006. The hotel occupancy rate in Macau increased from approximately 70.9% in 2005 to approximately 72.3% in 2006 and further increased to approximately 74% for the 1st quarter of 2007.

Overall, based on (i) the recent poor movie industry condition; (ii) the property valuation on Kingsway Hotel; (iii) the recent economic performance and upward trend of the travel industry of Macau; (iv) the Acquisition is in line with the Group's business strategy and; (v) the terms of the loans to Exceptional Gain and Most Famous Enterprises Limited, we are of the view and concur with the view of the Directors that, the Acquisition is fair and reasonable so far as the independent shareholders are concerned and is beneficial to the Group and the Shareholders as a whole.

2. Consideration and funding for the Acquisition

(i) Basis of the Consideration

Pursuant to the S&P Agreement, the aggregate consideration for the Acquisition is HK$447 million which is satisfied by the issue of the Convertible Note by the Company on Completion as stated in the Letter. The Consideration was determined after arm's length commercial negotiations and with reference to a property valuation conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer appointed by the Vendor, on an open market basis valuing the Kingsway Hotel at approximately HK$894 million as at 31st July 2007. In order to assess the fairness of the value of Kingsway Hotel, another valuation is conducted by the Valuer appointed by the Company. Having assessed and reviewed the methodology and bases and assumptions regarding the Valuation Report and discussed with the Valuer, we are of the view that they are reasonably prepared. Further details can be found in the section headed "Valuation of the Property" below. The Consideration is equal to the value of 49% equity interest of the Kingsway Hotel as stated in the Valuation Report. We are of the view that the Consideration for the Acquisition is fair to the Group as it represents a slight discount to the value of the respective equity interest of Kingsway Hotel and the properties as stated in the Valuation Report (the "Properties").

(ii) Funding for the Acquisition

The Consideration under the S&P Agreement is approximately HK$447 million which will be satisfied by the issue of the Convertible Note by the Company on Completion.

Under the terms of the Convertible Note, the Company does not need to pay any interest to the Noteholder. The Noteholder may at any time during the Conversion Period convert the whole or part (in multiples of HK$1,000,000) of the principal amount of the Convertible Note into Conversion Shares at the Conversion Price. Unless previously redeemed, converted or cancelled in accordance with the instrument of the Convertible Note, the Company shall redeem the outstanding principal amount of the Convertible Note on the maturity date, that is, 10 years from the date of issue of the Convertible Note.

Based on the above, the Acquisition is not likely to have any immediate adverse impact on the financial position of the Group to the extent of affecting the Group's operation.

(iii) Valuation of the Properties

The Consideration was determined after arm's length commercial negotiations and with reference to a property valuation conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer appointed by the Vendor, on an open market basis valuing the Kingsway Hotel at approximately HK$894 million as at 31 July 2007. In order to assess the fairness of the value of the Properties, the Valuation Report is conducted by the Valuer.

In assessing the fairness and reasonableness of the valuation, we have reviewed the methodology, bases and assumption underlying the Valuation Report.

(a) Methodology

It was stated in the Valuation Report that the Valuer has valued the property interests by adopting the comparison method of valuation on the assumption that the property interests of the properties can be sold with the benefit of vacant possession. Comparisons based on prices realized on actual sales or offerings of comparable properties have been made. Comparable properties with similar sizes, character, location and so on are analysed and carefully weighted against all respective advantages and disadvantages of the property interests of the properties in order to arrive at the fair comparison of values.

(b) Bases and assumptions

We have discussed with the Valuer regarding the bases of the valuation and the underlying assumptions which included the following:

(i) the property interests of the Properties can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the values of the property interests of the properties unless otherwise noted or stated;

(ii) In addition, no account has been taken into any option or right of pre-emption concerning or affecting the sale of the property interests of the Properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios;

(iii) the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to the payment of usual land-use fees;

(iv) No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected on the Properties. Our valuations have been carried out on the assumption that these aspects are satisfactory. All necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay; and

(v) No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, the property interests of the Properties are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the values of the Property interests of the Properties in concern.

Having considered the above, we are of the view that the valuation performed by the Valuer is fair.

(iv) Financial effects of the Acquisition on the Group

The following sets out the impact of the Acquisition on the financial position of the Group:

(a) Net asset value

A pro forma statement of the unaudited adjusted combined assets and liabilities of the Enlarged Group comprising the Group and Exceptional Gain as set out in Appendix VI to the Circular was prepared using the unaudited net asset value of the Group as at 30 June 2007 and adjusted by the Acquisition. Based on the aforesaid, upon the completion of the Acquisition, the pro forma unaudited net asset value of the Enlarge Group attributable to the equity holders of the Company would be approximately HK$888.0 million. We are of the view that since the unaudited net asset value of the Group attributable to the equity holders of the Company would increase from approximately HK$652.8 million as at 30 June 2007, the latest published financial statement, to approximately HK$888.0 million upon the Completion, the Acquisition is beneficial to the Group and the Shareholders as a whole.

(b) Profit and loss account

Upon the Completion, there is no immediate material impact on earnings, while Exceptional Gain is expected to become a wholly-owned subsidiary of the Company and the financial results of Exceptional Gain are expected to be fully consolidated into the Group after the Completion. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix VI to the Circular, the loss of the Group for the year ended 31 December 2006 would increase from approximately HK$21 million to approximately HK$26.3 million for the Enlarged Group.

(c) Gearing

As at 30 June 2007, the Group had total borrowings of approximately HK$269.4 million, representing a gearing ratio (which is calculated as the total borrowing over net asset value of the Group attributable to the equity holder of the Company) of approximately 41% thereof. Based on the unaudited pro forma financial information following Completion as set out in Appendix VI to the Circular, the pro forma total borrowings and net asset value of the Enlarge Group attributable to the equity holder of the Company (including Exceptional Gain) would increase to approximately HK$870.8 million and approximately HK$888.0 million respectively, representing a gearing ratio of approximately 104% thereof.

(d) Working capital

According to the "Pro forma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group" as set out in Appendix VI to the Circular, the Group had an unaudited net current asset of approximately HK$179 million as of 30 June 2007. On a pro forma basis, the Group's net current asset would increase to approximately HK$446 million upon the Completion. We are of the view that the Enlarged Group should have sufficient working capital for its present requirement based on the working capital forecast prepared by the Group.

(e) Dilution on the shareholding rights of the Independent Shareholders

The dilution effect on the shareholding rights of the Independent Shareholders upon the full conversion of the Convertible Notes by the Vendor would be discussed in the paragraph headed "Effect of the Convertible Notes" below. Although the shareholding rights of the Independent Shareholders would decrease to approximately 61.16% from approximately 68.81% as at Latest Practicable Date upon the full conversion of Convertible Notes (based on the Conversion price), the net asset value per Share would slightly increase from approximately HK$0.68 per Share (based on the number of Share of 966,140,000 and the net asset value of the Group attributable to the equity holder of the Company of approximately HK$652,822,000 as at 30 June 2007) to approximately HK$0.69 per Share upon the Completion and the full conversion of the Convertible Notes. Based on the above, we are of the view that the dilution effect brought by the Acquisition is acceptable as far as the Independent Shareholders are concerned.

RECOMMENDATION ON THE ACQUISITION

In arriving at our conclusion that the terms of the Acquisition are in themselves fair and reasonable, we have considered the principal factors set out in detail above, the outline of which, together with our views thereon is set out below:

(a) the Consideration is equal to the value of the equity interest of the Kingsway Hotel of approximately HK$447 million. Particular attention was paid to the methodology, the bases and the assumptions used to arrive at the valuation, which are reasonable;

(b) from the Group's perspective, the Acquisition is consistent with the Group's overall business strategy;

(c) the recent economic development in Macau; and

(d) the terms of the unsecured and interest-free loans made to Exceptional Gain and Most Famous Enterprises Limited.

The Independent Board Committee is advised to ask the Independent Shareholders to carefully consider each of the above. Based on the above, we are of the opinion that the Acquisition is in ordinary and usual course of business of the Company and the terms of the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in respect of the Acquisition.

B. The issue of the Convertible Note

(i) Reason for the issue of the Convertible Note

The issue of the Convertible Note by the Company is used for the satisfaction of the Consideration and the reasons for the entering into the S&P Agreement are described in the section headed "Acquisition" above.

Based on the above, we are of the view that while the Company has an apparent reason for the issue of the Convertible Note, and since the Acquisition is in line with the objective of the Company, the issue of the Convertible Note is in the interests of the Company and the Shareholders as a whole.

(ii) Other funding methods

The issue of the Convertible Note is chosen as the method for funding the Acquisition. Comparing with other fund raising methods, such as open offer and rights issue or borrowing from commercial banks, the Directors believe that the issue of the Convertible Note is the best alternative for the following reasons:

(i) the average daily trading volume of the Shares for a six months period from 9th February 2007 to the date of the Announcement is approximately 42.7 million Shares with the exclusion of suspended days, representing approximately 3.7% of the entire issued Share capital of the Company as at the date of the Announcement. As the trading volume of Shares is very thin and the financial performance of the Group was unsatisfactory, the Directors believe that, although the Company conducted four fund raising activities in the past twelve months before the date of the Announcement, there is uncertainty that the Company would be able to engage suitable securities firms as underwriters to fully underwrite an open offer or a rights issue without having a substantial discount on the offer price; and

(ii) the interest rate of a commercial bank loan is much higher than the interest rate of the Convertible Note since the Convertible Note is interest free, accordingly the Directors favour the issue of Convertible Note in light of the savings in interest payments.

Having considered the thin trading volume of the Shares, the zero interest rate payable under the Convertible Note as well as the time constraint, we concur with the view of the Directors that the issue of the Convertible Notes is the best fund-raising alternative available to the Company.

(iii) Principal terms of the Convertible Note

Amount	:	HK$447 million
Interest rate	:	Zero
Maturity	:	A fixed term of 10 years from the date of issue of the Convertible Note. Unless previously redeemed, converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of the Convertible Note on the maturity date
Conversion price	:	HK$1.00 per Conversion Share
Conversion	:	The Noteholder may at any time during the Conversion Period convert the whole or part (in multiples of HK$1,000,000) or the principal amount of the Convertible Note into Conversion Shares at the Conversion Price Under the respective terms of the Convertible Note, the Vendor cannot convert the Convertible Note or part thereof if upon the exercise of the conversion rights under the Convertible Note, the Vendor and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in Hong Kong Code on Takeovers and Mergers as being the level from triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant exercise
Early redemption	:	The Company may at any time during the Conversion Period by at least 7 days' prior notice in writing request the Noteholder to convert certain amount of the Convertible Note as specified therein and the Noteholder shall convert such amount of the Convertible Note registered in its names into Conversion Shares as so requested by the Company

Please refer to the section headed "Terms of the Convertible Note" in the Letter for the detailed information.

(iv) Comparison between the terms of the Convertible Note and the terms of the recent convertible notes/bonds issued by other main board listed companies of the Stock Exchange

(a) Comparison on the conversion price of the Convertible Note to conversion prices of recently issued convertible notes/bonds in the market

As published by the Stock Exchange on its website, we have identified 12 companies the shares of which are listed on the main board of the Stock Exchange, which have issued convertible bonds/notes during the one-month period up to and including 8 August 2007. We have reviewed the fixed conversion prices of the convertible bonds/notes issued by these companies for the purpose of comparing the conversion price that is offered by the Company to those offered by other main board listed companies (the "Comparables"). Although the business of the Comparables is not identical to the Company, we consider that it is an additional reference to the Shareholder for their consideration.

Company name (stock code)	**Announcement Date**	**Principal amount**	**Maturity**	**Coupon rate per annum**	**Redemption price at maturity**	**Closing price on the last trading day**	**Premiums(+)/ Discounts (-) of the conversion price to the closing price on the last trading day**
		(HK$ million)		*(%)*	*(%)*	*(HK$)*	*(%)*
China Elegance (Holdings) Limited (476)	9 July 2007	70	2 years	0	104	0.495	-19.19
Vodone Limited (82)	9 July 2007	410	2 years	1.5	100	4.01	+2.24
Forefront Group Limited (885)	10 July 2007	150	3 December 2010	0	100	0.58	-13.79
Freeman Corporation Limited (279)	11 July 2007	1,500	31 March 2011	0	100	0.203	-26.1

Company name (stock code)	Announcement Date	Principal amount	Maturity	Coupon rate per annum	Redemption price at maturity	Closing price on the last trading day	Premiums(+)/ Discounts (-) of the conversion price to the closing price on the last trading day
		(HK$ million)		*(%)*	*(%)*	*(HK$)*	*(%)*
Mascott Holdings Limited (136)	17 July 2007	500	15 December 2010	0	100	0.50	-20.0
China Water Affairs Group Limited (855)	18 July 2007	650	3 August 2012	0	132.77	5.45	+28.44
Aurora Global Investment Holdings Limited (353)	20 July 2007	765	5 years	0	100	0.85	-29.41
Xinyu Hengdeli Holdings Limited (3389)	25 July 2007	RMB1,150 million	24 August 2012	0	111.0103	4.86	+45.26
China Elegance (Holdings) Limited (476)	27 July 2007	160	2 years	0	104	1.44	-30.56
China Water Industry Group Limited (1129)	31 July 2007	385	3 August 2012	0.25	159.3976	1.21	+17.36
Interchina Holdings Company Limited (202)	7 August 2007	132.7	2 years	3.5	100	0.149	-12.08
G-Prop (Holdings) Limited (286) and Kingboard Chemical Holdings Limited (148)	7 August 2007	180	3 years	0	100	2.07	-92.17
		Maximum	5 years and 1 month	3.5	159.3976	—	+45.26
		Minimum	2	0	100	—	-92.17
		Average	—	0.4375	109.26	—	-12.50
The Company			10 years	0	100		+29.87

As stated in the paragraph headed "Terms of the Convertible Note", the Conversion Price is equal to HK$1.00. Based on the above table, we note that the conversion price of the convertible notes/bonds of the Comparables represent an average discount of approximately 12.50% (the "Average Conversion Discount") over their prevailing share prices at the time of the issue of the convertible notes/bonds. As the Conversion Price is set at a premium of 29.87% rather than at a discount, which in our view is relatively more favourable to the Company. Also, the average redemption price at maturity of the Comparables is approximately 109.26% over their outstanding principal amount (the "Average Redemption Premium"). As the Convertible Note do not have any redemption premium, which in our view is relatively more favourable to the Company. Taking into account that the conversion price and redemption price under the Convertible Note falls into the range of those of the comparable companies and is favourable than the Average Conversion Discount and the Average Redemption Premium respectively, we are of the view that the Conversion Price has been arrived at on a fair and reasonable basis.

(b) Comparison on the interest rate and the maturity date of Convertible Note to those of recently issued convertible notes/bonds in the market

We have reviewed the interest rate and the maturity date of each of the convertible notes/bonds issued by the Comparables for the purpose of assessing the fairness and reasonableness of the interest rate and maturity date of the Convertible Note that were offered by the Company to those offered by Comparables.

As the Convertible Note does not carry any interest rate and the maturity period is longer than the Comparables, we are of the view that it is favourable to the Company and the Shareholders as whole.

(c) *Comparison on the conversion price of the Convertible Note to the market price*

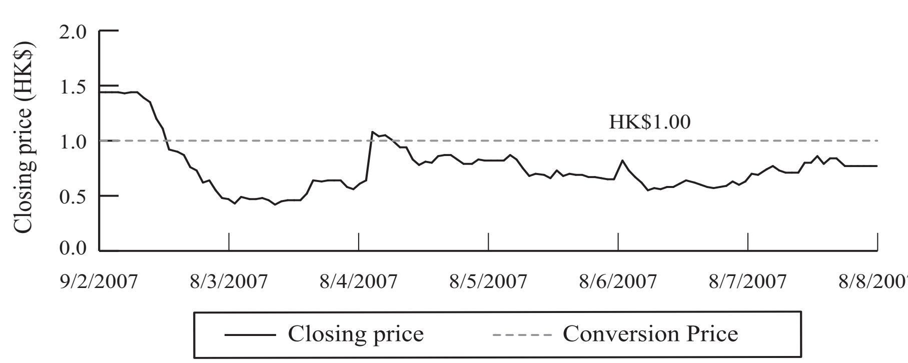
Pursuant to the terms contained in the S&P Agreement, the Conversion Price is HK$1.00. The table below states the closing price of the Shares as at 1 August 2007 as quoted on the Stock Exchange, being the date immediately prior to the date of the suspension of trading in the Shares, the average closing prices of the Shares, the premium on the Conversion Price to the Share price respectively:

Date/ Corresponding Period	**Closing price/ average closing price for the period (HK$)**	**Approximately premiums of the Conversion Price to the closing price/average closing price (%)**
As at 1 August 2007	0.77	29.87
5 trading-day period up to and including 1 August 2007	0.82	21.95
10 trading-day period up to and including 1 August 2007	0.785	27.39

Source: the website of Stock Exchange

As shown in the table above, the premium of the Conversion Price to the closing price/average closing prices of the Shares for the stated different periods ranged from approximately 21.95% to 29.87%.

The following chart demonstrates the movement trend of daily closing prices of the Shares for a period of six months from 9 February 2007 to 8 August 2007 ("Review Period"). During the Review Period, there was a downward trend in the price of the Shares from the highest closing price of HK$1.44 on a period from 9 February 2007 to 14 February 2007 to HK$0.39 on 17 August 2007.



Given the fact that the Shares have been traded at a market price which is most of the time below the Conversion Price (90 out of 105 trading days within the Review Period), we consider that the Conversion Price is fair and reasonable.

(d) Comparison of the Conversion Price to the net asset value

According to the interim report of the Group for the six months ended 30 June 2007 (the "Interim Report"), the unaudited consolidated net asset value of the Group as at 30 June 2007 was approximately HK$652.8 million, equivalent to approximately HK$0.68 per Share, based on 966,140,000 Shares in issue as at 30 June 2007. Accordingly, the Conversion Price of HK$1.00 per Share represented a premium of approximately 47% to the unaudited net asset value per Share as at Interim Report.

(e) Conclusion

Based on the above discussion, we are of the view that the Conversion Price is fair and reasonable.

(v) Effect of the Convertible Note

(a) Effect on net asset value

According to the paragraph headed "Pro forma financial information of the Enlarge Group" as set out in Appendix VI to the Circular, the unaudited net asset value per Share of the Group would increase by approximately 17.6% from approximately HK$0.68 per Share (based on the number of Share of 966,140,000 and the net asset value of the Group attributable to the equity holder of the Company as at 30 June 2007) to approximately HK$0.85 per Share, if only taking into account the effect of the full conversion of the Convertible Note, and would strengthen the capital base of the Company.

(b) Effect on liquidity and gearing

Based on the unaudited consolidated balance sheet as at 30 June 2007, the unaudited net assets of the Group were approximately HK$652.8 million and the total borrowings of the Group were approximately HK$269.4 million. The gearing ratio (Total borrowings over the net assets of the Group attributable to the equity holder of the Company) was approximately 41%. Only taking into account the effect of the full conversion of the Convertible Note, the gearing ratio would decrease to approximately 24.5%.

(c) Effect on Earnings

There will be no impact on the Group's earnings in respect of the Convertible Note after the Completion except for the imputed interest for each financial year upon the maturity of the Convertible Note or fully redemption of it and the amount of the imputed interest is based on the amount of the liability portion of the Convertible Note outstanding. Taking into account the recent development of Macau's economy and the imputed interest is only for accounting treatment purpose as the total amount of the accumulated imputed interest would reverse upon the maturity or full redemption of the Convertible Note, we are of the view that the Acquisition is expected to strengthen the revenue stream and enhance the earnings of the Group.

(d) Dilution on the shareholding rights of the Independent Shareholders

Immediately after the Placing and Top-up, the Company has a total of 1,301,239,974 Shares in issue. If the Vendor exercise all conversion rights under the Convertible Note, approximately 162,678,000 Shares will fall to be issued and as a result of which, the shareholding of public Shareholders will be diluted from approximately 68.81% as at the Latest Practicable Date to approximately 61.16%. Based on the reason as stated in sub-section headed "Reason for the issue of Convertible Note" and the terms of the Convertible Note as stated above, we consider that such dilution effect is acceptable.

RECOMMENDATIONS ON THE ISSUE OF CONVERTIBLE NOTE

Having considered the above principal factors concerning the issue of Convertible Note, we are of the view that the issue of Convertible Note is not in the ordinary and usual course of business of the Group and the terms of the Convertible Note are on normal commercial term, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in respect of the issue of the Convertible Note.

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

Kim Chan
Director

Kevin Chan
Director

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Track record of the Group

The table below sets out the consolidated income statements of the Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2006	**2005**	**2004**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	17,476	38,339	58,382	29,191	12,762
Cost of sales	(13,998)	(36,466)	(48,674)	(24,465)	(9,965)
Gross profit	3,478	1,873	9,708	4,726	2,797
Other revenue	5,699	2,066	390	1,307	3,090
Other income	5,560	7,110	—	122,593	4,430
Increase in fair value of investment properties	590	—	—	—	—
Administrative expenses	(26,811)	(19,332)	(36,266)	(15,656)	(9,755)
Selling expenses	—	(29)	(234)	—	—
Share-based payment expenses	—	—	—	(13,688)	—
Loss on disposal of property, plant and equipment	—	—	—	—	(1,034)
Impairment loss recognised in respect of film rights	—	(8,956)	(16,213)	—	—
Impairment loss recognised in respect of other asset	—	—	(46,512)	—	—
Impairment loss recognised in respect of goodwill	—	(12,056)	(28,072)	—	—
Impairment loss recognised in respect of available-for-sale financial assets	—	—	(12,000)	—	—
Allowance for advances to an associate	—	—	(138,531)	—	—
(Loss)/profit from operations	(11,484)	(29,324)	(267,730)	99,282	(472)
Finance costs	(9,615)	(340)	(340)	(8,334)	(668)
(Loss)/profit before taxation	(21,099)	(29,664)	(268,070)	90,948	(1,140)
Taxation	(195)	—	(277)	—	—
(Loss)/profit for the year/period	(21,294)	(29,664)	(268,347)	90,948	(1,140)

Overview

The Group is principally engaged in the distribution of films, sub-licensing of film rights and sale of financial assets and property investment.

The table below sets out the breakdown of the Group's turnover by major business activities for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2006	**2005**	**2004**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Distribution of films	164	9,382	27,285	—	122
Sub-licensing of film rights	200	10,534	16,319	—	200
Sale of financial assets at fair value through profit or loss	15,229	18,423	14,778	27,575	12,440
Rental income	1,883	—	—	1,616	—
	17,476	38,339	58,382	29,191	12,762

Distribution of films

The Group distributes its films in video format for home entertainment in the PRC.

In 2004, the film distribution business was adversely affected by the rampant piracy and a decline in popularity of Hong Kong-made movies. These difficult market conditions placed price pressure on the Group's films. As a result, the Group became more cost cautions in acquiring film rights and reduced the number of new films released.

In response to the weak market conditions in the PRC, the Group adopted a cautious approach in acquiring film rights and further reduced the number of new films released in 2005 and 2006.

Sub-licensing of film rights

The Group sub-licenses the whole or part of its distribution rights to films to cinema operators, other distributors or operators of pay or free-to-air television, cable television and hotel in-house video for a limited period of usually five to seven years.

The lifting of foreign film quota restrictions by the PRC Government in 2004 intensifies the competition between Hollywood and Hong Kong. As the PRC first-tier cinemas have strong preference for exhibiting Hollywood films and the local television stations illegally broadcast the Group's films, the film sub-licensing business was adversely affected.

Sale of financial assets

With a view to generating an adequate return on its assets, the Group commenced its business in sale of financial assets in 2004. The Group mainly invests in listed securities in Hong Kong.

Property investment

In view of rampant piracy and weak demand for Hong Kong-made movies in the PRC, the Group has diversified and broadened its revenue sources by acquiring a property investment company in June 2006. The major asset of the property investment company is a property (the "Beijing Property") located at No. 9 Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Beijing Property is currently held as a long-term investment for rental purposes.

As the Beijing Property is under renovation, no rental income is generated from the apartment units. The rental income for the year ended 31 December 2006 and for the six months ended 30 June 2007 were generated from the leasing of the ground floor of the Beijing Property.

Analysis on the results of operation of the Group during the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007

Turnover

The Group's turnover for the year ended 31 December 2004 amounted to HK$58,382,000, representing a decrease of 72% as compared with the year ended 31 December 2003. The decrease was mainly attributed to a decrease in the number of films distributed and sub-licensed, and a decrease in average income per new film resulting from the rampant piracy and the decline in popularity of Hong Kong-made movies in the PRC.

For the year ended 31 December 2005, the Group's turnover amounted to HK$38,339,000, a 34% decrease from HK$58,382,000 for the previous year. The decrease was mainly attributable to a decrease in the number of films distributed and sub-licensed resulting from the adopting of a cautious approach in acquiring film rights by the Group.

The Group's turnover further decreased from HK$38,339,000 for the year ended 31 December 2005 to HK$17,476,000 for the year ended 31 December 2006. The decrease was mainly attributable to the slow down of the Group's film distribution activities resulted from the difficult market conditions.

The Group recorded a turnover of HK$29,191,000 for the six months ended 30 June 2007, a 129% increase from HK$12,762,000 for the same period of the previous year. The increase was mainly attributable to the increase in sales of financial assets activity. In view of the persisted difficult market conditions for Hong Kong-made movies in the PRC, the Group has slowed down its film distribution business. As a result, no revenue was generated from film distribution business during the six months ended 30 June 2007.

Cost of sales and gross profit margin

The Group's cost of sales for the year ended 31 December 2004 amounted to HK$48,674,000, out of which HK$16,238,000 was related to sale of financial assets. During the year, the Group's sale of financial assets recorded a loss of HK$1,460,000. Cost of sales for film distribution and sub-licensing of film rights decreased from HK$61,180,000 in the year ended 31 December 2003 to HK$32,436,000 in the year ended 31 December 2004. The decrease was mainly attributable to a decrease in amortisation of film rights, which was the result of distributing and sub-licensing a less number of films in the year ended 31 December 2004. Gross profit margin for the distribution and sub-licensing businesses dropped from 70% in the year ended 31 December 2003 to 26% in the year ended 31 December 2004. This was attributed to the decrease in average income per new film resulted from the rampant privacy, the decline in popularity of Hong Kong films and the better margins the Group obtained from the distribution business through the sale of 320 old film rights in the year ended 31 December 2003, the cost of which had almost been fully amortised.

Cost of sales for the year ended 31 December 2005 amounted to HK$36,466,000, out of which HK$20,374,000 was related to sale of financial assets. During the year ended 31 December 2005, the Group's sale of financial assets recorded a loss of HK$1,951,000. Taking into account the dividend income of HK$627,000 recorded in other revenue, the performance of the Group's sale of financial assets was a loss of HK$1,324,000. Cost of sales for film distribution and sub-licensing of film rights decreased from HK$32,436,000 in the year ended 31 December 2004 to HK$16,092,000 in the year ended 31 December 2005. The decrease was attributable to a decrease in amortisation of film rights resulting from the decrease in the number distributed and sub-licensed. Gross profit margin for film distribution and sub-licensing of film rights dropped from 26% in the year ended 31 December 2004 to 19% in the year ended 31 December 2005. The drop in gross profit margin was attributed to the better margins the Group obtained from the delivery of 108 old films in 2004, the cost of which had already been almost fully amortised.

Cost of sales for the year ended 31 December 2006 amounted to HK$13,998,000, out of which HK$13,461,000 was related to sale of financial assets and HK$271,000 was related to property investment. Cost of sales for film distribution and sub-licensing of film rights decreased from HK$16,092,000 for the year ended 31 December 2005 to HK$266,000 for the year ended 31 December 2006. The decrease was attributed to the slow down of the Group's film distribution activities. Gross profit margin for film distribution and sub-licensing of film rights improved from 19% in the year ended 31 December 2005 to 27% in the year ended 31 December 2006. The improvement in gross profit margin was attributed to the cost of certain films sold in 2006 had already been fully amortised. For the year ended 31 December 2006, the Group recorded a gross profit of HK$1,768,000 for sales of financial assets. Taking into account the dividend income of HK$754,000 and an increase in fair value of financial assets at fair value through profit or loss of HK$5,360,000, the performance of the Group's sale of financial assets was a profit of HK$7,882,000.

Cost of sales for the six months ended 30 June 2007 amounted to HK$24,465,000, out of which HK$24,345,000 was related to sales of financial assets and HK$120,000 was related to property investment. For the six months ended 30 June 2007, the Group recorded a gross profit of HK$3,230,000 for sales of financial assets, a 23% increase from HK$2,618,000 for the same period of the previous year. Taking into account the dividend income of HK$30,000 and the increase in fair value of financial assets at fair value through profit or loss of HK$15,637,000, the performance of the Group's sales of financial assets was a profit of HK$18,897,000. Gross profit of property investment amounted to HK$1,496,000 for the six months ended 30 June 2007. As the Beijing Property is currently under renovation, the contribution represented the rental income generated from the leasing of the ground floor of the Beijing Property to a restaurant operator.

Other revenue

Other revenue usually comprised dividend income from financial assets at fair value through profit or loss, interest income on bank deposits and sundry income.

Other revenue increased from HK$390,000 in the year ended 31 December 2004 to HK$2,066,000 in the year ended 31 December 2005. The increase was mainly attributed to an increase in bank interest income of HK$1,339,000 resulting from the increase in the Group's bank deposits and the receipt of dividend income of HK$627,000 from the Group's financial assets at fair value through profit or loss.

Other revenue further increased from HK$2,066,000 in the year ended 31 December 2005 to HK$5,699,000 in the year ended 31 December 2006. The increase was mainly attributed to an increase in bank interest income of HK$2,975,000 resulting from the top-up placing of new shares raising HK$131,179,000 in September 2005.

Other revenue decreased from HK$3,090,000 in the six months ended 30 June 2006 to HK$1,307,000 in the six months ended 30 June 2007. The decrease was mainly attributed to a decrease in interest income on bank deposits of HK$1,238,000.

Other income

For the year ended 31 December 2005, other income represented a gain of HK$7,110,000 arising from the sale of the Group's leasehold land and buildings in July 2005.

Other income for the year ended 31 December 2006 amounted to HK$5,560,000 and was mainly derived from the increase in fair value of financial assets at fair value through profit or loss, which amounted to HK$5,360,000.

For the six months ended 30 June 2007, other income amounted to HK$122,593,000. It represented the increase in fair value of financial assets at fair value through profit or loss of HK$15,637,000 and a gain of HK$106,956,000 arising from the loan interest waived by China Merchants Bank.

Loss/profit from operations

The Group recorded a loss from operations of HK$267,730,000 for the year ended 31 December 2004. The loss was mainly attributed to the decrease in turnover resulted from a decline in popularity of Hong Kong-made movies and rampant privacy in the PRC, an allowance made for advances to an associate of HK$138,531,000 and the impairment losses of HK$102,797,000 recognised in respect of film rights, other asset, goodwill and available-for-sale financial assets.

Loss from operations improved from HK$267,730,000 in the year ended 31 December 2004 to HK$29,324,000 in the year ended 31 December 2005. The improvement was mainly attributable to the fact that the Group did not record any allowance for advances to an associates and impairment losses for other asset and available-for-sale financial assets in 2005, while the Group recorded such allowance of HK$138,531,000 and impairment losses of HK$58,512,000 in 2004. In addition, the impairment losses recognised in respect of film rights and goodwill decreased from HK$44,285,000 in the year ended 31 December 2004 to HK$21,012,000 in the year ended 31 December 2005.

Loss from operations further improved from HK$29,324,000 in the year ended 31 December 2005 to HK$11,484,000 in the year ended 31 December 2006. The improvement was mainly attributable to the fact that the Group did not record any impairment losses recognised in respect of film rights and goodwill in the year ended 31 December 2006, while the Group recorded such impairment losses of HK$21,012,000 in the previous year. This improvement was partly offset by the increase in administrative expenses of HK$7,479,000 resulted from the Group's expansion into property investment business.

Profit from operations amounted to HK$99,282,000 in the six months ended 30 June 2007, whereas a loss from operations of HK$472,000 was recorded for the same period of the previous year. This was attributable to the recognition of a gain of HK$106,956,000 arising from the loan interest waived by China Merchants Bank in the six months ended 30 June 2007. The gain on loan interest waived was partially offset by the share-based payment expenses of HK$13,688,000.

Taxation

The Group recorded a taxable profit for the year ended 31 December 2004 and a provision of HK$277,000 was made.

No provision for tax was made for the year ended 31 December 2005 as the Group either had no estimated assessable profits or its estimated assessable profits were wholly absorbed by estimated tax losses brought forward.

The taxation charge for the year ended 31 December 2006 represented a transfer of deferred tax to income statement, which was arisen from the revaluation of the Group's investment properties.

No provision for tax was made for the six months ended 30 June 2007 as the Group had no estimated assessable profit or taxable income.

Loss/profit for the year/period

Loss for the year ended 31 December 2004 improved from HK$268,347,000 to HK$29,664,000 for the year ended 31 December 2005. The substantial improvement was mainly attributed to an allowance of HK$138,531,000 made against advances to an associate and the impairment losses of HK$58,512,000 recognised in respect of other asset and available-for-sale financial assets in 2004. In addition, the Group recorded a decrease in impairment losses recognised in respect of film rights and goodwill as explained above.

Loss further improved from HK$29,664,000 for the year ended 31 December 2005 to HK$21,294,000 for the year ended 31 December 2006. The improvement was mainly attributable to no impairment losses recognised in respect of film rights and goodwill, which was partially offset by the increases in administrative expenses of HK$7,479,000 and finance costs of HK$9,275,000 resulted from the Group's expansion into property investment business.

The Group recorded a profit of HK$90,948,000 for the six months ended 30 June 2007, whereas the Group recorded a loss of HK$1,140,000 in the six months ended 30 June 2006. The turnaround was attributable to the recognition of a gain of HK$106,956,000 arising from the loan interest waived by China Merchants Bank, which was partially offset by the share-based payment expenses of HK$13,688,000 in relation to share options granted to certain employees and consultants.

Analysis on the financial position of the Group during the three years ended 31 December 2006 and the six months ended 30 June 2007

Liquidity and financial resources

During the three years ended 31 December 2006 and the six months ended 30 June 2007, the Group funded its operations mainly from cash generated from operations, the convertible notes payable issued by the Company to First-Up Investments Limited ("First-Up"), a wholly-owned subsidiary of the Vendor, issuance of new shares, a one-year term loan granted by the Vendor and bank borrowings. In the years ended 31 December 2004 and 2006 and the six months ended 30 June 2007, the Group's net cash used in operating activities amounted to HK$36,414,000, HK$61,710,000 and HK$17,269,000 respectively. In the year ended 31 December 2005, the net cash generated from operating activities was HK$14,393,000.

As at 31 December 2004, the cash and bank balances of the Group amounted to HK$15,460,000 and the total borrowings of the Group amounted to HK$33,808,000, comprising the convertible notes payable of HK$33,800,000 issued by the Company to First-Up (the "First-Up Convertible Notes"), which was unsecured, interest bearing at 1% per annum and maturing on 19 April 2005;

and the obligations under a finance lease of HK$8,000 which was secured, interest bearing and maturing on 5 April 2005. The Group's gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 49%.

In September 2005, the Company issued 400,000,000 new shares of HK$0.01 each at a price of HK$0.34 per share by way of a vendor placing and top-up subscription raising HK$131,179,000 (net of expenses). On 19 April 2005, the First-Up Convertible Notes matured. First-Up did not exercise the right to convert the outstanding principal amount of the First-Up Convertible Notes into the shares of the Company and the Group repaid HK$33,800,000 to First-Up. On the same date, the Vendor granted a one-year term loan of HK$33,800,000 to the Company. As at 31 December 2005, the cash and bank balances of the Group amounted to HK$137,973,000 and total borrowings amounted to HK$33,800,000 representing the one-year term loan of HK$33,800,000 granted by the Vendor, which was unsecured, interest bearing at 1% per annum and maturing on 19 April 2006. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 20%.

As at 31 December 2006, the cash and bank balances of the Group amounted to HK$63,140,000 and the total borrowings of the Group amounted to HK$357,427,000, comprising the RMB secured term loan facility granted by Hang Seng Bank of HK$250,470,000 which is secured by the Beijing Property, interest bearing at 95% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within five years; and the interest portion of the RMB secured bank loan granted by China Merchants Bank of HK$106,957,000. On 23 March 2007, China Merchants Bank agreed to waive the interest portion of HK$106,957,000. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 89%.

As at 30 June 2007, the cash and bank balances of the Group amounted to HK$203,961,000 and the total borrowings of the Group amounted to HK$269,400,000, representing the RMB secured term loan facility granted by Hang Seng Bank which is secured by the Beijing Property, interest bearing at 95% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within 4.5 years. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 41%.

Charges on assets

As at 31 December 2004 and 2005, the Group did not have any mortgage or charge.

As at 31 December 2006, the Beijing Property with a fair value of HK$678,000,000 was pledged to Hang Seng Bank to secure the RMB secured term loan facility.

As at 30 June 2007, the Beijing Property with a fair value of HK$701,079,000 was pledged to Hang Seng Bank to secure the RMB secured term loan facility.

Net current assets

The net current assets of the Group amounted to HK$45,208,000, HK$164,020,000, HK$53,882,000 and HK$179,223,000 as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

The current ratios of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 were 1.7, 3.4, 1.5 and 2.57 respectively.

Material acquisitions and disposals of subsidiaries and associated companies

In March 2004, the Group acquired 40% of the issued share capital of Rainbow Choice Enterprises Limited ("Rainbow Choice") by investing HK$30,000,000. Rainbow Choice engaged in the business of producing and distributing of entertainment news programmes in the PRC. The acquisition facilitated the Group's expansion into the PRC television advertising business. As the performance of Rainbow Choice was not satisfactory, the Group entered into an agreement with the other shareholder of Rainbow Choice in April 2005. Under the agreement, the Group would own the intellectual property rights of the contents produced by Rainbow Choice and the other shareholder of Rainbow Choice would repay the production and distribution fees of HK$18,000,000 to the Group.

In April 2005, the Group exercised its right to convert the outstanding principal amount of the convertible notes of HK$160,000,000 issued by Gainful Fortune Limited into the shares of Gainful Fortune Limited. Gainful Fortune Limited and Ocean Shore Licensing Limited became subsidiaries of the Company.

In June 2006, the Group acquired (a) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and (b) the debts owed by Shinhan-Golden to Northbay Investments Holdings Limited ("Northbay"), at an aggregate consideration of HK$266,064,350 (the "Acquisition"). Shinhan-Golden is an investment holding vehicle and its major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. ("Beijing Jianguo"). Beijing Jianguo is the registered owner of the Beijing Property.

In May 2007, the Group entered into a joint venture agreement with Steve Leung Hotel Design and Management Limited ("SLHDML"), a company beneficial owned by Mr. Steve Leung, for the purpose of setting up of a joint venture company, namely Best Season Holdings Corp. ("Best Season"). Best Season is owned as to 75% by the Company and as to 25% by SLHDML. Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau including but not limited to hotel(s), serviced apartment(s), restaurant(s), retail(s), catering(s), resort(s), club(s), residential(s) and any other service position.

Save as disclosed above, the Group made no material acquisitions or disposals of subsidiaries and associated companies during the three years ended 31 December 2006 and the six months ended 30 June 2007.

Contingent liabilities

As at 31 December 2004 and 2005, the Group did not have any material contingent liabilities.

As at 31 December 2006 and 30 June 2007, the Group had the following contingent liabilities:

(a) A writ of summons and statement of claim was made by CL3 Architects Limited against Beijing Jianguo for a claim of approximately HK$2,500,000 over design contracts for the investment property with Beijing Jianguo. In the opinion of the Directors, the outcome of this case is yet to be certain and considered no provision should be made.

(b) A writ of summons and statement of claim was made by ICBC against Beijing Jianguo for a claim of approximately RMB1,197,000 (or approximately HK$1,197,000) over the non-repayment of a mortgage loan granted to a owner (the "Borrower") of an apartment unit in the Group's investment properties. The Borrower purchased the apartment unit from Beijing Jianguo in 2001 and the legal title of the apartment unit has not yet been transferred from Beijing Jianguo to the Borrower. On 15 December 2006, the PRC court made a verdict that Beijing was liable to pay RMB1,197,000 if the Borrower failed to pay RMB1,197,000 to ICBC. Beijing Jianguo has appealed to the PRC court. The PRC court is processing the appeal. In the opinion of the Directors, no provision should be made for this liability as the sale proceed of the apartment unit has been totally received by Beijing Jianguo and the legal title of the apartment unit remains with Beijing Jianguo.

Capital structure

On 21 December 2004, the Company announced that every one share of HK$0.10 each in the issued and unissued share capital of the Company be subdivided into ten shares of HK$0.01 each in the issued and unissued share capital of the Company. The share subdivision was approved by the Shareholders on the special general meeting of the Company held on 14 January 2005. The share subdivision took effect on 17 January 2005.

In September 2005, the Company issued 400,000,000 new shares of HK$0.01 each at a price of HK$0.34 per share by way of a vendor placing and top-up subscription raising HK$131,179,000 (net of expenses) for investment in other relevant business opportunities that might arise in the future and general working capital of the Group.

In June 2006, the Company issued 1,330,321,745 new shares of HK$0.01 each at price of HK$0.20 per share to Northbay to settle the consideration of HK$266,064,350 in respect of the Acquisition.

In March 2007, the Company issued 1,296,860,000 new shares of HK$0.01 each at a price of HK$0.04 per share by way of a vendor placing and top-up subscription raising HK$50,500,000 (net of expenses) for financing possible diversified investments of the Group and general working capital of the Group.

On 4 April 2007, the Company announced that every ten share of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one shares of HK$0.10 each in the issued and unissued share capital of the Company. The share consolidation was approved by the Shareholders on the special general meeting of the Company held on 18 May 2007. The share consolidation took effect on 21 May 2007.

In May 2007, the Company issued 155,620,000 new shares of HK$0.10 each at a price of HK$0.55 per share raising HK$83,300,000 (net of expenses) for financing possible diversified investments of the Group and general working capital of the Group.

In May 2007, the Company issued 324,000,000 new shares of HK$0.01 each at an exercise price of HK$0.047 per share pursuant to the exercise of share options granted to the Group's employees.

Save as disclosed above, there was no change in the equity capital structure of the Company for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Exchange risk and hedging

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Reminbi, the exchange rate risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes were used by the Group for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Staff, remuneration policies and share option scheme

As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Group employed 41, 28, 59 and 53 staff respectively. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme and share options.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE EXCEPTIONAL GAIN GROUP

Track record of the Exceptional Gain Group

The table below sets out the consolidated income statements of the Exceptional Gain Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	—	—	—	—	13,873
Cost of sale	—	—	—	—	(4,482)
	—	—	—	—	9,391
Other revenue	11	30	8	8	—
Profit on disposal of property, plant and equipment	—	—	1,291	1,291	—
Discount on acquisition of subsidiaries	—	—	—	—	15,498
Loss on disposal of partial interest in a subsidiary	—	—	—	—	(45,471)
Administrative expenses	(311)	(308)	(237)	(231)	(11,901)
(Loss)/profit before taxation	(300)	(278)	1,062	1,068	(32,483)
Taxation	—	—	—	—	—
(Loss)/profit for the year/period	(300)	(278)	1,062	1,068	(32,483)

Overview

Exceptional Gain is an investment holding company. Previously, Exceptional Gain held a leasehold land and building for use as a staff quarter of the Vendor. In the year ended 31 December 2006, the leasehold land and building was disposed to an Independent Third Party at a consideration of HK$6,900,000.

In March 2007, Exceptional Gain acquired 38.50% equity interest in KHL from an Independent Third Party at a consideration of HK$231,777,000. In May 2007, Exceptional Gain acquired the remaining 61.50% equity interest in KHL from the Independent Third Parties at a consideration of HK$490,000,000. In June 2007, Exceptional Gain disposed 50% equity interest in KHL to two Independent Third Parties at a total consideration of HK$315,000,000.

Other than holding the leasehold land and building and the 50% equity interest in KHL, Exceptional Gain has not been carrying out any business or trading since its date of incorporation. Following the acquisition of KHL, the financial results of KHL are consolidated into that of the Exceptional Gain Group.

Analysis on the results of operation of the Exceptional Gain Group during the three years ended 31 December 2006 and the six months ended 30 June 2007

Revenue and cost of sales

No turnover and cost of sales were recorded for the three years ended 31 December 2006 as the Exceptional Gain Group did not carry out any business or trading.

Following the acquisition of KHL in the six months ended 30 June 2007, the financial results of KHL are consolidated into that of the Exceptional Gain Group. As a result, turnover of HK$13,873,000 and cost of sales of HK$4,482,000 were recorded.

Other revenue

Other revenue mainly represented income received from film production companies for film shooting in the leasehold land and building.

For the year ended 31 December 2004, 2005 and 2006, other revenue amounted to HK$11,000, HK$30,000 and HK$8,000 respectively.

Profit on disposal of property, plant and equipment

In the year ended 31 December 2006, the leasehold land and building was disposed to an Independent Third Party at a consideration of HK$6,900,000. As a result, a profit on disposal of property, plant and equipment of HK$1,291,000 was recorded.

Discount on acquisition of subsidiaries

In the six months ended 30 June 2007, Exceptional Gain acquired 100% interest in KHL. A discount on acquisition of subsidiaries of HK$15,498,000, representing the difference between the fair values of the net assets acquired and the consideration paid, was recognised.

Administrative expenses

For the three years ended 31 December 2006, administrative expenses mainly represented depreciation and amortisation of the leasehold land and building, electricity & water and building management fees. Administrative expenses for the two years ended 31 December 2005 were fairly stable.

Administrative expenses decreased from HK$308,000 in the year ended 31 December 2005 to HK$237,000 in the year ended 31 December 2006. Such decrease was mainly due to the disposal of the leasehold land and building in 2006.

Administrative expenses for the six months ended 30 June 2006 and 2007 amounted HK$231,000 and HK$11,901,000 respectively. The increase was attributable to the inclusion of KHL's administration expenses following the acquisition of KHL.

(Loss)/profit for the year/period

As the leasehold land and building was held for staff quarter use and no rental income was generated, losses of HK$300,000 and HK$278,000 were recorded for the year ended 31 December 2004 and 2005 respectively.

For the year ended 31 December 2006, the Exceptional Gain Group recorded a profit of HK$1,062,000. The turnaround in the performance of the Exceptional Gain Group was attributable to the disposal of the leasehold land and building at a consideration of HK$6,900,000 resulting a profit on disposal of property, plant and equipment of HK$1,291,000 was recorded.

For the six months ended 30 June 2007, the Exceptional Gain Group recorded a loss of HK$32,483,000. This was attributable to the recognition of a loss on disposal of partial interest in a subsidiary of HK$45,471,000 resulted from the disposal of 50% interest in KHL to two Independent Third Parties, which was partly offset by the discount on acquisition of subsidiaries of HK$15,498,000.

Analysis on the financial position of the Exceptional Gain Group during the three years ended 31 December 2006 and the six months ended 30 June 2007

Liquidity and financial resources

As at 31 December 2004, the Exceptional Gain Group had no cash and cash equivalents. Advance from the ultimate holding company amounted to HK$7,550,000. The advance was unsecured, interest-free and repayable on demand. No gearing ratio was applicable as there was no external borrowing.

As at 31 December 2005, the Exceptional Gain Group had no cash and cash equivalents. Advance from the ultimate holding company amounted to HK$7,606,000. The advance was unsecured, interest-free and repayable on demand. No gearing ratio was applicable as there was no external borrowing.

As at 31 December 2006, the Exceptional Gain Group had no cash and cash equivalents. Advance from the ultimate holding company amounted to HK$835,000. The advance was unsecured, interest-free and repayable on demand. No gearing ratio was applicable as there was no external borrowing.

As at 30 June 2007, the cash and cash equivalents of the Exceptional Gain Group amounted to HK$14,786,000. Advances from the ultimate holding company and minority shareholders amounted to HK$408,837,000 and HK$39,999,000 respectively. The advances were unsecured, interest-free and had no fixed term of repayments. No gearing ratio was applicable as there was no external borrowing.

Charges on assets

As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Exceptional Gain Group did not have any mortgage or charge.

Net current assets

The net current assets of the Exceptional Gain Group amounted to HK$2,000, HK$6,000, Nil and HK$14,572,000 as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

The current ratio of the Exceptional Gain Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 were Nil, 4.00, Nil and 2.79 respectively.

Material acquisitions and disposals of subsidiaries and associated companies

In March 2007, Exceptional Gain acquired 38.50% equity interest in KHL from an Independent Third Party at a consideration of HK$231,777,000.

In May 2007, Exceptional Gain acquired the remaining 61.50% equity in KHL from three Independent Third Parties at a total consideration of HK$490,000,000.

In June 2007, Exceptional Gain disposed 50% equity interest in KHL to the two Independent Third Parties at a total consideration of HK$315,000,000.

Save as disclosed above, the Exceptional Gain Group made no material acquisitions or disposals of subsidiaries and associated companies during the three years ended 31 December 2006 and the six months ended 30 June 2007.

Capital structure

There was no change in the equity capital structure of Exceptional Gain for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Exchange risk and hedging

As the majority of the Exceptional Gain Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Macau Pataca, the exchange rate risk of the Exceptional Gain Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes were used by the Exceptional Gain Group for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Contingent liabilities

As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Exceptional Gain Group did not have any material contingent liabilities.

Staff, remuneration policies and retirement benefits

As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Exceptional Gain Group had nil, nil, nil and 203 staff respectively. The Exceptional Gain Group recognised the importance of maintaining good working relationship with its staff and accordingly strives to maintain remunerations at competitive level and in line with the market. According to the relevant rules and regulations in Macau, eligible staff of KHL is required to participate in employee retirement and social security fund scheme.

MANAGEMENT DISCUSSION AND ANALYSIS ON KHL

Track record of KHL

The table below sets out the income statements of KHL for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	64,584	62,765	62,922	30,265	29,220
Cost of sales	(18,327)	(19,380)	(19,456)	(9,657)	(8,862)
Gross profit	46,257	43,385	43,466	20,608	20,358
Other revenue	4	133	362	113	211
Other income	6,269	547	551	264	5,823
Administrative expenses	(31,284)	(26,317)	(26,545)	(13,163)	(18,794)
Impairment of property, plant and equipment	—	—	—	—	(2,849)
Impairment of inventories	—	—	—	—	(14)
Profit from operations	21,246	17,748	17,834	7,822	4,735
Finance costs	(67)	—	—	—	—
Profit before taxation	21,179	17,748	17,834	7,822	4,735
Taxation	—	(29)	(873)	—	(18)
Profit for the year/period	21,179	17,719	16,961	7,822	4,717

Overview

KHL is the owner of the Kingsway Hotel and is principally engaged in hotel operation business. The Kingsway Hotel is a three-star hotel opened in 1992 and had a total of 383 guests rooms with ancillary facilities. The Kingsway Hotel is situated at the center of Macau with convenient transportation to many of the landmarks and tourists attractions in Macau. It is currently under renovation to becoming a luxury boutique hotel.

Analysis on the results of operation of KHL during the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007

Turnover

KHL's business is organised into four business segments. They are as follows:

Rooms income — Revenue from hotel room operation is recognised when a hotel room is occupied.

Food and beverage — Revenue from food and beverage included the operation service of restaurant from coffee shop, hotel room mini bar and lobby bar.

Rental income — Revenue from leasing of hotel property.

Other operations — Revenue from ancillary services, including laundry services, roaming services, in-house movie and room cleaning services.

The table below sets out the breakdown of KHL's turnover by business segments for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Rooms income	39,260	40,599	39,733	18,913	19,098
Food and beverage	6,860	6,556	6,866	3,292	2,113
Rental income	15,412	13,490	13,556	6,665	6,869
Other operations	3,052	2,120	2,767	1,395	1,140
	64,584	62,765	62,922	30,265	29,220

The table below sets out the key performance indicators of KHL during the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

	No. of room available monthly	No. of room occupied monthly	Weighted Average Transient Average occupancy rate	Average room rate	Weighted average room yield
			%	HK$	HK$
Year ended 31 December 2004	11,624	10,546	91%	320	290
Year ended 31 December 2005	11,616	9,672	83%	360	300
Year ended 31 December 2006	11,616	9,226	79%	360	286
Six months ended 30 June 2006	11,520	8,899	77%	355	273
Six months ended 30 June 2007	11,520	8,310	72%	383	276

Turnover for the three years ended 31 December 2006 and the six months ended 2006 and 2007 remained steadily. Although KHL had gradually increased the average room rate from HK$320 in 2004 to HK$383 in 2007, such increase was offset by the decrease in the average occupancy rate from 91% in 2004 to 72% in 2007.

Other revenue

For the year ended 31 December 2004, 2005 and 2006, other revenue was mainly derived from the junket card service income which amounted to HK$4,000, HK$133,000 and HK$362,000 respectively.

Other revenue increased from HK$113,000 in the six months ended 30 June 2006 to HK$211,000 in the six months ended 30 June 2007. The increase was attributable to the increase in bank interest income resulted from the increase in average balance of KHL's bank deposits.

Other income

For the year ended 31 December 2004, 2005 and 2006, other income were HK$6,269,000, HK$547,000 and HK$551,000 respectively. The significant high level of other income in the year ended 31 December 2004 was attributable to the wavier of the provision for employees' bonus.

KHL recorded other income of HK$5,823,000 in the six months ended 30 June 2007, a 2,106% increase as compared to the correspondence figure of HK$264,000 for the previous period. Such significant increase was attributable to the wavier of the provision for employee's bonus and double pay of HK$5,575,000.

Administrative expenses

For the year ended 31 December 2004, 2005 and 2006, administrative expenses amounted to HK$31,284,000, HK$26,317,000 and HK$26,545,000 respectively. Administrative expenses mainly comprised of depreciation and amortisation of the Kingsway Hotel and staff quarter.

Administrative expenses increased from HK$13,163,000 in the six months ended 30 June 2006 to HK$18,794,000 in the six months ended 30 June 2007. The increase was attributed to the severance payment of HK$4,689,000 in relation to the staff retrenchment taken place in late June 2007 resulted from the renovation.

Finance costs

For the year ended 31 December 2004, finance costs amounted to HK$67,000, which represented the interest paid on a secured bank loan. As the secured bank loan was fully repaid in 2004, no finance costs were recorded in the year ended 31 December 2005 and 2006 and the six months ended 30 June 2007.

Impairments of property, plant and equipment, and inventories

As the renovation of the Kingsway Hotel commenced in late June 2007, impairments of HK$2,849,000 and HK$14,000 were recognised in respect of property, plant and equipment, and inventories respectively.

Taxation

No provision for taxation was made for the year ended 31 December 2004 as KHL had no estimated taxable profit.

Provision for taxation for the year ended 31 December 2005 and 2006 and the six months ended 30 June 2007 amounted to HK$29,000, HK$873,000 and HK$18,000 respectively. Such provisions were calculated by progressively at maximum rate of 12% on the estimated profit for the years.

Profit for the year/period

Profit for the year decreased from HK$21,179,000 in the year ended 31 December 2004 to HK$17,719,000 in the year ended 31 December 2005. The decrease was mainly attributable to the wavier of the provision for employees' bonus of HK$6,269,000 recognised in 2004.

Profit for the year decreased from HK$17,719,000 in the year ended 31 December 2005 to HK$16,961,000 in the year ended 31 December 2006. The decrease was mainly attributable to the increase in provision for taxation of HK$844,000 in 2006 as compared to 2005.

Profit for the period decreased from HK$7,822,000 in the six months ended 30 June 2006 to HK$4,717,000 in the six months ended 30 June 2007. The decrease was mainly attributable to the impairments recognised in respect of property, plant and equipment and inventories and the provision made for severance payment, which were partly offset by the wavier of the provision for employees' bonus and double pay.

Analysis on the financial position of KHL during the three years ended 31 December 2006 and the six months ended 30 June 2007

Liquidity and financial resources

As at 31 December 2004, the cash and cash equivalents of KHL amounted to HK$21,908,000. Advances from the immediate holding companies and the intermediate holding company amounted to HK$114,200,000 and HK$49,448,000 respectively. The advances were unsecured, interest-free and had no fixed term of repayments. No gearing ratio was applicable as there was no external borrowing.

As at 31 December 2005, the cash and cash equivalents of KHL amounted to HK$25,459,000. Advances from the immediate holding companies and the intermediate holding company amounted to HK$97,197,000 and HK$43,198,000 respectively. The advances were unsecured, interest-free and had no fixed term of repayments. No gearing ratio was applicable as there was no external borrowing.

As at 31 December 2006, the cash and cash equivalents of KHL amounted to HK$29,935,000. Advances from the immediate holding companies and the intermediate holding company amounted to HK$78,447,000 and HK$36,948,000 respectively. The advances were unsecured, interest-free and had no fixed term of repayments. No gearing ratio was applicable as there was no external borrowing.

As at 30 June 2007, the cash and cash equivalents of KHL amounted to HK$14,734,000. Advances from the immediate holding companies and the intermediate holding company amounted to HK$59,697,000 and HK$30,698,000 respectively. The advances were unsecured, interest-free and had no fixed term of repayments. No gearing ratio was applicable as there was no external borrowing.

Charges on assets

As at 31 December 2004, 2005 and 2006 and 30 June 2007, KHL did not have any mortgage or charge.

Net current assets

The net current assets of KHL amounted to HK$21,734,000, HK$21,589,000, HK$24,572,000 and HK$13,749,000 as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

The current ratio of KHL as at 31 December 2004, 2005 and 2006 and 30 June 2007 were 3.03, 3.00, 2.99 and 2.72 respectively.

Material acquisitions and disposals of subsidiaries and associated companies

KHL made no material acquisitions or disposals of subsidiaries and associated companies during the three years ended 31 December 2006 and the six months ended 30 June 2007.

Capital structure

There was no change in the equity capital structure of KHL for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Exchange risk and hedging

As the majority of KHL's transactions, assets and liabilities are denominated in Hong Kong dollars and Macau Pataca, the exchange rate risk of KHL is considered to be minimal. Accordingly, no financial instruments for hedging purposes were used by KHL for the three years ended 31 December 2006 and the six months ended 30 June 2007.

Contingent liabilities

As at 31 December 2004, 2005 and 2006 and 30 June 2007, KHL did not have any material contingent liabilities.

Staff, remuneration policies and retirement benefits

As at 31 December 2004, 2005 and 2006 and 30 June 2007, KHL had 233, 231, 215 and 203 staff respectively. KHL recognised the importance of maintaining good working relationship with its staff and accordingly strives to maintain remunerations at competitive level and in line with the market. According to the relevant rules and regulations in Macau, eligible staff of KHL is required to participate in employee retirement and social security fund scheme.

The following is the text of an accountants' report on the Exceptional Gain Group received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants, for inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

14 December 2007

The Directors
Riche Multi-Media Holdings Limited
Room 3408, 34th Floor
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Exceptional Gain Profits Limited ("Exceptional Gain") and its subsidiaries (herein collectively referred to as the "Exceptional Gain Group") for each of the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 (hereinafter collectively referred to as the "Relevant Periods") for inclusion in the circular of Riche Multi-Media Holdings Limited (the "Company") dated 14 December 2007 (the "Circular") in connection with the proposed acquisition of the 100% equity interest in Exceptional Gain and all obligations, liabilities and debt owing by Exceptional Gain to China Star Entertainment Limited (the "Acquisition") by the Company.

Exceptional Gain was incorporated in the British Virgin Islands with limited liability on 28 January 2000. The principal activity of Exceptional Gain is investment holding.

As at the date of this report, the particulars of Exceptional Gain's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Registered capital	Issued share capital	Interest attributable to Exceptional Gain Direct	Interest attributable to Exceptional Gain Indirect	Principal activities and place of operation
Triumph Up Investments Limited ("Triumph Up")	British Virgin Islands (the "BVI") 21 April 2004	US$50,000	US$615	100%	—	Investment holding/ Hong Kong
Great Chain Limited ("Great Chain")	Hong Kong 4 June 2005	HK$1	HK$1	100%	—	Investment holding/ Hong Kong
Zillion Rich Assets Limited ("Zillion Rich")	BVI 12 April 2004	US$50,000	US$26,451	—	100%	Investment holding/ Hong Kong
Whole Bright Assets Limited ("Whole Bright")	BVI 1 December 2004	US$50,000	US$33,121	—	100%	Investment holding/ Hong Kong
Yin Shuen Enterprises Company Limited ("Yin Shuen")	Macau 5 December 2004	MOP99,000	MOP99,000	—	100%	Investment holding/ Macau
Xin Son Investment Limited ("Xin Son")	Macau 23 September 2004	MOP100,000	MOP100,000	—	100%	Investment holding/ Macau
Feng Ze Investments Limited ("Feng Ze")	Macau 7 January 1993	MOP115,000	MOP115,000	—	100%	Investment holding/ Macau
Xin Wei Property Investment Company Limited ("Xin Wei")	Macau 12 May 1992	MOP100,000	MOP100,000	38.5%	61.5%	Investment holding/ Macau
Kingsway Hotel Limited ("KHL")	Macau 26 July 1990	MOP500,000	MOP500,000	19.25%	80.75%	Hotel management and operation/ Macau

* Exceptional Gain acquired the 100% equity interest in both Triumph Up and its subsidiaries (the "Triumph Up Group") and Great Chain and its subsidiaries (the "Great Chain Group") on 31 May 2007.

The statutory financial statements of Exceptional Gain for the Relevant Periods were prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have acted as the auditors of Exceptional Gain for the years ended 31 December 2005 and 2006 and the financial statements for the year ended 31 December 2004 were audited by Deloitte Touche Tohmatsu.

No statutory financial statements of Triumph Up, Great Chain, Zillion Rich, Whole Bright, Yin Shuen, Xin Son, Feng Ze and Xin Wei have been prepared for the Relevant Periods as these companies have not carried on any business other than investment holding and that there is no statutory audit requirement in the country of their incorporation.

The statutory financial statements of KHL for the Relevant Periods were prepared in accordance with the relevant rules and generally accepted accounting principles applicable to Macau Enterprises. CSC & Associates, certified public accountants in Macau, is the statutory auditors of KHL for each of the three years ended 31 December 2004, 2005 and 2006.

The Financial Information has been prepared by the directors of Exceptional Gain based on the audited financial statements or, where appropriate, unaudited management accounts of the Exceptional Gain Group after making adjustments as are appropriate.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

For the purpose of this report, the directors of Exceptional Gain are responsible for the preparation of the Financial Information which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

For the purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectus and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the companies comprising Exceptional Gain and its subsidiaries in respect of any period subsequent to 30 June 2007.

For the Financial Information for the six months ended 30 June 2006, it is our responsibility to form an independent conclusion, based on our review, on the Financial Information and to report our conclusion solely to you. We conducted our review on the Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquires of group management and applying analytical procedures to the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Financial Information for the six months ended 30 June 2006.

OPINION

In our opinion, the Financial Information for the year ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007, for the purpose of this report, gives a true and fair view of the state of affairs of the Exceptional Gain Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of its results and cash flows for the years and period then ended in accordance with Hong Kong Financial Reporting Standards.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the Financial Information presented for the six months ended 30 June 2006.

CONSOLIDATED BALANCE SHEETS OF THE EXCEPTIONAL GAIN GROUP

		As at 31 December			As at 30 June
		2004	2005	2006	2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*6*	2,763	2,583	—	266,137
Interest in leasehold land	*7*	3,166	3,120	—	536,169
		5,929	5,703	—	802,306
Current assets					
Inventories	*9*	—	—	—	392
Trade receivables	*10*	—	—	—	6,080
Prepayment, deposits and other receivables	*11*	2	8	—	1,438
Cash and cash equivalents	*12*	—	—	—	14,786
		2	8	—	22,696
Total assets		5,931	5,711	—	825,002
Capital and reserves attributable to Exceptional Gain's equity holders					
Share capital	*13*	—	—	—	—
Reserves		(1,619)	(1,897)	(835)	(33,318)
		(1,619)	(1,897)	(835)	(33,318)
Minority interests		—	—	—	320,472
		(1,619)	(1,897)	(835)	287,154
Non-current liabilities					
Amount due to ultimate holding company	*15*	7,550	7,606	835	408,837
Amounts due to minority shareholders	*15*	—	—	—	39,999
Deferred tax	*16*	—	—	—	80,888
		7,550	7,606	835	529,724
Current liabilities					
Trade payables	*17*	—	—	—	882
Accruals, deposit received and other payables	*18*	—	2	—	7,242
		—	2	—	8,124
Total equity and liabilities		5,931	5,711	—	825,002
Net current assets		2	6	—	14,572
Total assets less current liabilities		5,931	5,709	—	816,878

The accompanying notes form an integral part of this Financial Information.

BALANCE SHEETS OF EXCEPTIONAL GAIN

		As at 31 December			As at 30 June
		2004	2005	2006	2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*6*	2,763	2,583	—	—
Interest in leasehold land	*7*	3,166	3,120	—	—
Investment in subsidiaries	*8*	—	—	—	721,777
		5,929	5,703	—	721,777
Current assets					
Prepayment, deposits and other receivables	*11*	2	8	—	922
Total assets		5,931	5,711	—	722,699
Capital and reserves attributable to the equity holders of Exceptional Gain					
Share capital	*13*	—	—	—	—
Accumulated losses	*14*	(1,619)	(1,897)	(835)	(1,190)
		(1,619)	(1,897)	(835)	(1,190)
Non-current liabilities					
Amount due to ultimate holding company	*15*	7,550	7,606	835	723,837
Current liabilities					
Accruals, deposit received and other payables	*18*	—	2	—	52
Total equity and liabilities		5,931	5,711	—	722,699
Net current assets		2	6	—	870
Total assets less current liabilities		5,931	5,709	—	722,647

CONSOLIDATED INCOME STATEMENTS OF THE EXCEPTIONAL GAIN GROUP

		Year ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2007**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Turnover	*19*	—	—	—	13,873	—
Cost of sale		—	—	—	(4,482)	—
Gross profit		—	—	—	9,391	—
Other revenue	*20*	11	30	8	—	8
Gain on disposal of property, plant and equipment		—	—	1,291	—	1,291
Discount on acquisition of subsidiaries	*27*	—	—	—	15,498	—
Loss on disposal of partial interest in a subsidiary	*28*	—	—	—	(45,471)	—
Administrative expenses		(311)	(308)	(237)	(11,901)	(231)
(Loss)/profit before taxation		(300)	(278)	1,062	(32,483)	1,068
Taxation	*23*	—	—	—	—	—
(Loss)/profit for the year/period		(300)	(278)	1,062	(32,483)	1,068
Attributable to:						
Equity holders of Exceptional Gain		(300)	(278)	1,062	(32,483)	1,068
Dividend	*24*	—	—	—	—	—
(Loss)/earnings per share attributable to the equity holders of Exceptional Gain						
— Basic *(HK$)*	*25*	(300)	(278)	1,062	(32,483)	1,068

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumul-ated loss	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2004	—	(1,319)	(1,319)	—	(1,319)
Loss for the year	—	(300)	(300)	—	(300)
Balance as at 31 December 2004	—	(1,619)	(1,619)	—	(1,619)
Balance as at 1 January 2005	—	(1,619)	(1,619)	—	(1,619)
Loss for the year	—	(278)	(278)	—	(278)
Balance as at 31 December 2005	—	(1,897)	(1,897)	—	(1,897)
Balance as at 1 January 2006	—	(1,897)	(1,897)	—	(1,897)
Profit for the year	—	1,062	1,062	—	1,062
Balance as at 31 December 2006	—	(835)	(835)	—	(835)
Balance as at 1 January 2007	—	(835)	(835)	—	(835)
Acquisition of subsidiaries	—	—	—	320,472	320,472
Loss for the period	—	(32,483)	(32,483)	—	(32,483)
Balance as at 30 June 2007	—	(33,318)	(33,318)	320,472	287,154

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2006

Balance as at 1 January 2006	—	(1,897)	(1,897)	—	(1,897)
Profit for the period	—	1,068	1,068	—	1,068
Balance as at 30 June 2006	—	(829)	(829)	—	(829)

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Cash flow from operating activities					
(Loss)/profit before taxation					
Adjustments for:	(300)	(278)	1,062	(32,483)	1,068
Gain on disposal of property, plant and equipment	—	—	(1,291)	—	(1,291)
Depreciation	180	180	75	4,609	75
Discount on acquisition of subsidiaries	—	—	—	(15,498)	—
Loss on disposal of partial interest in a subsidiary	—	—	—	45,471	—
Amortisation of interest in leasehold land	46	46	19	3,830	19
Operating cash flow before movement in working capital	(74)	(52)	(135)	5,929	(129)
Decrease in inventories	—	—	—	643	—
Increase in trade receivables	—	—	—	(98)	—
(Increase)/decrease in prepayment, deposits and other receivables	—	(6)	8	(1,013)	4
Decrease in trade payables	—	—	—	(10)	—
Increase/(decrease) in accruals, deposit received and other payables	—	2	(2)	(4,738)	3
Net cash (used in)/generated from operating activities	(74)	(56)	(129)	713	(122)
Cash flow from investing activities					
Acquisition of subsidiaries	—	—	—	12,848	—
Proceeds from disposals of property, plant and equipment	—	—	6,900	—	6,900
Net cash generated from investing activities	—	—	6,900	12,848	—
Cash flow from financing activities					
Increase/(decrease) in amount due to ultimate holding company	74	56	(6,771)	1,225	(6,778)
Net cash generated from/(used in) financing activities	74	56	(6,771)	1,225	(6,778)
Net increase in cash and cash equivalents	—	—	—	14,786	—
Cash and cash equivalents at the beginning of the year/period	—	—	—	—	—
Cash and cash equivalents at the end of the year/period	—	—	—	14,786	—

The accompanying notes form an integral part of this Financial Information.

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Exceptional Gain Profits Limited ("Exceptional Gain") was incorporated in the British Virgin Islands on 28 January 2000 with registered office located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The ultimate holding company is China Star Entertainment Limited, a company incorporated in Bermuda. It is principally engaged in investment holding. Details of the subsidiaries of Exceptional Gain were set out in page 67.

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of this Financial Information are set out in Note 3 below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing the Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance. The Financial Information has been prepared under the historical cost convention.

The presentation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgement in the process of applying the Exceptional Gain's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Exceptional Gain Group has not early applied the following new standards, amendments to standards, interpretations which have been issued but are not yet effective. The directors of Exceptional Gain anticipate that the application of these new standards, amendments or interpretations will have no impact on the result and the financial position of the Exceptional Gain Group.

HKAS 23 (Revised)	*(Note a)*	Borrowing costs
HKFRS 8	*(Note a)*	Operating Segments
HK(IFRIC) – Int 11	*(Note b)*	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	*(Note c)*	Service Concession Arrangements
HK(IFRIC) – Int 13	*(Note d)*	Customer Loyalty Programmes
HK(IFRIC) – Int 14	*(Note c)*	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes:

a. Effective for annual periods beginning on or after 1 January 2009.
b. Effective for annual periods beginning on or after 1 March 2007.
c. Effective for annual periods beginning on or after 1 January 2008.
d. Effective for annual periods beginning on or after 1 July 2008.

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information and throughout the Exceptional Gain Group.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Exceptional Gain and entities controlled by Exceptional Gain (its subsidiary). Control is achieved where Exceptional Gain 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 Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Exceptional Gain Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Exceptional Gain 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 Exceptional Gain 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) Business combinations

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

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

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

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances, and classified on the following base:

(i) Room sales is recognised during the guest's period of stay in the hotel;

(ii) Sales of food and beverage are recognised when the goods are provided to customers;

(iii) Rental income is recognised to the relevant tenancy agreement;

(iv) Other auxiliary service income is recognised when incurred; and

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

(d) Property, plant and equipment

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

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

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, in the following annual rates:

Building	:	2% to 4%
Lifts, boilers, HVAC and electrical and waterproof work under building	:	8.33% to 14.29%
Furniture, fixtures and equipment	:	20%
Motor vehicles	:	20%

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

(e) Interest in leasehold land

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Exceptional Gain Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(g) Trade and other payables

Liabilities for trade and other payables which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Exceptional Gain Group.

(h) Cash and cash equivalents

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

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

(k) Provision

Provision are recognised when the Exceptional Gain Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Exceptional Gain Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(m) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial information of each of the Exceptional Gain Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in HK dollars, which is the Exceptional Gain Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(n) Operating leases

Leases where substantially all risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

The Exceptional Gain Group as lessor

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

The Exceptional Gain Group as lessee

Rental payables under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

(o) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Exceptional Gain Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Exceptional Gain Group or of any entity that is a related party of the Exceptional Gain Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(p) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Unallocated costs represent certain corporate expenses. Segment assets primary consist of properties under development, investment properties, properties held for sale and operating cash, and mainly exclude property, plant and equipment. Segment liabilities comprise operating liabilities, deposits received and interest-bearing borrowings, and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Exceptional Gain Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Exceptional Gain Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Exceptional Gain Group's financial performance.

(i) Market risk

Foreign exchange risk

The main operation of the Exceptional Gain Group is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, the Exceptional Gain Group's receivables and payables were mainly denominated in MOP. Management believes that the Exceptional Gain Group does not have significant foreign currency exchange risk. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

(ii) Credit risk

The credit risk of the Exceptional Gain Group is attributable to trade and other receivables. The Exceptional Gain Group has no significant concentration of credit risks. It has policy to ensure the rental income generated from customers with appropriate credit history.

(iii) Liquidity risk

The Exceptional Gain Group manages its liquidity risk by ensuring it had sufficient liquid cash balance to meet its payment obligations as they fall due.

(iv) Cash flow and fair value interest rate risk

The Exceptional Gain Group's interest rate risk arises from bank balances which bear market rates. As the Exceptional Gain Group has no significant interest-bearing assets, It's income and operating cash flows are substantially independent of changes in market interest rates.

(v) Capital Management

The Exceptional Gain Group manages its capital to ensure that entities in the Exceptional Gain Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Exceptional Gain Group consists of debts which include amount due to ultimate holding company disclosed in note 15, cash and cash equivalents and equity attributable to equity shareholders of the Exceptional Gain Group, comprising issued capital, reserves and retained earnings.

The directors of Exceptional Gain review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and associated risks, and take appropriate actions to adjust the Exceptional Gain Group's capital structure and gearing ratio.

The Exceptional Gain Group's overall strategy remains unchanged during the Relevant Periods.

(b) Fair value estimation

The carrying amounts of the Exceptional Gain Group's financial assets, including cash and bank balances, trade receivables, prepayment, deposits and other receivables, and financial liabilities, including trade payables, accruals, deposit received and other payables and amount due to ultimate holding company, are approximate to their fair values due to their short maturities. The face values less any credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair value.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Exceptional Gain Group for similar financial instrument.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Exceptional Gain Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for impairment of receivables

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment on non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Exceptional Gain Group expects to generate from future use of the assets, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Staff quarter	Furniture fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group					
Cost					
At 31 December 2004 and 1 January 2004	3,604	—	—	—	3,604
Additions	—	—	—	—	—
At 31 December 2005 and 1 January 2006	3,604	—	—	—	3,604
Disposals	(3,604)	—	—	—	(3,604)
At 31 December 2006 and 1 January 2007	—	—	—	—	—
Acquisition of subsidiaries	265,404	4,410	693	239	270,746
At 30 June 2007	265,404	4,410	693	239	270,746
Depreciation and impairment					
At 1 January 2004	661	—	—	—	661
Charge for the year	180	—	—	—	180
At 31 December 2004 and 1 January 2005	841	—	—	—	841
Charge for the year	180	—	—	—	180
At 31 December 2005 and 1 January 2006	1,021	—	—	—	1,021
Charge for the year	75	—	—	—	75
Eliminated upon disposal	(1,096)	—	—	—	(1,096)
At 31 December 2006 and 1 January 2007	—	—	—	—	—
Charge for the period	4,599	10	—	—	4,609
At 30 June 2007	4,599	10	—	—	4,609
Net book value					
At 30 June 2007	260,805	4,400	693	239	266,137
At 31 December 2006	—	—	—	—	—
At 31 December 2005	2,583	—	—	—	2,583
At 31 December 2004	2,763	—	—	—	2,763

Depreciation charges of HK$180,000, HK$180,000, HK$75,000 and HK$4,609,000 have been expensed in administrative expenses in the respective year ended 31 December 2004, 2005 and 2006 and six months ended 30 June 2007.

	Building
	HK$'000
Exceptional Gain	
Cost	
At 1 January 2004, 31 December 2004, 1 January 2005, 31 December 2005 and 1 January 2006	3,604
Disposals	(3,604)
At 31 December 2006, 1 January 2007 and 30 June 2007	—
Depreciation and impairment	
At 1 January 2004	661
Charge for the year	180
At 31 December 2004 and 1 January 2005	841
Charge for the year	180
At 31 December 2005 and 1 January 2006	1,021
Charge for the year	75
Eliminated upon disposal	(1,096)
At 31 December 2006, 1 January 2007 and 30 June 2007	—
Net book value	
At 30 June 2007	—
At 31 December 2006	—
At 31 December 2005	2,583
At 31 December 2004	2,763

Depreciation charges of HK$180,000, HK$180,000, HK$75,000 and HK$Nil have been expensed in administrative expenses in the respective year ended 31 December of 2004, 2005 and 2006 and six months ended 30 June 2007.

7. INTEREST IN LEASEHOLD LAND

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
In Hong Kong				
Long term lease	3,166	3,120	—	—
In Macau				
Lease of over 50 years	—	—	—	536,169
	3,166	3,120	—	536,169

Movement of interest in leasehold land of the Exceptional Gain Group during the Relevant Periods was as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	3,212	3,166	3,120	—
Acquisition of subsidiaries	—	—	—	539,999
Amortisation of interest in leasehold land	(46)	(46)	(19)	(3,830)
Disposals	—	—	(3,101)	—
As at 31 December/30 June	3,166	3,120	—	536,169

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Exceptional Gain				
In Hong Kong				
Lease of over 50 years	3,166	3,120	—	—

Movement of interest in leasehold land of Exceptional Gain during the Relevant Periods was as follows:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	3,212	3,166	3,120	—
Amortisation of interest in leasehold land	(46)	(46)	(19)	—
Disposals	—	—	(3,101)	—
As at 31 December/30 June	3,166	3,120	—	—

8. INVESTMENT IN SUBSIDIARIES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	—	—	—	721,777

Detailed particulars of the subsidiaries were set out on page 67.

9. INVENTORIES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Consumables	—	—	—	392

All inventories as at 30 June 2007 are stated at cost.

10. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Trade receivables	—	—	—	6,080

Notes:

(a) The carrying amounts of trade receivables approximate to their fair values.

(b) The credit period generally granted to customers ranges from 0 to 180 days. The aging analysis of the trade receivables as at the balance sheet dates is as follows:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	—	—	—	5,431
31 – 60 days	—	—	—	649
61 – 90 days	—	—	—	—
Over 90 days	—	—	—	—
	—	—	—	6,080

11. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Prepayment	—	6	—	329
Deposits	2	2	—	1,109
	2	8	—	1,438

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Exceptional Gain				
Prepayment	—	6	—	—
Deposits	2	2	—	922
	2	8	—	922

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

12. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Cash at bank and in hand	—	—	—	14,786

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the Relevant Periods are made for varying period of between seven days and three months, depending on the immediate cash requirements of the Exceptional Gain Group, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The average effective interest rate on cash at bank ranged from 2.75% to 3% for the Relevant Periods.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the Exceptional Gain Group to which they related:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
MOP	—	—	—	3,504

13. SHARE CAPITAL

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group and Exceptional Gain				
Authorised share capital				
500,000 ordinary shares at US$ 1 each	390	390	390	390
Issued share capital				
1 ordinary share at US$ 1	—	—	—	—

14. ACCUMULATED LOSSES

Detailed movement of the Exceptional Gain Group's accumulated losses is set out in the statement of changes in equity on page 73.

	Accumulated losses
	HK$'000
Exceptional Gain	
Balance as at 1 January 2004	(1,319)
Loss for the year	(300)
Balance as at 31 December 2004 and 1 January 2005	(1,619)
Loss for the year	(278)
Balance as at 31 December 2005 and 1 January 2006	(1,897)
Profit for the year	1,062
Balance as at 31 December 2006 and 1 January 2007	(835)
Loss for the period	(355)
Balance as at 30 June 2007	(1,190)

15. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/MINORITY SHAREHOLDERS

The amounts due to ultimate holding company/minority shareholders are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors of Exceptional Gain, the amounts will not be repaid within the next twelve months and were classified as non-current.

The carrying amounts of amounts due to ultimate holding company and minority shareholders approximate to their fair values.

16. DEFERRED TAXATION

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

	Revaluation of building
	HK$'000
At 1 January 2004, 31 December 2005, 1 January 2006, 31 December 2006 and 1 January 2007	—
Acquisition of subsidiaries	80,888
At 30 June 2007	80,888

17. TRADE PAYABLES

	As at 31 December			**As at 30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Trade payables	—	—	—	882

The ageing analysis of trade payables as at balance sheet date is as follows:

	As at 31 December			**As at 30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	—	—	—	351
31 – 60 days	—	—	—	324
61 – 90 days	—	—	—	207
Over 90 days	—	—	—	—
	—	—	—	882

The carrying amounts of trade payables approximate to their fair values.

18. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Exceptional Gain Group				
Accruals	—	1	—	1,981
Deposit received	—	1	—	1,087
Other payables	—	—	—	4,174
	—	2	—	7,242

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Exceptional Gain				
Accruals	—	1	—	52
Deposit received	—	1	—	—
	—	2	—	52

The carrying amounts of accruals, deposit received and other payables approximate to their fair values.

19. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Rooms sales	—	—	—	8,920	—
Food and beverage	—	—	—	825	—
Rental income	—	—	—	3,440	—
Other operations, including laundry services, roaming services, in-house movie services and room cleaning services	—	—	—	688	—
	—	—	—	13,873	—

During the six months ended 30 June 2007, the Exceptional Gain Group's entire turnover was derived from hotel operations in Macau, no business and geographical segmental information on turnover, assets and liabilities are presented.

20. OTHER REVENUE

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Rental income	11	14	7	—	7
Sundry income	—	16	1	—	1
	11	30	8	—	8

21. EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Auditors remuneration	—	—	—	—	—
Amortisation of leasehold land	46	46	19	3,830	19
Depreciation	180	180	75	4,609	75

22. EMPLOYEE BENEFITS EXPENSES

(a) Directors' emolument

The remuneration of each director of Exceptional Gain for the Relevant Periods is set out below.

	Fee	Salaries allowance and bonus	Retirement scheme	Other fringe benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004					
Heung Wah Keung	—	—	—	—	—
Chen Ming Yin, Tiffany	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2005					
Heung Wah Keung	—	—	—	—	—
Chen Ming Yin, Tiffany	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2006					
Heung Wah Keung	—	—	—	—	—
Chen Ming Yin, Tiffany	—	—	—	—	—
	—	—	—	—	—
Six months ended 30 June 2007					
Heung Wah Keung	—	—	—	—	—
Chen Ming Yin, Tiffany	—	—	—	—	—
	—	—	—	—	—
Six months ended 30 June 2006 (Unaudited)					
Heung Wah Keung	—	—	—	—	—
Chen Ming Yin, Tiffany	—	—	—	—	—
	—	—	—	—	—

(b) No staff was employed by the Exceptional Gain Group during the Relevant Periods.

23. TAXATION

No provision for Hong Kong profits tax has been made as the Exceptional Gain Group has no assessable profits arising in Hong Kong for the Relevant Periods.

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

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
(Loss)/profit before taxation	(300)	(278)	1,062	(32,483)	1,068
Tax rate at 17.5% for the Relevant Periods	(52)	(48)	186	(5,684)	186
Income not subject to tax	—	—	(186)	(2,337)	(225)
Expenses not deductible for tax	52	48	—	8,021	39
Taxation for the year/period	—	—	—	—	—

No provision for deferred tax assets in respect of tax losses has been recognised in the Financial Information due to unpredictability of future profit streams.

24. DIVIDEND

The directors of Exceptional Gain did not recommend the payment of any dividend during the Relevant Periods.

25. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit attributable to Exceptional Gain's equity holders on loss of HK$300,000, loss of HK$278,000, profit of HK$1,062,000, loss of HK$32,483,000 for the year ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007 (for the six months ended 30 June 2006: profit of HK$1,068,000) and the weighted average number of one ordinary share in issue during the years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007.

As there were no potential diluted ordinary shares in existence during the Relevant Periods and accordingly, no diluted (loss)/earnings per share have been presented.

26. LEASE COMMITMENTS

As lessee

The Exceptional Gain Group leases offices under non-cancellable operating lease agreements. The Exceptional Gain Group has future aggregate minimum lease payments as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than one year	—	—	—	366

27. ACQUISITION OF SUBSIDIARIES

On 31 March 2007, Exceptional Gain acquired 19.25% in KHL, 38.5% in Xin Wei and related sales loan at a consideration of approximately HK$231,777,000 (the "Acquisition I"). Exceptional Gain entitled to 38.5% in KHL following the completion of the Acquisition I.

On 31 May 2007, Exceptional Gain further acquired the remaining 61.5% in KHL through acquisition of 100% in Triumph Up and Great Chain at a consideration of approximately HK$490,000,000 (the "Acquisition II").

Following the completion of the Acquisition I and II, Exceptional Gain had 100% interest in KHL. The net assets acquired at the date of acquisition were as follows:

	Acquirees' carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	48,881	221,865	270,746
Interest in leasehold land	87,796	452,203	539,999
Inventories	1,035	—	1,035
Trade receivables	5,982	—	5,982
Prepayment, deposits and other receivables	425	—	425
Cash at bank and in hand	12,848	—	12,848
Amounts due to immediate holding companies	(57,602)	—	(57,602)
Trade payables	(892)	—	(892)
Accruals, deposits received and other payables	(11,980)	—	(11,980)
Deferred tax	—	(80,888)	(80,888)
Net assets acquired	86,493	593,180	679,673
Sales loan acquired	57,602	—	57,602
	144,095	593,180	737,275
Discount on acquisition			(15,498)
			721,777
Consideration			721,777
Net cash outflow arising on acquisition			
— Consideration payable			721,777
— Cash and cash equivalents acquired			(12,848)
			708,929

The subsidiaries acquired during the period for the six months ended 30 June 2007 contributed turnover of approximately HK$13,873,000 and profit before taxation of approximately HK$1,979,000 to the Exceptional Gain Group for the period between the date of Acquisition I and 30 June 2007.

If the acquisition had been completed on 1 January 2007, the Exceptional Gain Group's turnover and profit for the six months ended 30 June 2007 would have been HK$29,680,000 and HK$1,979,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Exceptional Gain Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

28. LOSS ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 22 June 2007, Exceptional Gain disposed of 50% interest in KHL, which was a then wholly-subsidiary of the Exceptional Gain Group, and a shareholder loan at a consideration of HK$315,000,000. The fair values of the 50% net assets of KHL and the shareholder loan were approximately HK$320,472,000 and HK$39,999,000 respectively. Therefore, a loss on disposal of partial interest on KHL of approximately HK$45,471,000 was recognised in the consolidated income statement.

29. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, Exceptional Gain entered into the following significant related party transactions.

(a) Balance with a related party

				As at
		As at 31 December		**30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade balance due to:				
Amount due to ultimate holding company — China Star Entertainment Limited	7,550	7,606	835	723,837

(b) Related party transactions

During the Relevant Periods, no compensation of any kind was paid to Exceptional Gain's directors and key management personnel.

30. CONTINGENT LIABILITIES

As at 30 June 2007, the Exceptional Gain Group had no significant contingent liabilities.

31. SUBSEQUENT EVENTS

On 20 July 2007, Seng Heng Bank Limited granted banking facilities to a subsidiary of Exceptional Gain, KHL, with facilities limit up to HK$650,000,000. As at the date of report, KHL has withdrawn a term loan of HK$450,000,000. Such banking facilities were secured by the hotel premises and staff quarter of KHL.

32. SUBSEQUENT CONSOLIDATED FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Exceptional Gain Group in respect of any period subsequent to 30 June 2007. No dividend has been declared, made or paid by the Exceptional Gain Group in respect of any period subsequent to 30 June 2007.

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

The following is the text of an accountants' report on Kingsway Hotel Limited received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants, for inclusion in this circular.

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

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

14 December 2007

The Directors
Riche Multi-Media Holdings Limited
Room 3408, 34th Floor
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Kingsway Hotel Limited ("KHL") for each of the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 (hereinafter collectively referred to as the "Relevant Periods") for inclusion in the circular of Riche Multi-Media Holdings Limited (the "Company") dated 14 December 2007 (the "Circular") in connection with the proposed acquisition of the 100% equity interest in Exceptional Gain Profits Limited ("Exceptional Gain") and all obligations, liabilities and debt owing by Exceptional Gain to China Star Entertainment Limited (the "Acquisition") by the Company.

KHL was incorporated in Macau with limited liability on 26 July 1990. The principal activity of KHL is hotel management and operations.

The statutory financial statements of KHL for the Relevant Period were prepared in accordance with the relevant rules and generally accepted accounting principles applicable to Macau enterprises. CSC & Associates, Certified Public Accountants in Macau, is the statutory auditors of KHL for each of the three years ended 31 December 2004, 2005 and 2006.

The Financial Information has been prepared by the directors of KHL based on the audited financial statements or, where appropriate, unaudited management accounts of KHL after making adjustments as are appropriate.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

For the purpose of this report, the directors of KHL are responsible for the preparation of the Financial Information which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

For the purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectus and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the companies comprising KHL in respect of any period subsequent to 30 June 2007.

For the Financial Information for the six months ended 30 June 2006, it is our responsibility to form an independent conclusion, based on our review, on the Financial Information and to report our conclusion solely to you. We conducted our review on the Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquires of group management and applying analytical procedures to the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Financial Information for the six months ended 30 June 2006.

OPINION

In our opinion, the Financial Information for the year ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007, for the purpose of this report, gives a true and fair view of the state of affairs of KHL's as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of its results and cash flows for the years and period then ended in accordance with Hong Kong Financial Reporting Standards.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the Financial Information presented for the six months ended 30 June 2006.

BALANCE SHEETS

	Notes	As at 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000	As at 30 June 2007 HK$'000
Non-current assets					
Property, plant and equipment	6	64,021	64,611	59,568	53,098
Interest in leasehold land	7	92,351	86,372	80,393	77,403
		156,372	150,983	139,961	130,501
Current assets					
Inventories	8	1,232	1,217	1,191	392
Trade receivables	9	7,452	5,422	5,502	6,045
Prepayment, deposits and other receivables	10	1,874	278	288	551
Cash and cash equivalents	11	21,908	25,459	29,935	14,734
		32,466	32,376	36,916	21,722
Total assets		188,838	183,359	176,877	152,223
Capital and reserves attributable to the equity holders of KHL					
Share capital	12	485	485	485	485
Reserves	13	13,973	31,692	48,653	53,370
		14,458	32,177	49,138	53,855

		As at 31 December			As at 30 June
		2004	**2005**	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Amount due to intermediate holding company	*14*	49,448	43,198	36,948	30,698
Amounts due to immediate holding companies	*14*	114,200	97,197	78,447	59,697
		163,648	140,395	115,395	90,395
Current liabilities					
Trade payables	*15*	1,840	1,650	1,126	830
Accruals, deposit received and other payables	*16*	8,230	8,427	9,974	6,364
Tax payable		—	29	786	779
Amount due to a related company	*14*	662	681	458	—
		10,732	10,787	12,344	7,973
Total equity and liabilities		188,838	183,359	176,877	152,223
Net current assets		21,734	21,589	24,572	13,749
Total assets less current liabilities		178,106	172,572	164,533	144,250

The accompanying notes form an integral part of this Financial Information.

INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2007	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Turnover	*17*	64,584	62,765	62,922	29,220	30,265
Cost of sales		(18,327)	(19,380)	(19,456)	(8,862)	(9,657)
Gross profit		46,257	43,385	43,466	20,358	20,608
Other revenue	*18*	4	133	362	211	113
Other income	*19*	6,269	547	551	5,823	264
Administrative expenses		(31,284)	(26,317)	(26,545)	(18,794)	(13,163)
Impairment of property, plant and equipment		—	—	—	(2,849)	—
Impairment of inventories		—	—	—	(14)	—
Profit from operations		21,246	17,748	17,834	4,735	7,822
Finance costs	*22*	(67)	—	—	—	—
Profit before taxation		21,179	17,748	17,834	4,735	7,822
Taxation	*23*	—	(29)	(873)	(18)	—
Profit for the year/ period		21,179	17,719	16,961	4,717	7,822
Attributable to:						
Equity holders of KHL		21,179	17,719	16,961	4,717	7,822
Dividend	*25*	—	—	—	—	—
Earnings per share attributable to the equity holders of KHL						
— Basic *(HK$)*	*26*	42.4	35.4	33.9	9.4	15.6

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Legal reserve	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2004	485	—	(7,206)	(6,721)
Transfer to legal reserve	—	243	(243)	—
Profit for the year	—	—	21,179	21,179
Balance as at 31 December 2004	485	243	13,730	14,458
Balance as at 1 January 2005	485	243	13,730	14,458
Profit for the year	—	—	17,719	17,719
Balance as at 31 December 2005	485	243	31,449	32,177
Balance as at 1 January 2006	485	243	31,449	32,177
Profit for the year	—	—	16,961	16,961
Balance as at 31 December 2006	485	243	48,410	49,138
Balance as at 1 January 2007	485	243	48,410	49,138
Profit for the period	—	—	4,717	4,717
Balance as at 30 June 2007	485	243	53,127	53,855

UNAUDITED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2006

	Share capital	Legal reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2006	485	243	31,449	32,177
Profit for the period	—	—	7,822	7,822
Balance as at 30 June 2006	485	243	39,271	39,999

CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Cash flow from operating activities					
Adjustments for:`					
Profit before taxation	21,179	17,748	17,834	4,735	7,822
Impairment of property, plant and equipment	—	—	—	2,849	—
Impairment of inventories	—	—	—	14	—
Loss/(gain) on disposal of property, plant and equipment	—	9	7	(108)	—
Depreciation	4,655	6,709	7,072	3,660	3,460
Amortisation of interest in leasehold land	5,978	5,979	5,979	2,990	2,990
Interest income	(4)	(133)	(341)	(211)	(113)
Interest expenses	67	—	—	—	—
Operating cash flow before movement in working capital	31,875	30,312	30,551	13,929	14,159
(Increase)/decrease in inventories	(182)	15	26	785	(39)
Decrease/(increase) in trade receivables	1,751	2,030	(80)	(543)	(782)
(Increase)/decrease in prepayment, deposit and other receivables	(1,621)	1,596	(10)	(263)	(496)
Increase/(decrease) in trade payables	649	(190)	(524)	(296)	(439)
(Decrease)/increase in accruals, deposit received and other payables	(4,299)	197	1,547	(3,610)	2,148
(Decrease)/increase in amount due to a related company	(335)	19	(223)	(458)	—
Cash generated from operations	27,838	33,979	31,287	9,544	14,551
Tax paid	—	—	(116)	(25)	—
Net cash generated from operating activities	27,838	33,979	31,171	9,519	14,551

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Cash flow from investing activities					
Proceeds from disposals of property, plant and equipment	—	73	—	108	—
Purchase of property, plant and equipment	(5,676)	(7,381)	(2,036)	(39)	(1,937)
Interest received	4	133	341	211	113
Interest paid	(67)	—	—	—	—
Net cash (used in)/generated from investing activities	(5,739)	(7,175)	(1,695)	280	(1,824)
Cash flow from financing activities					
Increase/(decrease) in amount due to an intermediate holding company	1,441	(6,250)	(6,250)	(6,250)	(6,250)
Increase/(decrease) in amounts due to immediate holding companies	5,012	(17,003)	(18,750)	(18,750)	(18,750)
Net cash generated from/(used in) financing activities	6,453	(23,253)	(25,000)	(25,000)	(25,000)
Net increase/(decrease) in cash and cash equivalents	28,552	3,551	4,476	(15,201)	(12,273)
Cash and cash equivalents at the beginning of the year/period	(6,644)	21,908	25,459	29,935	25,459
Cash and cash equivalent at the end of the year/period	21,908	25,459	29,935	14,734	13,186

The accompanying notes form an integral part of the Financial Information.

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Kingsway Hotel Limited ("KHL") was incorporated in Macau on 26 July 1990 with registered office located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The holding company of KHL is Exceptional Gain Profits Limited, a company incorporated in the British Virgin Islands. KHL is principally engaged in hotel management and operation.

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of this Financial Information are set out in Note 3 below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention.

The presentation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgement in the process of applying the KHL's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following new standards, amendments to standards, interpretations have been issued but are not yet effective and have not been early adopted.

HKAS 23 (Revised)	*(Note a)*	Borrowing costs
HKFRS 8	*(Note a)*	Operating Segments
HK(IFRIC) – Int 11	*(Note b)*	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	*(Note c)*	Service Concession Arrangements
HK(IFRIC) – Int 13	*(Note d)*	Customer Loyalty Programmes
HK(IFRIC) – Int 14	*(Note c)*	HKAS 19 – The Limit on a Defined Benefit Asset, Funding Requirements and their Interaction

Notes:

a. Effective for annual periods beginning on or after 1 January 2009.
b. Effective for annual periods beginning on or after 1 March 2007.
c. Effective for annual periods beginning on or after 1 January 2008.
d. Effective for annual periods beginning on or after 1 July 2008.

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information and throughout KHL.

(a) Property, plant and equipment

Property, plant and equipment (including hotel property) are stated at cost less accumulated depreciation and accumulated impairment losses following the adoption of HKAS 16.

HKAS 40 clarifies the accounting policy for owner-managed hotel properties. It requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16, and therefore be accounted for either using cost model or the revaluation model. KHL has resolved to account for the hotel property using the cost model.

Upon the adoption of HKAS 17, KHL's leasehold interest in hotel land and buildings is separated into leasehold land and buildings. KHL's leasehold land is classified as an operating lease, as the title of the land is not expected to pass to the KHL by the end of the term, it is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified under property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

Subsequent expenditure on property, plant and equipment that has already be recognised is added to the carrying amount of the asset where there has a possible future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as expense when it is incurred.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, in the following annual rates:

Building	:	2% to 4%
Lifts, boilers, HVAC and electrical and waterproof work under building	:	8.33% to 14.29%
Furniture, fixtures and equipment	:	20%
Motor vehicles	:	20%

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

(b) Interest in leasehold land

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

(c) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that KHL will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(d) Trade and other payables

Liabilities for trade and other payables which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to KHL.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(g) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to KHL and when the revenue can be measured reliably, on the following base:

(i) Room sales is recognised during the guest's period of stay in the hotel;

(ii) Sales of food and beverage are recognised when the goods are provided to customers;

(iii) Rental income is recognised to the relevant tenancy agreement;

(iv) Other auxiliary service income is recognised when incurred; and

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

(h) Retirement benefits costs

Payments to KHL retirement benefits scheme are charged as an expense as they fall due.

(i) Borrowing costs

Bank borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowings.

After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Borrowing costs are generally expensed as incurred.

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 sale.

(j) Employee benefits

Salaries, bonus, paid annual leave, leave passage and the cost to KHL of non-monetary benefits are accrued in the year when the associated services are rendered by the employees to KHL. When payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to social security funds as required under the Macau Social Security Fund Ordinance, are recognised as expenses in the income statements as it incurred.

(k) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

(l) Provision

Provision is recognised when KHL has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of KHL. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(n) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial information of each of KHL's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in HK dollars, which is KHL's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(o) Operating leases

Leases where substantially all risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

KHL as lessor

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

KHL as lessee

Rental payables under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

(p) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of KHL where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of KHL or of any entity that is a related party of KHL.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(q) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Unallocated costs represent certain corporate expenses. Segment assets primary consist of properties under development, investment properties, properties held for sale and operating cash, and mainly exclude property, plant and equipment. Segment liabilities comprise operating liabilities, deposits received and interest-bearing borrowings, and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

KHL's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. KHL focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on KHL's financial performance.

(i) Market risk

Foreign exchange risk

The main operation of KHL is in Macau with most of the transactions settled in MOP. Except for certain cash and bank balances, KHL's receivables and payables were mainly denominated in MOP. Management believes that KHL does not have significant foreign currency exchange risk. However, the conversion of MOP into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Macau government.

(ii) Credit risk

The credit risk of KHL is attributable to trade and other receivables. The KHL has no significant concentration of credit risks. It has policy to ensure the sale of products and services are made to customers with appropriate credit history.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. KHL minimise the bank and other borrowings. Management believes that KHL does not have significant liquidity risk.

(iv) Cash flow interest rate risk

KHL's interest rate risk arises from bank balances which bear market rates. As KHL has no significant interest-bearing assets, It's income and operating cash flows are substantially independent of changes in market interest rates.

(v) Capital Management

KHL manages its capital to ensure that KHL will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of KHL consists of debts which include amount due to ultimate holding company, immediate holding company, fellow subsidiaries disclosed in note 14, cash and cash equivalents and equity attributable to equity shareholders of KHL, comprising issued capital, reserves and retained earnings.

The directors of KHL review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and associated risks, and take appropriate actions to adjust KHL's capital structure and gearing ratio.

KHL's overall strategy remains unchanged during the Relevant Periods.

(b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. KHL uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade and other receivables and trade and other payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to KHL for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. KHL makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for impairment of receivables

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment on non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which KHL expects to generate from future use of the assets, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognized to write the assets down to its recoverable amount.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings HK$'000	Staff quarter HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2004	108,866	1,625	56,917	643	168,051
Additions	—	—	5,499	177	5,676
Disposals	—	—	(2)	—	(2)
At 31 December 2004 & at 1 January 2005	108,866	1,625	62,414	820	173,725
Additions	2,898	—	4,219	264	7,381
Disposals	—	—	(180)	(325)	(505)
At 31 December 2005 & at 1 January 2006	111,764	1,625	66,453	759	180,601
Additions	253	—	1,783	—	2,036
Disposals	—	—	(335)	—	(335)
At 31 December 2006 & at 1 January 2007	112,017	1,625	67,901	759	182,302
Additions	—	—	39	—	39
Disposals	—	—	(108)	—	(108)
At 30 June 2007	112,017	1,625	67,832	759	182,233
Depreciation and impairment					
At 1 January 2004	49,087	499	54,822	643	105,051
Charge for the year	3,220	46	1,368	21	4,655
Eliminated upon disposal	—	—	(2)	—	(2)
At 31 December 2004 & at 1 January 2005	52,307	545	56,188	664	109,704
Charge for the year	3,368	36	3,256	49	6,709
Eliminated upon disposal	—	—	(98)	(325)	(423)
At 31 December 2005 & at 1 January 2006	55,675	581	59,346	388	115,990
Charge for the year	3,453	31	3,500	88	7,072
Eliminated upon disposal	—	—	(328)	—	(328)
At 31 December 2006 & at 1 January 2007	59,128	612	62,518	476	122,734
Charge for the period	1,721	15	1,880	44	3,660
Eliminated upon disposal	—	—	(108)	—	(108)
Impairment loss recognised	—	—	2,849	—	2,849
At 30 June 2007	60,849	627	67,139	520	129,135
Net book value					
At 30 June 2007	51,168	998	693	239	53,098
At 31 December 2006	52,889	1,013	5,383	283	59,568
At 31 December 2005	56,089	1,044	7,107	371	64,611
At 31 December 2004	56,559	1,080	6,226	156	64,021

Depreciation charges of HK$4,655,000, HK$6,709,000, HK$7,072,000 and HK$3,660,000 have been expensed in other operating expenses in the respective years ended 31 December of 2004, 2005 and 2006 and for the six months ended 30 June 2007.

7. INTEREST IN LEASEHOLD LAND

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
In Macau				
Lease of over 50 years	92,351	86,372	80,393	77,403

Movement of interest in leasehold land during the Relevant Periods was as follows:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	98,329	92,351	86,372	80,393
Amortisation of interest in leasehold land	(5,978)	(5,979)	(5,979)	(2,990)
As at 31 December/30 June	92,351	86,372	80,393	77,403

8. INVENTORIES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consumables	1,232	1,217	1,191	406
Less: Provision for obsolete inventories	—	—	—	(14)
	1,232	1,217	1,191	392

All inventories as at 31 December 2004, 2005, 2006 and 30 June 2007 are stated at cost and net realisable value.

Movement of provision for obsolete inventories were as follows:

At 1 January	—	—	—	—
Provision for obsolete inventories	—	—	—	14
At 31 December/30 June	—	—	—	14

9. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables, net	7,452	5,422	5,502	6,045

Notes:

(a) The carrying amounts of trade receivables approximate to their fair values.

(b) The credit period generally granted to customers ranges from 0 to 180 days. The aging analysis of the trade receivables as at the balance sheet dates is as follow:

	As at 31 December			**As at 30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	5,679	4,719	4,917	5,390
31 – 60 days	1,744	783	552	655
61 – 90 days	17	—	13	—
Over 90 days	1,071	1,227	20	—
	8,511	6,729	5,502	6,045
Less: Impairment loss on trade receivables	(1,059)	(1,307)	—	—
	7,452	5,422	5,502	6,045

(c) The movements of impairment loss of trade receivables are set out as follows:

	As at 31 December			**As at 30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	—	1,059	1,307	—
Impairment loss recognised for the year	1,059	248	93	—
Reversal of impairment loss	—	—	(1,400)	—
At 31 December/30 June	1,059	1,307	—	—

10. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			**As at 30 June**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayment	793	104	91	329
Deposits	1,048	167	193	187
Other receivables	33	7	4	35
	1,874	278	288	551

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

11. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	21,908	25,459	29,935	14,734

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the Relevant Periods are made for varying period between seven days and three months, depending on the immediate cash requirements of the KHL, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The average effective interest rate on cash at bank ranged from 2.75% to 3% for the Relevant Periods.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of KHL to which they related:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
MOP	11,568	5,326	3,647	3,504

12. SHARE CAPITAL

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised share capital				
500,000 ordinary shares at MOP 1 each	485	485	485	485
Issued share capital				
500,000 ordinary shares at MOP 1 each	485	485	485	485

13. RESERVES

	Legal reserve	(Acculmulated losses)/retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance as at 1 January 2004	—	(7,206)	(7,206)
Transfer to legal reserve	243	(243)	—
Profit for the year	—	21,179	21,179
Balance as at 31 December 2004	243	13,730	13,973
Balance as at 1 January 2005	243	13,730	13,973
Profit for the year	—	17,719	17,719
Balance as at 31 December 2005	243	31,449	31,692
Balance as at 1 January 2006	243	31,449	31,692
Profit for the year	—	16,961	16,961
Balance as at 31 December 2006	243	48,410	48,653
Balance as at 1 January 2007	243	48,410	48,653
Profit for the period	—	4,717	4,717
Balance as at 30 June 2007	243	53,127	53,370

Legal reserve

In accordance to the relevant rules and regulations governing the Macau enterprises, all companies in Macau are required to retain 25% profit for the year as a legal reserve, subject to the maximum of 50% of the issued share capital.

Distributable reserve

In the opinion of the directors of KHL, KHL's reserves available for distribution to shareholders at the balance sheet date were as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Retained earnings	13,730	31,449	48,410	53,127

14. AMOUNTS DUE TO INTERMEDIATE HOLDING COMPANY/IMMEDIATE HOLDING COMPANIES/ A RELATED COMPANY

The amounts due to intermediate holding company and immediate holding companies are unsecured, interest free and have not fixed term of repayment. In the opinion of the directors of KHL, the amounts will not be repaid within the next twelve months and were classified as non-current.

The amount due to a related company is unsecured, interest free and repayable on demand.

The carrying amounts of amounts due to intermediate holding company, immediate holding company and a related company approximate to their fair values.

15. TRADE PAYABLES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	1,840	1,650	1,126	830

The ageing analysis of trade payables as at balance sheet date is as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	649	551	447	351
31 – 60 days	768	633	436	324
61 – 90 days	229	466	243	155
Over 90 days	194	—	—	—
	1,840	1,650	1,126	830

The carrying amounts of trade payables approximate to their fair values.

16. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	1,467	1,179	1,083	1,975
Deposit received	2,004	1,192	1,222	1,087
Other payables	4,759	6,056	7,669	3,302
	8,230	8,427	9,974	6,364

The carrying amounts of accruals, deposit received and other payables approximate to their fair values.

17. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Rooms sales	39,260	40,599	39,733	19,098	18,913
Food and beverage	6,860	6,556	6,866	2,113	3,292
Rental income	15,412	13,490	13,556	6,869	6,665
Other operations, including laundry services, roaming services, in-house movie services and room cleaning services	3,052	2,120	2,767	1,140	1,395
	64,584	62,765	62,922	29,220	30,265

(a) Analysis of turnover by category

Turnover of KHL for the Relevant Periods were principally derived from provision of hotel services.

(b) Primary segment format – business segments

KHL is organised into the following main business segments: (i) room sales; (ii) food and beverage; (iii) rental income; (iv) other operating services including laundry, roaming, in-house movie and room cleaning.

Segment assets consist primarily of property, plant and equipment, interest in leasehold land, receivables and operating cash.

Segment liabilities consist primarily of payables and operating liabilities.

Capital expenditure comprises mainly of addition to property, plant and equipment and interest in leasehold land.

Unallocated assets and liabilities represent assets and liabilities not dedicated to a particular segment.

The segment results for the year ended 31 December 2004, were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	39,260	6,860	15,412	3,052	64,584
Segment results	19,685	500	13,607	2,047	35,839
Bank interest income					4
Other income					6,269
Net unallocated expenses					(20,866)
Profit from operations					21,246
Finance cost					(67)
Profit before taxation					21,179
Taxation					—
Profit for the year					21,179
Other segment items included in the income statement were as follows:					
Depreciation of property, plant and equipment	3,939	72	644	—	4,655
Amortisation of interest in leasehold land	4,817	—	1,161	—	5,978

The segment results for the year ended 31 December 2005, were as follows:

	Room sales *HK$'000*	Food and beverage *HK$'000*	Rental income *HK$'000*	Other operating services *HK$'000*	Total *HK$'000*
Segment revenue	40,599	6,556	13,490	2,120	62,765
Segment results	18,568	(412)	11,655	1,062	30,873
Bank interest income					133
Other income					547
Net unallocated expenses					(13,805)
Profit from operations					17,748
Finance cost					—
Profit before taxation					17,748
Taxation					(29)
Profit for the year					17,719
Other segment items included in the income statement were as follows:					
Depreciation of property, plant and equipment	5,945	90	674	—	6,709
Amortisation of interest in leasehold land	4,818	—	1,161	—	5,979

The segment results for the year ended 31 December 2006, were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	39,733	6,866	13,556	2,767	62,922
Segment results	17,544	25	11,987	1,794	31,350
Other revenue					362
Other income					551
Net unallocated expenses					(14,429)
Profit from operations					17,834
Finance cost					—
Profit before taxation					17,834
Taxation					(873)
Profit for the year					16,961
Other segment items included in the income statement were as follows:					
Depreciation of property, plant and equipment	6,278	72	722	—	7,072
Amortisation of interest in leasehold land	4,818	—	1,161	—	5,979

The segment results for the six months ended 30 June 2007, were as follows:

	Room sales	**Food and beverage**	**Rental income**	**Other operating services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	19,098	2,113	6,869	1,140	29,220
Segment results	5,272	(980)	5,933	620	10,845
Other revenue					211
Other income					5,823
Net unallocated expenses					(12,144)
Profit from operations					4,735
Finance cost					—
Profit before taxation					4,735
Taxation					(18)
Profit for the period					4,717
Other segment items included in the income statement were as follows:					
Depreciation of property, plant and equipment	3,273	44	343	—	3,660
Amortisation of interest in leasehold land	2,397	—	593	—	2,990

The segment results for the six months ended 30 June 2006, were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue	18,913	3,292	6,665	1,395	30,265
Segment results	5,279	206	5,729	874	12,088
Other revenue					113
Other income					264
Net unallocated expenses					(4,643)
Profit from operations					7,822
Finance cost					—
Profit before taxation					7,822
Taxation					—
Profit for the period					7,822
Other segment items included in the income statement were as follows:					
Depreciation of property, plant and equipment	3,081	36	343	—	3,460
Amortisation of interest in leasehold land	2,397	—	593	—	2,990

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	134,814	287	31,461	368	21,908	188,838
Liabilities	3,051	256	2,004	—	169,069	174,380
Capital expenditure	5,519	157	—	—	—	5,676

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	126,783	330	30,376	313	25,557	183,359
Liabilities	2,529	300	1,192	29	147,132	151,182
Capital expenditure	6,689	130	562	—	—	7,381

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	118,015	330	28,382	215	29,935	176,877
Liabilities	1,750	384	1,222	32	124,351	127,739
Capital expenditure	1,855	130	51	—	—	2,036

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the period then ended were as follows:

	Room sales	Food and beverage	Rental income	Other operating services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	109,324	164	27,843	158	14,734	152,223
Liabilities	2,609	—	1,087	10	94,662	98,368
Capital expenditure	39	—	—	—	—	39

(c) Secondary reporting format – geographical segments

All of the activities of KHL are based in Macau and all of the KHL's turnover, profit before taxation, assets and liabilities are derived in Macau.

18. OTHER REVENUE

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Bank interest income	4	133	341	211	113
Sundry income	—	—	21	—	—
	4	133	362	211	113

19. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Gain on foreign exchange	—	547	551	248	264
Waiver on provision of bonus	6,269	—	—	5,575	—
	6,269	547	551	5,823	264

20. EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Auditors remuneration	70	86	85	47	50
Amortisation of leasehold land	5,978	5,979	5,979	2,990	2,990
Depreciation	4,655	6,709	7,072	3,660	3,460
Employee benefits *(note 21)*	16,909	17,938	14,402	11,801	6,016
Impairment of provision of trade receivables	1,059	248	93	—	—
Impairment of inventories	—	—	—	14	—
Impairment of property, plant and equipment	—	—	—	2,849	—
Loss on foreign exchange	4,178	—	—	—	—
Loss on disposal of property, plant and equipment	—	9	7	—	—
Operating lease of land and building	449	677	1,046	310	310

21. EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Salaries, allowance and bonus	12,426	13,424	9,518	5,033	3,870
Retirement scheme contributions	100	101	14	7	7
Severance payment	—	—	—	4,689	—
Other fringe benefits	4,383	4,413	4,870	2,072	2,139
	16,909	17,938	14,402	11,801	6,016

(a) KHL made defined contribution to retirement schemes managed by local government of Macau based on certain percentage of the basic salary of eligible staff. It is the local government's responsibility paying the retirement pension to the retired staff.

(b) Directors' emolument

The remuneration of each director of KHL for the Relevant Periods is set out below.

	Fee	Salaries allowance and bonus	Retirement scheme	Other fringe benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004					
Chan Chak Mo[1]	—	—	—	—	—
Ng Cheow Leng[2]	—	—	—	—	—
Victor Cheung Lup Kwan[3]	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2005					
Chan Chak Mo[1]	—	—	—	—	—
Ng Cheow Leng[2]	—	—	—	—	—
Victor Cheung Lup Kwan[3]	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2006					
Chan Chak Mo[1]	—	—	—	—	—
Ng Cheow Leng[2]	—	—	—	—	—
Victor Cheung Lup Kwan[3]	—	—	—	—	—
	—	—	—	—	—

	Fee	Salaries allowance and bonus	Retirement scheme	Other fringe benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2007					
Chan Chak Mo[1]	—	—	—	—	—
Ng Cheow Leng[2]	—	—	—	—	—
Victor Cheung Lup Kwan[3]	—	—	—	—	—
Jorge Chao de Almeida[4]	—	—	—	—	—
Chen Ming Yin, Tiffany[5]	—	—	—	—	—
Heung Wah Keung[6]	—	—	—	—	—
	—	—	—	—	—
Six months ended 30 June 2006 (unaudited)					
Chan Chak Mo[1]	—	—	—	—	—
Ng Cheow Leng[2]	—	—	—	—	—
Victor Cheung Lup Kwan[3]	—	—	—	—	—
	—	—	—	—	—

1 Chan Chak Mo was resigned as the director of KHL on 2 April 2007.
2 Ng Cheow Leng was resigned as the director of KHL on 24 May 2005.
3 Victor Cheung Lup Kwan was resigned as the director of KHL on 30 March 2007.
4 Jorge Chao de Almeida was resigned as the director of KHL on 30 March 2007.
5 Chen Ming Yin, Tiffany was appointed as the director of KHL on 2 April 2007 and resigned subsequently on 22 June 2007.
6 Heung Wah Keung was appointed as the director of KHL on 2 April 2007.

(c) Five highest paid individual

The emoluments payable to the five highest paid individuals of KHL during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Salaries, allowance and bonus	1,716	1,444	1,783	958	891
Retirement scheme contributions	17	17	17	1	1
Severance payment	—	—	—	511	—
	1,733	1,461	1,800	1,470	892

The emoluments to the five highest paid individuals in KHL in the Relevant Periods were all less than HK$1,000,000 per person.

(d) During the Relevant Periods, no emolument was paid by KHL to any of the above director or the five highest paid individuals as an inducement to join or upon joining KHL as compensation for loss of office.

22. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Bank overdraft interest wholly repayable within five years	67	—	—	—	—

23. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current tax					
— Overseas income tax	—	29	743	—	—
— Under-provision of overseas income tax	—	—	130	18	—
	—	29	873	18	—

(a) Hong Kong Profits Tax has not been provided as KHL did not generate any assessable profits in Hong Kong during the Relevant Periods.

(b) Overseas income tax represented Macau enterprise income tax which is provided on the basis of the profit as reported in the statutory accounts of KHL operating in Macau, which are prepared using the accounting rules and regulations applicable to Macau enterprises, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose.

(c) The taxation for the Relevant Periods can be reconciled to the profit before taxation per income statement as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'00*	*HK$'000*	*HK$'000*
					(Unaudited)
Profit before taxation	21,179	17,748	17,834	4,735	7,822
Tax rate at 12% in Macau	2,542	2,130	2,140	568	939
Income not subject to tax	(2,107)	(1,790)	(3,355)	(1,838)	(1,712)
Expenses not deductible for tax	1,171	319	1,958	1,270	773
Under-provision in prior year	—	—	130	18	—
Tax effect of prior years' tax losses utilised this year	(1,606)	(630)	—	—	—
Taxation for the year/ period	—	29	873	18	—

(d) Deferred taxation

No provision for deferred tax liabilities or asset has been made as KHL had no material unprovided temporary difference for year ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007.

24. PROFITS ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of KHL is dealt with in the accounts of KHL to the extent for the year ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007 were HK$21,179,000, HK$17,719,000, HK$16,961,000 and HK$4,717,000 respectively (for the six months ended 30 June 2006: HK$7,822,000).

25. DIVIDEND

The directors of KHL did not recommend the payment of any dividend during the Relevant Periods.

26. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to KHL's equity holders on profit of HK$21,179,000, HK$17,719,000, HK$16,961,000, HK$4,717,000 for the year ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007 (for the six months ended 30 June 2006: HK$7,822,000) and the weighted average number of ordinary shares of 500,000 in issue during the years ended 31 December 2004, 2005 and 2006 and for the period ended 30 June 2006.

As there were no potential diluted ordinary shares in existence during the Relevant Periods and accordingly, no diluted earnings per share have been presented.

27. COMMITMENTS

(a) Capital commitment

At each of the balance sheet date, KHL had the following capital commitments:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for:				
Capital contributed payable for leasehold improvement	1,034	457	15	—

(b) Operating lease commitment

As lessee

KHL leases offices under non-cancellable operating lease agreements. KHL has future aggregate minimum lease payments as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than one year	—	590	606	353
Between one to five years	—	606	—	—
More than five years	—	—	—	—
	—	1,196	606	353

As lessor

At the balance sheet date, KHL had contracted with tenants for the following future minimum lease payments for its hotel property as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than one year	12,958	13,845	2,532	—
Between one to five years	16,377	2,532	—	—
More than five years	—	—	—	—
	29,335	16,377	2,532	—

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, KHL entered into the following significant related party transactions.

(a) Balance with intermediate holding company

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade balance due to:				
— Xin Son Investment Limited	49,448	43,198	36,948	30,698

(b) Balance with immediate holding companies

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade balance due to:				
— Great Trust – Gestao E Participacoes Limitada	37,990	33,178	28,366	23,553
— Xin Wei Property Investment Limited	64,825	54,072	41,572	29,084
— Feng Ze Investments Limited	11,385	9,947	8,509	7,060
	114,200	97,197	78,447	59,697

(c) Trade balance due to a related party

— Future Bright Group Limited	662	681	458	—

(d) Related party transactions

Save as disclosed elsewhere in the Financial Information, KHL had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2007**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Unaudited)
Directors						
Ng Cheow Leng[1]	Other operating income	385	79	381	—	—
Chan Chak Mo[2]	Other operating income	559	195	42	—	—
	Room sales	14	46	39	—	—
Victor Cheung[3] Lup Kwan	Room sales	127	66	10	—	—

[1] Ng Cheow Leng was resigned as the director of KHL on 24 May 2005.

[2] Chan Chak Mo was resigned as the director of KHL on 2 April 2007.

[3] Victor Cheung Lup Kwan was resigned as the director of KHL on 30 March 2007.

(e) Key personnel management

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Salaries, allowance and bonus	1,716	1,444	1,783	958	891
Retirement scheme contributions	17	17	17	1	1
Severance payment	—	—	—	511	—
	1,733	1,461	1,800	1,470	892

29. CONTINGENT LIABILITIES

As at 30 June 2007, KHL had no significant contingent liabilities.

30. SUBSEQUENT EVENTS

On 20 July 2007, Seng Heng Bank Limited granted banking facilities to KHL, with facilities limit up to HK$650,000,000. As at the date of report, KHL has withdrawn a term loan of HK$450,000,000. Such facilities were secured by the hotel premises and staff quarter of KHL.

31. SUBSEQUENT CONSOLIDATED FINANCIAL STATEMENTS

No audited financial statements have been prepared for KHL in respect of any period subsequent to 30 June 2007. No dividend has been declared, made or paid by KHL in respect of any period subsequent to 30 June 2007.

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

1. SUMMARY OF FINANCIAL INFORMATION ON THE GROUP

The following is a summary of the consolidated results of the Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2007, and the consolidated balance sheets as at 31 December 2004, 2005 and 2006 and 30 June 2007 as extracted from the published annual reports of the Company for the two years ended 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007.

(a) Consolidated balance sheet

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	7,975	3,418	2,468	9,677
Interests in leasehold land	1,580	—	—	—
Film rights	9,236	—	—	—
Investment properties	—	—	678,000	701,079
Goodwill	4,400	—	77,284	77,284
Available-for-sale financial assets	172	172	172	172
	23,363	3,590	757,924	788,212
Current assets				
Inventories	15	6	45,154	45,154
Film rights	1,105	—	—	—
Film rights deposits	14	14	—	—
Trade receivables	23,308	4,729	936	736
Deposits, prepayments and other receivables	4,584	54,202	19,254	14,746
Deposit with a related company	5,000	—	—	—
Financial assets at fair value through profit or loss	41,732	30,567	28,100	19,392
Available-for-sale financial assets	18,000	—	—	—
Amount due from an associate	300	—	—	—
Tax prepayments	—	4,146	7,720	9,720
Cash and cash equivalents	15,460	137,973	63,140	203,961
	109,518	231,637	164,304	293,709
Total assets	132,881	235,227	922,228	1,081,921

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	47,520	51,540	64,843	96,614
Reserves	21,051	116,070	334,793	556,208
	68,571	167,610	399,636	652,822
Minority interests	—	—	3,896	3,896
	68,571	167,610	403,532	656,718
LIABILITIES				
Current liabilities				
Trade payables	1,983	1,714	—	—
Accruals and other payables	3,797	7,619	20,208	15,079
Receipts in advance	1,204	483	60,898	60,838
Amounts due to related companies	549	34,832	606	600
Obligations under a finance lease — amount due within one year	8	—	—	—
Convertible notes payable	33,800	—	—	—
Secured bank loans — due within one year	—	—	5,470	15,000
Tax payable	22,969	22,969	23,240	22,969
	64,310	67,617	110,422	114,486
Non-current liabilities				
Secured bank loans — due after one year	—	—	351,957	254,400
Deferred taxation	—	—	56,317	56,317
	—	—	408,274	310,717
Total equity and liabilities	132,881	235,227	922,228	1,081,921
Net current assets	45,208	164,020	53,882	179,223
Total assets less current liabilities	68,571	167,610	811,806	967,435

(b) Consolidated income statement

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Turnover	58,382	38,339	17,476	29,191	12,762
Cost of sales	(48,674)	(36,466)	(13,998)	(24,465)	(9,965)
Gross profit	9,708	1,873	3,478	4,726	2,797
Other revenue	390	2,066	5,699	1,307	3,090
Other income	—	7,110	5,560	122,593	4,430
Increase in fair value of investments properties	—	—	590	—	—
Administrative expenses	(36,266)	(19,332)	(26,811)	(15,656)	(8,574)
Selling expenses	(234)	(29)	—	—	—
Share-based payment expenses	—	—	—	(13,688)	—
Loss on disposal of property, plant and equipment	—	—	—	—	(1,034)
Impairment loss recognised in respect of others assets	(46,512)	—	—	—	(1,181)
Impairment loss recognised in respect of film rights	(16,213)	(8,956)	—	—	—
Impairment loss recognised in respect of goodwill	(28,072)	(12,056)	—	—	—
Impairment loss recognised in respect of available-for-sale financial assets	(12,000)	—	—	—	—
Allowance for advances an associate	(138,531)	—	—	—	—
(Loss)/profit from operations	(267,730)	(29,324)	(11,484)	99,282	(472)
Finance costs	(340)	(340)	(9,615)	(8,334)	(668)
(Loss)/profit before taxation	(268,070)	(29,664)	(21,099)	90,948	(1,140)
Taxation	(277)	—	(195)	—	—
(Loss)/profit for the year/period	(268,347)	(29,664)	(21,294)	90,948	(1,140)
Attributable to:					
Equity holders of the Company	(268,347)	(29,664)	(21,294)	90,948	(1,140)
(Loss)/earnings per share attributable to the equity holders of the Company					
Basic	HK$(5.65) cents	HK$(0.61) cents	HK$(0.33) cents	HK$12.05 cents	HK$(0.22) cents
Diluted	HK$(5.65) cents	N/A	N/A	HK$11.96 cents	HK$(0.22) cents

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is an extract of the audited financial statements from the annual report of the Company for the year ended 31 December 2006:

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	2,468	3,418
Investment properties	*8*	678,000	—
Goodwill	*10*	77,284	—
Available-for-sale financial assets		172	172
		757,924	3,590
Current assets			
Inventories	*11*	45,154	6
Film rights deposits		—	14
Trade receivables	*12*	936	4,729
Deposits, prepayments and other receivables	*13*	19,254	54,202
Financial assets at fair value through profit or loss	*14*	28,100	30,567
Tax prepayments	*15*	7,720	4,146
Cash and cash equivalents	*16*	63,140	137,973
		164,304	231,637
Total assets		922,228	235,227
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	64,843	51,540
Reserves		334,793	116,070
		399,636	167,610
Minority interests		3,896	—
		403,532	167,610

	Notes	2006 HK$'000	2005 HK$'000
LIABILITIES			
Current liabilities			
Trade payables	*19*	—	1,714
Accruals and other payables	*20*	20,208	7,619
Receipts in advance	*21*	60,898	483
Amounts due to related companies	*22*	606	34,832
Secured bank loans — due within one year	*23*	5,470	—
Tax payable		23,240	22,969
		110,422	67,617
Non-current liabilities			
Secured bank loans — due after one year	*23*	351,957	—
Deferred taxation	*24*	56,317	—
		408,274	—
Total equity and liabilities		922,228	235,227
Net current assets		53,882	164,020
Total assets less current liabilities		811,806	167,610

Balance Sheet
At 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
ASSETS			
Non-current assets			
Interests in subsidiaries	*9*	41,824	—
Current assets			
Deposits, prepayments and other receivables	*13*	1,801	—
Cash and cash equivalents	*16*	55,862	136,670
		57,663	136,670
Total assets		99,487	136,670
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	64,843	51,540
Reserves	*18*	25,708	47,479
		90,551	99,019
LIABILITIES			
Current liabilities			
Accruals and other payables	*20*	233	1,118
Amounts due to subsidiaries	*9*	8,703	2,733
Amount due to a related company	*22*	—	33,800
		8,936	37,651
Total equity and liabilities		99,487	136,670
Net current assets		48,727	99,019
Total assets less current liabilities		90,551	99,019

Consolidated Income Statement

For the year ended 31 December

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	*25*	17,476	38,339
Cost of sales		(13,998)	(36,466)
Gross profit		3,478	1,873
Other revenue	*26*	5,699	2,066
Other income	*26*	5,560	7,110
Increase in fair value of investment properties		590	—
Administrative expenses		(26,811)	(19,332)
Selling expenses		—	(29)
Impairment loss recognised in respect of film rights		—	(8,956)
Impairment loss recognised in respect of goodwill		—	(12,056)
Loss from operations	*27*	(11,484)	(29,324)
Finance costs	*28*	(9,615)	(340)
Loss before taxation		(21,099)	(29,664)
Taxation	*31*	(195)	—
Loss for the year		(21,294)	(29,664)
Attributable to:			
Equity holders of the Company		(21,294)	(29,664)
Loss per share attributable to the equity holders of the Company			
Basic	*32*	HK(0.33) cents	HK(0.61) cents
Diluted	*32*	N/A	N/A

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company										
	Share capital	**Share premium**	**Capital reserve**	**Contributed surplus**	**Special reserve**	**Properties revaluation reserve**	**Exchange reserve**	**Accumulated losses**	**Sub-total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000* *(Note i)*	*HK$'000* *(Note ii)*	*HK$'000* *(Note iii)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	47,520	—	19,834	80,103	—	3,182	—	(82,068)	68,571	—	68,571
Reserve realised on disposal of leasehold land and building	—	—	—	—	—	(3,182)	—	—	(3,182)	—	(3,182)
Issuance of new shares	4,020	132,706	—	—	—	—	—	—	136,726	—	136,726
Share issue expenses	—	(4,841)	—	—	—	—	—	—	(4,841)	—	(4,841)
Net loss for the year	—	—	—	—	—	—	—	(29,664)	(29,664)	—	(29,664)
At 31 December 2005 and 1 January 2006	51,540	127,865	19,834	80,103	—	—	—	(111,732)	167,610	—	167,610
Issuance of new shares	13,303	252,761	—	—	—	—	—	—	266,064	—	266,064
Acquisition of a subsidiary	—	—	10	—	—	—	—	—	10	3,896	3,906
Special reserve arising from acquisition of a subsidiary	—	—	—	—	(19,955)	—	—	—	(19,955)	—	(19,955)
Exchange differences arising from translation of investment in a foreign subsidiary	—	—	—	—	—	—	7,201	—	7,201	—	7,201
Net loss for the year	—	—	—	—	—	—	—	(21,294)	(21,294)	—	(21,294)
At 31 December 2006	64,843	380,626	19,844	80,103	(19,955)	—	7,201	(133,026)	399,636	3,896	403,532

Notes:

(i) The capital reserve of the Group represents the difference of the share capital and share premium of the subsidiaries and the nominal value of the 880 shares issued by Ocean Shores (BVI) Limited (now renamed Riche (BVI) Limited) prior to the allotment of 120 shares to Classical Statue Limited and the amount arising from issue of shares by a subsidiary.

(ii) The contributed surplus of the Group represents the net amount transferred from the share premium account and to the accumulated losses account pursuant to the special resolution passed at the special general meeting on 22 August 2003.

(iii) The special reserve represents the difference between the fair value and the contracted value of consideration in respect of the acquisition of Shinhan-Golden during the year ended 31 December 2006.

Consolidated Cash Flow Statement

For the year ended 31 December

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	(21,099)	(29,664)
Adjustments for:		
Interest income	(4,314)	(1,339)
Dividend income	(754)	—
Increase in fair value of financial assets at fair value through profit or loss	(5,360)	—
Increase in fair value of investment properties	(590)	—
Finance costs	9,615	340
Amortisation of film rights	—	10,332
Amortisation of interests in leasehold land	—	10
Depreciation of property, plant and equipment	652	1,108
Impairment loss on provision of bad and doubtful debts	—	1,390
Impairment loss recognised in respect of trade receivables	1,050	1,084
Impairment loss recognised in respect of prepayments	131	1,188
Impairment loss recognised in respect of film rights	—	8,956
Impairment loss recognised in respect of goodwill	—	12,056
Gain on disposal of leasehold land and buildings	—	(7,110)
Loss on disposals of property, plant and equipment	1,956	—
Reversal of overprovision of accruals in previous year	(200)	—
Operating cash flows before movements in working capital	(18,913)	(1,649)
(Increase)/decrease in inventories	(1,309)	9
Additions of film rights	—	(8,947)
Decrease in film rights deposits	14	—
Decrease in trade receivables	2,755	16,105
Decrease/(increase) in deposits, prepayments and other receivables	34,988	(50,037)
Decrease in fair value of financial assets at fair value through profit or loss	—	11,165
Decrease in available-for-sale financial assets	—	18,000
Decrease in deposit with a related company	—	5,000
Decrease in amount due from an associate	—	300
Decrease in trade payables	(1,714)	(269)
(Decrease)/increase in accruals and other payables	(41,337)	132
Increase/(decrease) in receipts in advance	1,335	(9,699)
(Decrease)/increase in amounts due to related companies	(34,226)	34,283
Cash (used in)/generated from operations	(58,407)	14,393
Tax paid	(3,303)	—
Net cash (used in)/generated from operating activities	(61,710)	14,393

	2006 *HK$'000*	2005 *HK$'000*
INVESTING ACTIVITIES		
Interest received	4,314	1,339
Dividend received	754	—
Proceeds from disposals of leasehold land and buildings	—	9,000
Proceeds from disposals of financial assets at fair value through profit or loss	13,461	—
Effect from acquisition of a subsidiary	415	95
Additions to investment properties	(15,852)	—
Purchase of financial assets at fair value through profit or loss	(5,634)	—
Purchase of property, plant and equipment	(1,156)	(53)
Net cash (used in)/generated from investing activities	(3,698)	10,381
FINANCING ACTIVITIES		
Interest paid	(9,615)	(340)
Issuance of new shares	—	131,179
Issuance of new shares upon exercise of warrants	—	706
Repayment of a secured bank loan	(250,000)	—
New secured bank loan raised	250,470	—
Repayment of convertible notes payable	—	(33,800)
Repayment of capital element of a finance lease	—	(6)
Net cash (used in)/generated from financing activities	(9,145)	97,739
Net (decrease)/increase in cash and cash equivalents	(74,553)	122,513
Effect on foreign exchange rate	(280)	—
Cash and cash equivalents at the beginning of the year	137,973	15,460
Cash and cash equivalents at the end of the year	63,140	137,973
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	63,140	137,973

Notes to the Financial Statements

31 December 2006

1. General

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company's principal activity is investment holding and the principal activities of its subsidiaries are set out in note 9 to the 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 standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. A summary of the new HKFRSs is set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS — Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not have significant impact on the Group's result and financial position for the current or prior accounting periods.

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

HKAS 1 (Amendment)	Capital Disclosures[1]
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. Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

The financial statements have been prepared under historical cost convention except for certain financial assets of fair value through profit or loss and investment properties which are carried at fair value. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Group's books and records are maintained in Hong Kong Dollar ("HK$"), the currency in which the majority of the Group's transactions is denominated.

(b) Basis of consolidation

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

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

All intra-group transactions, balance, income and expenses are eliminated in full 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.

(c) Revenue recognition

Revenue from distribution of films is recognised when video products or master materials of films are delivered to customers and the title has passed.

Revenue from sub-licensing of film rights is recognised upon delivery of master materials of films to customers.

Proceeds from sales of financial assets at fair value through profit or loss are recognised when sale and purchase contracts became unconditional.

Rental income, including rentals invoiced in advance, from properties under operating lease is recognised on a straight-line basis over the period of the respective leases.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

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

(d) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(e) 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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than 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 investment 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 assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the 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.

(f) Property, plant and equipment

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

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

Depreciation is provided to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	2%
Leasehold improvements	33.3%
Office equipment	20%
Motor vehicles	20%
Furniture and fixtures	15%

The gain or loss arising from disposal of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the relevant asset and is recognised in the income statement in the year the asset is derecognised.

(g) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair values of investment properties are included in the income statements the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the investment properties (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 asset is derecognised.

(h) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(i) Goodwill

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

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

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

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

(j) Inventories

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

Inventories on stock of properties, which are held for trading, is stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds received after the balance sheet date less selling expenses, or by management estimates based on the prevailing market conditions.

(k) Financial instruments

The Group classifies its investment in securities in the following categories depends on the purpose of such investment were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables included loan receivables, convertible notes receivables and trade receivables.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(m) Cash and cash equivalents

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

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(o) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at the lower of fair values or the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

(p) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the accounts of Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Hong Kong dollars ("HK$").

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(q) Employee benefits

(i) Bonuses

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

(ii) Retirement benefit obligations

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

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% to 10% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. 5% of relevant income vests immediately upon the completion of service in the relevant service period, while the remaining portion vests in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

(iii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(r) Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(s) Related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(t) Financial guarantees issued and provisions

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within creditors and accruals. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

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

4. Financial Risk Management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk— Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that distribution of films and sub-licensing of film rights to customers with an appropriate credit history.

(c) Liquidity risk

The Group manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due.

(d) Cash flow and fair value interest rate risk

The Group's cash flow interest-rate risk arises from bank borrowings. The Group's fair value interest-rate risk mainly arises from fixed-rate short-term bank deposits. The Group currently does not have an interest-rate hedging policy. However, the management monitors interest-rate exposure and will consider hedging significant interest-rate exposure should need arises.

4.2 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and bank balances, trade receivables, deposits, prepayments and other receivables, and financial liabilities, including trade payables, other payables, accruals and amounts due to related companies, approximate to their fair values due to their short maturities. The face values less any credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

In assessing the fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss) is based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid price.

The fair value of financial instrument that are not traded in an active market (for example, available-for-sale financial assets) is determined by using valuation techniques. The Group uses a variety of methods, such as estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

5. Critical Accounting Estimates and Judgements

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

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

(a) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3(i) to the financial statements. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations. Information about the assumptions and the risk factors on impairment of goodwill are stated in note 10 to the financial statements.

(b) Trade debtors

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

(c) Useful lives of property, plant and equipment

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

(d) Estimate of fair values of investment properties

As described in note 8 to the financial statements, the investment properties were revalued at the balance sheet date on market value basis by reference to independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

6. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into four operating divisions, namely distribution, sub-licensing, sales of financial assets and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Distribution	Distribution of films
Sub-licensing	Sub-licensing of film rights
Sales of financial assets	Sales of financial assets at fair value through profit or loss
Property investment	Leasing of rental properties

Segment information about these businesses for the years ended 31 December 2006 and 2005 is presented below.

Consolidated income statement for the year ended 31 December 2006

	Distribution	Sub-licensing	Sales of financial assets	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	164	200	15,229	1,883	17,476
Segment profit	74	23	1,768	1,613	3,478
Unallocated corporate income					11,849
Unallocated corporate expenses					(26,811)
Loss from operations					(11,484)
Finance costs					(9,615)
Loss before taxation					(21,099)
Taxation					(195)
Net loss for the year attributable to equity holders of the Company					(21,294)

Consolidated balance sheet at 31 December 2006

	Distribution	Sub-licensing	Sales of financial assets	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	804	7,593	32,156	815,360	855,913
Unallocated corporate assets					66,315
Consolidated total assets					922,228
Liabilities					
Segment liabilities	—	3,055	970	486,954	490,979
Unallocated corporate liabilities					27,717
Consolidated total liabilities					518,696

Other segment information for the year ended 31 December 2006

	Distribution	Sub-licensing	Sales of financial assets	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions of property, plant and equipment	—	—	23	18	41
Depreciation and amortisation	143	1	468	40	652
Impairment losses recognised	1,295	—	—	—	1,295

Consolidated income statement for the year ended 31 December 2005

	Distribution *HK$'000*	Sub-licensing *HK$'000*	Sales of financial assets *HK$'000*	Consolidated *HK$'000*
Turnover	9,382	10,534	18,423	38,339
Segment profit/(loss) before impairment losses recognised in respect of film rights and goodwill	2,443	(4,613)	(2,045)	(4,215)
Impairment loss recognised in respect of film rights	(8,956)	—	—	(8,956)
Impairment loss recognised in respect of goodwill	—	(12,056)	—	(12,056)
Segment loss	(6,513)	(16,669)	(2,045)	(25,227)
Unallocated corporate income				9,176
Unallocated corporate expenses				(13,273)
Loss from operations				(29,324)
Finance costs				(340)
Loss before taxation				(29,664)
Taxation				—
Net loss for the year attributable to equity holders of the Company				(29,664)

Consolidated balance sheet at 31 December 2005

	Distribution *HK$'000*	Sub-licensing *HK$'000*	Sales of financial assets *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	4,582	4,729	41,869	51,180
Unallocated corporate assets				184,047
Consolidated total assets				235,227
Liabilities				
Segment liabilities	2,439	6,172	—	8,611
Unallocated corporate liabilities				59,006
Consolidated total liabilities				67,617

Other segment information for the year ended 31 December 2005

	Distribution	Sub-licensing	Sales of financial assets	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'0000*	*HK$'000*
Additions of film rights	3,600	5,347	—	—	8,947
Depreciation and amortisation	3,246	7,086	1,108	10	11,450
Impairment losses recognised	1,661	8,483	12,056	—	22,200

Geographical segments

The Group mainly operates in Hong Kong, Macau and The People's Republic of China ("the PRC"). The following table provides an analysis of the Group's turnover and segment results by geographical market, irrespective of the origin of the goods and services:

	Turnover		Segment results	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Macau	15,393	18,892	7,201	(1,550)
PRC	2,083	19,447	1,636	3,422
	17,476	38,339	8,837	1,872

The following is an analysis of the carrying amounts of segment assets, segment liabilities, capital expenditures and depreciation, analysed by geographical area in which the assets and liabilities located:

	Segment assets		Segment liabilities		Capital expenditures		Depreciation	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Macau	32,960	56,198	970	1,161	1,139	52	611	1,086
PRC	822,953	5,101	490,009	3,740	18	—	41	2
	855,913	61,299	490,979	4,901	1,157	52	652	1,088

7. Property, Plant and Equipment

The Group

	Buildings	Leasehold improvements	Office equipment	Motor vehicles	Furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2005	3,537	2,136	4,058	1,633	2,128	13,492
Additions	—	39	14	—	—	53
Disposals	(3,537)	—	(1)	—	—	(3,538)
At 31 December 2005 and 1 January 2006	—	2,175	4,071	1,633	2,128	10,007
Additions	—	1,115	41	—	—	1,156
Acquisition of a subsidiary *(note 33)*	—	—	1,926	—	—	1,926
Disposals	—	(909)	(5,297)	—	(1,030)	(7,236)
Exchange alignments	—	—	20	—	—	20
At 31 December 2006	—	2,381	761	1,633	1,098	5,873
Accumulated depreciation						
At 1 January 2005	—	1,572	2,400	576	969	5,517
Charged for the year	35	385	310	211	167	1,108
Eliminated on disposals	(35)	—	(1)	—	—	(36)
At 31 December 2005 and 1 January 2006	—	1,957	2,709	787	1,136	6,589
Charged for the year	—	223	155	169	105	652
Acquisition of a subsidiary *(note 33)*	—	—	1,446	—	—	1,446
Eliminated on disposals	—	(873)	(3,831)	—	(576)	(5,280)
Exchange alignments	—	—	(2)	—	—	(2)
At 31 December 2006	—	1,307	477	956	665	3,405
Net book value						
At 31 December 2006	—	1,074	284	677	433	2,468
At 31 December 2005	—	218	1,362	846	992	3,418

8. Investment Properties

	HK$'000
At 31 December 2005 and 1 January 2006	—
Acquisition of a subsidiary *(note 33)*	641,982
Additions	15,852
Exchange alignment	19,576
Increase in fair value recognised in the consolidated income statement	590
At 31 December 2006	678,000

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Hong Kong Institute of Valuers, has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, were arrived at by reference to market evidence of transation prices for similar properties.

The fair value of investment properties shown above comprises:

	2006	**2005**
	HK$'000	*HK$'000*
Outside Hong Kong:		
Long-term lease	678,000	—

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

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

9. Interests in Subsidiaries

	The Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	83,553	83,553
Impairment loss recognised	(83,553)	(83,553)
	—	—
Amounts due from subsidiaries	562,170	249,304
Provision for impairment	(520,346)	(249,304)
	41,824	—

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the carrying amounts of the amounts due from subsidiaries at 31 December 2006 approximate to their fair values. They will not be demanded for repayment within twelve months from the balance sheet date and the amounts due from subsidiaries are therefore shown as non-current.

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

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of amounts due to subsidiaries are approximate to their fair values.

Details of the Company's subsidiaries at 31 December 2006 are set out as follows:

Name of subsidiary	Country/place of incorporation	Particulars of issued share capital/ registered capital	Principal activities and place of operation
Beijing Jianguo Guo Real Estate Development Co., Limited	British Virgin Islands	1 ordinary share of US$1	Dormant
Bluelagoon Investment Holdings Limited	British Virgin Islands	1 ordinary share of US$1	Investment holding, sales of financial assets, distribution of films and sub-licensing of film rights in the PRC
Dragon Leader Limited	British Virgin Islands	1 ordinary share of US$1	Investment holding
Gainful Fortune Limited	British Virgin Islands	160,000,100 ordinary shares of HK$1 each	Holdings of film rights
Legend Rich Limited	British Virgin Islands	1 ordinary share of US$1	Distribution of video products in the PRC through a PRC agent
Ocean Shores Licensing Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	Holdings of film rights outside Hong Kong

Name of subsidiary	Country/place of incorporation	Particulars of issued share capital/ registered capital	Principal activities and place of operation
Riche Advertising Limited	British Virgin Islands	1 ordinary share of US$1	Sales of financial assets
Riche (BVI) Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	Investment holding in Hong Kong
Riche Distribution Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	Sub-licensing of film rights in Hong Kong and sales of financial assets
Riche International (Macao Commercial Offshore) Limited	Macau	1 share of MOP100,000	Distribution of films and sub-licensing of film rights in the PRC
Riche Multi-Media Limited	Hong Kong	2 ordinary shares of HK$1 each	Distribution of films and other video features in the PRC
Riche Pictures Limited	British Virgin Islands	1 ordinary share of US$1	Investment holding in Hong Kong
Riche Video Limited	Hong Kong	10 ordinary shares of HK$100 each 20,000 non-voting deferred shares of HK$100 each*	Distribution of video products in Hong Kong
Shinhan-Golden Faith International Development Limited	British Virgin Islands	10,000,000 ordinary shares of US$1 each	Investment holding in the PRC
World East Investments Limited	British Virgin Islands	1 ordinary share of US$1	Distribution of films and sub-licensing of film rights in the PRC through a PRC agent
北京建國房地產開發有限公司 (“Beijing Jianguo Real Estate Development Co. Ltd”)	the PRC	Registered capital of US$15,000,000	Property investment in the PRC

* The non-voting deferred shares, which are not held by the Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

The Company directly holds the interest in Riche (BVI) Limited. All other subsidiaries are indirectly held by the Company.

All of the subsidiaries are wholly-owned by the Company, except 北京建國房地產開發有限公司 (“Beijing Jianguo”) in which the Company holds 96.7% equity interest.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

10. Goodwill

	The Group
	HK$'000
Cost	
At 1 January 2005	39,530
Elimination of goodwill on adoption of HKFRS 3	(7,058)
Acquisition of a subsidiary *(note i)*	7,656
At 31 December 2005 and 1 January 2006	40,128
Acquisition of a subsidiary *(note ii)*	77,284
At 31 December 2006	117,412
Accumulated impairment	
At 1 January 2005	35,130
Elimination of goodwill on adoption of HKFRS 3	(7,058)
Impairment loss recognised *(note iii)*	12,056
At 31 December 2005 and 1 January 2006	40,128
Impairment loss recognised	—
At 31 December 2006	40,128
Carrying amounts	
At 31 December 2006	77,284
At 31 December 2005	—

Notes:

(i) On 19 April 2005, the Group exercised the right under the convertible notes issued by Gainful Fortune Limited ("Gainful Fortune") to convert the outstanding principal of HK$160,000,000 into shares of Gainful Fortune at a conversion price of HK$1 per share. Since then, Gainful Fortune and its wholly-owned subsidiary, Ocean Shores Licensing Limited, (hereinafter collectively refer to as the "Gainful Fortune Group") became subsidiaries of the Company. As a result, a positive goodwill of approximately HK$7,656,000 arose from the acquisition of Gainful Fortune.

(ii) On 21 June 2006, the Group acquired 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and the debts owed by Shinhan-Golden to Northbay Investments Holdings Limited ("Northbay"). The total consideration of this acquisition at fair value was approximately HK$246,109,000. As a result, a positive goodwill of approximately HK$77,284,000 arose from the acquisition of Shinhan-Golden.

(iii) Due to the continuous losses incurred by the Gainful Fortune Group and World East Investments Limited, the directors reassessed the recoverable amounts of goodwill and made impairment losses on goodwill of approximately HK$7,656,000 and HK$4,400,000 respectively in the year ended 31 December 2005.

Impairment of goodwill

Goodwill arising from the acquisition of Shinhan-Golden has been allocated to the leasing of rental property, which is property investment segment and is the cash-generating units ("CGU") identified.

During the year, the directors reassessed the recoverable amount of the CGU with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers, and determined that no impairment loss on goodwill associated with the CGU was identified.

The recoverable amount of the CGU was assessed by reference to value-in-use calculation. A discount rate of 16.14% per annum was applied in the value-in-use model which uses cash flow projection based on financial forecasts approved by the directors (the "Approved Forecast") covering a five-year period. Cash flows beyond the five-year period have been extrapolated using a steady 7% growth rate. The growth rate is made by reference to National Bureau of Statistics of China and does not exceed the long-term average growth rate for the market in which the CGU operates. There are a number of assumptions and estimates involved for the preparation of the cash flow projection for the period covered by the Approved Forecast. Key assumptions include gross margin, growth and discount rate which are determined by management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and is consistent with the Approved Forecast. The discount rate used is pre-tax and reflects specific risks relating to the market.

11. Inventories

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Finished goods	—	6
Properties held for sale	45,154	—
	45,154	6

At 31 December 2006, all inventories were carried at lower of cost and net realisable value.

Properties held for sale solely comprised of certain units of apartment held by Beijing Jianguo, a subsidiary of Shinhan-Golden, of which sale and purchase agreements were entered into and full considerations have been received by Beijing Jianguo in respect of these units of apartment (note 21 to the financial statements). However, the transfer of legal titles of these units of apartment have not yet been completed at the date of the approval of the financial statements.

12. Trade Receivables

The granting of distribution rights and sub-licensing of film rights are covered by customers' deposits placed with the Group. The balance is receivable upon delivery of master materials to customers.

The following is an aged analysis of the trade receivables at the balance sheet date:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	—	386
31 – 60 days	—	258
61 – 90 days	—	426
Over 90 days	1,986	4,743
	1,986	5,813
Less: Impairment loss recognised in respect of trade receivables	(1,050)	(1,084)
	936	4,729

The Group allows an average credit period of 90 days to its customers.

The carrying amounts of trade receivables approximate their fair values.

13. Deposits, Prepayments and Other Receivables

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	9,356	41,734	1,801	—
Prepayment	1,842	1,195	—	—
Other receivables	8,187	13,851	—	—
	19,385	56,780	1,801	—
Less: Impairment loss recognised in respect of prepayments	(131)	(1,188)	—	—
Impairment loss on provision of bad and doubtful debts	—	(1,390)	—	—
	19,254	54,202	1,801	—

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

14. Financial Assets at Fair Value Through Profit or Loss

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at market value	28,100	30,567

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

15. Tax Prepayments

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Tax reserve certificate	3,055	3,055
Tax paid in advance	4,665	1,091
	7,720	4,146

Tax reserve certificate bears interest rate at 0.01% per annum. Details of the tax paid in advance were set out in note 31 to the financial statements.

16. Cash and Cash Equivalents

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits with banks and other financial institutions	52,097	132,250	52,097	132,250
Cash at bank and in hand	11,043	5,723	3,765	4,420
Cash and cash equivalents per cash flow statement	63,140	137,973	55,862	136,670

The effective interest rates of deposits in banks and other financial institutions for the year were 3% to 4.8% (2005: 3% to 4.2%).

17. Share Capital

Shares

Movements in the share capital of the Company during the year were as follows:

	Number of shares		Share capital	
	2006	**2005**	**2006**	**2005**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At 31 December	20,000,000	20,000,000	200,000	200,000
Issued and fully paid:				
At 1 January	5,154,018	475,200	51,540	47,520
Share subdivision *(note i)*	—	4,276,800	—	—
Issuance of new shares *(notes ii and iii)*	1,330,322	402,018	13,303	4,020
At 31 December	6,484,340	5,154,018	64,843	51,540

Notes

(i) At the general meeting of the Company held on 14 January 2005, resolutions were passed to approve, among other things, the share subdivision on the basis of one share of HK$0.10 in the issued and unissued share capital of the Company be subdivided into 10 subdivided shares of HK$0.01 each in the issued and unissued share capital of the Company. The share subdivision became effective on 17 January 2005.

(ii) On 12 September 2005, 400,000,000 new shares of HK$0.01 each were allotted and issued at a price of HK$0.34 per share pursuant to a placing and subscription agreement dated 7 September 2005. The net proceeds of approximately HK$131,179,000 were intended to be used for investment in other relevant business opportunities that may arise in the future and for general working of the Group. An amount of approximately HK$132,000,000 has been recognised as share premium during the year ended 31 December 2005.

(iii) On 21 June 2006, 1,330,321,745 new shares of HK$0.01 each were allotted and issued to Northbay at a price of HK$0.20 per share to settle the consideration of HK$266,064,350 in respect of the acquisition of 100% of the issued share capital of Shinhan-Golden and the debts owed by Shinhan-Golden to Northbay. An amount of approximately HK$252,761,000 has been recognised as share premium during the year ended 31 December 2006.

Warrants

During the year ended 31 December 2002, the Company issued 95,040,000 warrants by way of bonus to the shareholders on the basis of one warrant for every five shares of HK$0.10 each in the share capital of the Company held on 27 May 2002. Each warrant entitled the holder to subscribe for one share of HK$0.10 in the Company at an initial subscription price of HK$3.60 per share, subject to adjustment, at any time on or after 17 June 2002 up to and including 16 June 2005.

As a result of the share subdivision in January 2005, the subscription price of the warrants was adjusted from HK$3.60 per share of HK$0.10 to HK$0.36 per share of HK$0.01 with effect from 17 January 2005.

During the year ended 31 December 2005, 2,018,000 warrants were exercised and converted into 2,018,000 shares of HK$0.01 each at HK$0.36 per share. All other warrants expired on 16 June 2005.

18. Reserves

The Company

	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	—	*163,456	(150,603)	12,853
Issuance of new shares	132,706	—	—	132,706
Share issue expenses	(4,841)	—	—	(4,841)
Net loss for the year	—	—	(93,239)	(93,239)
At 31 December 2005 and 1 January 2006	127,865	*163,456	(243,842)	47,479
Issuance of new shares	252,761	—	—	252,761
Net loss for the year	—	—	(274,532)	(274,532)
At 31 December 2006	380,626	*163,456	(518,374)	25,708

* The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition as well as the net amount transferred from the share premium account and to the accumulated losses account pursuant to the special resolution passed at a special general meeting on 22 August 2003.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

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

At 31 December 2006, the Company had no reserve available for distribution.

19. Trade Payables

The following is an aged analysis of fair value of the trade payables at the balance sheet date:

	The Group 2006 HK$'000	The Group 2005 HK$'000
China Star Entertainment Limited and its subsidiaries ("China Star Group"):		
0 – 30 days	—	3
31 – 60 days	—	—
61 – 90 days	—	—
Over 90 days	—	15
	—	18

	The Group 2006 HK$'000	The Group 2005 HK$'000
Others:		
0 – 30 days	—	—
31 – 60 days	—	—
61 – 90 days	—	—
Over 90 days	—	1,696
	—	1,696
	—	1,714

China Star Entertainment Limited ("China Star") is a substantial shareholder of the Company.

20. Accruals and Other Payables

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	2,965	1,971	233	1,118
Other payables	11,203	5,648	—	—
Tax payables *(note i)*	6,040	—	—	—
	20,208	7,619	233	1,118

Note:

(i) The tax payable represented provision for land appreciation tax on certain units of apartment sold by Beijing Jianguo prior to 2003 (note 11 to the financial statements). According to the PRC tax law and regulation, 30% of land appreciation tax was accrued in the financial statements.

The carrying amounts of accruals and other payables approximate to their fair values.

21. Receipts in Advance

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Trade deposit received	483	483
Receipts in advance	60,415	—
	60,898	483

At 31 December 2006, receipts in advance represented the full amount of considerations received from sales of certain units of apartment, details of which are set out in note 11 to the financial statements. Since the transfer of legal titles on the ownerships of these units have not yet been completed at the date of the approval of these financial statements, no revenue could be recognised for the year and the total amount was recorded as receipts in advance.

22. Amounts Due to Related Companies

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
China Star *(note i)*	—	33,800	—	33,800
China Star's subsidiaries *(note ii)*	606	1,032	—	—
	606	34,832	—	33,800

Notes:

(i) The amount due to China Star was unsecured, interest bearing at 1% per annum and matured on 19 April 2006.

(ii) The amounts due to China Star's subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

23. Secured Bank Loans

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Secured bank loans	357,427	—
The maturity of the above borrowings is as follows:		
Within one year	5,470	—
Between one and two years	25,000	—
Between two and five years	326,957	—
Over five years	—	—
	357,427	—
Less: Amount due within one year shown under current liabilities	(5,470)	—
Amount due after one year	351,957	—

The secured bank loans bear interest at rates ranging from 6.16% to 6.41% per annum.

All the Group's secured bank loans are denominated in RMB.

The secured bank loans are secured by the Group's investment properties in the PRC with fair value of approximately HK$678,000,000.

The carrying amounts of the secured bank loans approximate to their fair values.

24. Deferred Taxation

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

	Accelerated tax depreciation	**Estimated tax losses**	**Revaluation of investment properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	427	(427)	—	—
Credit to income statement for the year *(note 31)*	(173)	173	—	—
At 31 December 2005 and 1 January 2006	254	(254)	—	—
Acquisition of a subsidiary	—	—	54,488	54,488
Exchange alignment	—	—	1,634	1,634
Charge to income statement for the year *(note 31)*	—	—	195	195
At 31 December 2006	254	(254)	56,317	56,317

At 31 December 2006, the Group had unused estimated tax losses of approximately HK$80,960,000 (2005: HK$50,935,000) available for offset against future profits. A deferred tax asset of approximately $254,000 (2005: HK$254,000) has been recognised. No deferred tax asset has been recognised in respect of the remaining balance of approximately HK$14,422,000 (2005: HK$8,666,000) due to the unpredictability of future profit streams.

25. Turnover

	2006	**2005**
	HK$'000	*HK$'000*
Distribution of films	164	9,382
Sub-licensing of film rights	200	10,534
Sales of financial assets at fair value through profit or loss	15,229	18,423
Rental income	1,883	—
	17,476	38,339

26. Other Revenue and Other Income

	2006	**2005**
	HK$'000	*HK$'000*
Other revenue		
Dividend income from financial assets at fair value through profit or loss	754	627
Interest income on bank deposits	4,314	1,339
Sundry income	631	100
	5,699	2,066
Other income		
Gain on disposal of leasehold land and buildings	—	7,110
Increase in fair value of financial assets at fair value through profit or loss	5,360	—
Reversal of overprovision of accruals in previous years	200	—
	5,560	7,110

27. Loss from Operations

	2006	**2005**
	HK$'000	*HK$'000*
Loss from operations has been arrived after charging:		
Amortisation of prepaid operating lease payment	—	10
Amortisation of film rights	—	10,332
Auditors' remuneration	600	500
Cost of inventories sold	89	33
Decrease in fair value of financial assets at fair value through profit or loss	—	3,928
Depreciation of property, plant and equipment		
— owned assets	652	1,098
— leased assets	—	10
Impairment loss recognised in respect of trade receivables	1,050	1,084
Impairment loss on provision of bad and doubtful debts	—	1,390
Impairment loss recognised in respect of film right deposits	14	—
Impairment loss recognised in respect of prepayments	131	1,188
Loss on disposal of property, plant and equipment	1,956	—
Operating lease rental in respect of rented premises	1,710	900
Staff costs including directors' emoluments		
— salaries	7,258	6,813
— contribution to retirement benefits scheme	117	143

28. Finance Costs

	2006	**2005**
	HK$'000	*HK$'000*
Interest on borrowing wholly repayable within five years:		
— convertible notes payable	—	100
— loan payable	100	238
— secured bank loans	9,515	—
— a finance lease	—	2
	9,615	340

29. Directors' Emoluments

The board of directors is currently composed of two executive directors and three independent non-executive directors.

The aggregate amount of emoluments payable to the directors during the year was HK$360,000 (2005: HK$1,710,000). The remuneration of every director for the years ended 31 December 2006 and 2005 is as below:

Name of director	Fees		Salaries and bonuses		Mandatory provident fund		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Heung Wah Keung	—	—	—	—	—	—	—	—
Ms. Chen Ming Yin, Tiffany	—	—	—	—	—	—	—	—
Mr. Lei Hong Wai *(note i)*	—	—	—	1,341	—	9	—	1,350
Mr. Tang Chak Lam, Gilbert	120	120	—	—	—	—	120	120
Mr. Ho Wai Chi, Paul	120	120	—	—	—	—	120	120
Mr. Lien Wai Hung *(note ii)*	120	90	—	—	—	—	120	90
Mr. Lai Hok Lim *(note iii)*	—	30	—	—	—	—	—	30
	360	360	—	1,341	—	9	360	1,710

Notes:

(i) Mr. Lei Hong Wai resigned as a director on 13 October 2005.

(ii) Mr. Lien Wai Hung was appointed as a director on 12 April 2005.

(iii) Mr. Lai Hok Lim resigned as a director on 12 April 2005.

30. Five Highest Paid Individuals

Of the five individuals whose emoluments were the highest in the Group for the year include Nil (2005: one) director whose emoluments are reflected in note 29 to the financial statements and amounted to HK$ Nil (2005: HK$ 1,350,000). The emoluments payable to the remaining five individual (2005: four) during the year were as follow:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other allowances	4,545	2,244
Retirement benefits scheme contributions	48	48
	4,593	2,292

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

31. Taxation

	2006	2005
	HK$'000	*HK$'000*
The taxation charge is as follows:		
Transfer from deferred tax *(note 24)*	195	—

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2006 and 2005 as the Group either has no estimated assessable profit or its estimated assessable profit is wholly absorbed by the estimated tax loss brought forward.

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

	2006		2005	
	HK$'000	*%*	*HK$'000*	*%*
Loss before taxation	(21,099)		(29,664)	
Taxation at income tax rate of 17.5%	3,692	17.5	5,191	17.5
Tax effect of income that is not taxable in determining taxable profit	10,628	50.4	8,554	28.8
Tax effect of expenses that are not deductible in determining taxable profit	(1,833)	(8.7)	(11,308)	(38.1)
Tax losses not yet recognised	(12,487)	(59.2)	(2,437)	(8.2)
Increase in deferred tax	(195)	(0.9)	—	—
Taxation charge for the year	(195)	(0.9)	—	—

In April 2002, April 2003, March 2004, and January 2005, the Inland Revenue Department ("the IRD") of Hong Kong issued estimated assessments to Ocean Shores Licensing Limited ("OSLL") in respect of its potential tax liabilities for the years of assessments from 1995/1996 to 2000/2001 in an aggregate amount of HK$22,971,000. OSLL has formally objected to the estimated assessments. The directors consider appropriate tax provision has already been made in the financial statements.

At the request of the IRD, the Group has already paid deposits totaling approximately HK$4,146,000 by way of purchase of a tax reserve certificates and monthly cash instalments.

32. Loss Per Share

The calculation of the basic and diluted loss per share is based on the following data:

	2006	**2005**
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company for the purposes of basic and diluted loss per share	(21,294)	(29,664)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	6,484,340	4,865,190
Effect on dilutive potential ordinary shares:		
Share options	—	—
Weighted averaged number of ordinary share for the purposes of diluted loss per share	6,484,340	4,865,190

The computation of diluted loss per share for the years ended 31 December 2006 and 2005 did not assume the exercise of the Company's share options because the effect of exercising an option to subscribe for an additional share in the Company would result in a decrease of loss per share.

33. Acquisition of Subsidiaries

On 21 June 2006, the Group acquired 100% interest of the issued share capital of Shinhan-Golden and the debts owed by Shinhan-Golden to Northbay for consideration approximately of HK$266,064,000 and was settled by issue of 1,330,322,745 ordinary shares of HK$0.01 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.20 each. The aggregate amount of goodwill arising as a result of the acquisition was approximately HK$77,284,000.

The fair value of net assets acquired in the transaction and the goodwill arising are as follow:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK'000*	*HK$'000*
Property, plant and equipment	480	—	480
Investment properties *(note i)*	483,802	158,180	641,982
Trade receivables	12	—	12
Inventories	43,839	—	43,839
Deposits, prepayments and other receivables	171	—	171
Cash and cash equivalents	415	—	415
Accruals and other payables	(54,126)	—	(54,126)
Receipts in advance	(59,080)	—	(59,080)
Secured bank loans	(346,484)	—	(346,484)
Minority interests	(3,896)	—	(3,896)
Deferred taxation	—	(54,488)	(54,488)
Net assets required	65,133	103,692	168,825
Goodwill on acquisition			77,284
			246,109
Special reserve *(note ii)*			19,955
			266,064
Fair value of purchase consideration settled in issuance of new shares *(note iii)*			246,109
Net cash flow from acquisition of subsidiary:			
Cash paid			—
Cash and bank balances acquired			415
			415

Notes:

(i) The fair value of the investment properties was determined based on the valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified professional valuers and not connected with the Group, as at the acquisition date.

(ii) The difference between the fair value and the contracted value of consideration paid in respect of the acquisition of the acquired subsidiary.

(iii) The fair value of the consideration shares is determined based on the quoted closing price of the Company's share of HK$0.185 at the date of acquisition and 1,330,322,745 shares.

Details of the acquisition were disclosed in the Company's circular date 19 May 2006.

If the acquisition had been completed on 1 January 2006, total group turnover for the year would have been HK$19,803,000, and loss for the year would have been HK$21,867,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

During the year ended 31 December 2005, the Company acquired the remaining 59.99% interest in Gainful Fortune. The fair value of assets acquired and liabilities assumed as follows:

	2005
	HK$'000
Net assets acquired	
Other receivables	784
Cash and cash equivalents	95
Tax receivables	4,133
Receipts in advance	(8,978)
Accruals and other payables	(3,690)
	(7,656)
Goodwill	7,656
	—
Satisfied by	
Cash	—

Analysis of the net cash outflow in respect of the purchase of subsidiary:

	2005
	HK$'000
Cash consideration	—
Bank balances and cash in hand acquired	95
Net cash inflow in respect of the acquisition of subsidiary	95

No turnover was contributed from the subsidiary acquired during the year ended 31 December 2005 but contributed to the Group a loss of approximately HK$155,000 for the year. The subsidiary acquired contributed approximately HK$110,000 to the Group's net operating cash outflows. There was no significant impact of the Group's cash flows for investing and financing activities and payment of tax.

34. Commitments

(a) Lease commitments

As lessee

At 31 December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,332	539
In the second to fifth year inclusive	1,646	38
	2,978	577

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

As lessor

At 31 December 2006 the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of the Group's investment properties, which fall due as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	2,700	—

At the balance sheet date, the Company did not have any lease commitments.

(b) Other commitments

(i) At 31 December 2006, the Group had other commitments contracted but not provided for in the financial statements:

	2006	2005
	HK$'000	*HK$'000*
Renovation work in respect of the Group's investment properties	63,739	—
	63,739	—

(ii) Pursuant to the undertaking letters issued by the owners of 上海昇平文化發展有限公司 ("Shanghai Shengping") during the year ended 31 December 2003, they will transfer their ownership in Shanghai Shengping to the Group at price determined by the valuers in the PRC when the laws in the PRC allow foreign investors own more than 51% in Shanghai Shengping.

(iii) On 9 April 2005, the Group entered into a conditional sale and purchase agreement with Leadfirst Limited, a company wholly-owned by Mr. Benny Ki, as a seller, and Mr. Benny Ki, as a guarantor, pursuant to which the Group agreed to acquire 100% of the issued share capital of Best Winning Group Limited from Leadfirst Limited at a consideration of HK$600,000,000. Upon completion of the conditional sales and purchase agreement, the consideration shall be satisfied by the issue of convertible notes in principal amount of HK$500,000,000 and the payment of cash of HK$100,000,000. At 31 December 2005, the Group paid deposits amounted to HK$40,000,000 to Leadfirst Limited.

On 31 March 2006, the Company announced that the conditional sale and purchase agreement ceased and determined.

35. Contingencies

Save as disclosed in note 37 to the financial statements, the Group has no material contingent liabilities at 31 December 2006.

36. Banking Facilities

The Group's secured bank loans of approximately HK$357,427,000 (2005:HK$Nil) at 31 December 2006 were secured by:

(a) Legal charges over the Group's investment properties with the fair value of approximately HK$678,000,000; and

(b) Corporate guarantee provided by the Company.

37. Litigation

At 31 December 2006, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the directors to be pending or threatened against any member of the Group.

(a) The Commissioner of Inland Revenue had issued proceedings on 30 March 2005 against OSLL in respect of an aggregate amount of outstanding taxation of HK$13,928,226 for the estimated assessments for the years of assessments from 1998/1999 to 2000/2001. Provision for this amount has been made in the Group's audited financial statements for the year ended 31 December 2006. OSLL has formally objected to the estimated assessments and paid the outstanding tax by monthly cash instalments;

(b) A writ of summons and statement of claim was made by CL3 Architects Limited ("CL3") against Beijing Jianguo for a claim of approximately HK$2,500,000 over design contracts for the investment property with Beijing Jianguo. In the opinion of the directors, the outcome of this case is yet to be certain and considered no provision should be made; and

(c) A writ of summons and statement of claim was made by ICBC against Beijing Jianguo for a claim of approximately RMB1,197,000 (or approximately HK$1,197,000) over the non-repayment of a mortgage loan granted to a owner (the "Borrower") of an apartment unit in the Group's investment properties. The Borrower purchased the apartment unit from Beijing Jianguo in 2001 and the legal title of the apartment unit has not yet been transferred from Beijing Jianguo to the Borrower. On 15 December 2006, the PRC court made a verdict that Beijing Jianguo was liable to pay RMB1,197,000 if the Borrower failed to pay RMB1,197,000 to ICBC. Beijing Jianguo has appealed to the PRC court. Up to the date of this report, the PRC court is processing the appeal. In the opinion of the directors, no provision for this liability should be made as the sale proceed of the apartment unit has been fully received by Beijing Jianguo and the legal title of the apartment unit remains with Beijing Jianguo.

38. Equity Settled Share-based Transactions

(A) Share option scheme

Pursuant to an ordinary resolution passed at a special general meeting of the company held on 21 January 2002, the Company adopted a share option scheme (the "Option Scheme") to replace the share option scheme adopted by the Company on 19 January 2000.

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

(a) the purpose was to provide incentives to:

(i) award and retain the participants who have made contributions to the Group; or

(ii) attract potential candidates to serve the Group for the benefit of the development of the Group.

(b) the participants included:

(i) — any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of, or

— any individual for the time being seconded to work for,

any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

(ii) any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

(iii) — any business or joint venture partner, contractor, agent or representative of,

— any person of entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to,

— any supplier, producer or licensor of films, television programmes, video features, goods or services to,

— any customer, licensee (including any sub-licensee) or distributor of films, television programmes, video features, goods or services of, or

— any landlord or tenant (including any sub-tenant) of,

any member of the Group or any controlling shareholder or a company controlled by a controlling shareholder.

and, for the purposes of the Option Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants.

(c) The maximum number of shares in respect of which share options might be granted under the Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the Option Scheme and such limit might be refreshed by shareholders in general meeting. The total maximum number of shares which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time. The total number of shares available for issue under the Option Scheme at 31 December 2006 was approximately 475,401,800, which represented 7.33% of the issued share capital of the Company at 31 December 2006.

(d) The maximum number of shares in respect of share which share options might be granted to a participant, when aggregate with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any share option granted to the same participant under the Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(e) The exercise period should be any period fixed by the board of directors upon grant of the share option but in any event the share option period should not go beyond 10 years from the date of offer for grant.

(f) There was no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors and provided in the offer of grant of share option.

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

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

(i) the closing price of the share of the Company on the date of grant which day must be a trading day;

(ii) the average closing price of the share of the Company for the 5 trading days immediately preceding the date of grant; and

(iii) the nominal value of the share of the Company.

(i) The life of the Option Scheme is effective for 10 years from the date of adoption until the date of expiry.

The following table discloses details of the Company's share options granted under the Option Scheme held by the directors and the employees and movements in such holdings during the year:

(B) Share-based payment compensation

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

(i) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

				Number of share options		
Category of participants	**Date of grant**	**Exercise price per share**	**Exercisable period**	**Outstanding at 1.1.2005 and 1.1.2006**	**Granted during 2006**	**Outstanding at 31.12.2006**
		HK$	*(note i)*		*(note ii)*	
Employees	8.3.2002	0.26	8.3.2002 — 7.3.2012	190,000,000	—	190,000,000
Employees	13.12.2004	0.194	13.12.2004 — 12.12.2014	275,700,000	—	275,700,000
				465,700,000	—	465,700,000

Notes:

(i) The exercisable period commenced on the date of grant of the relevant share options.

(ii) No share option was cancelled and exercised during the year.

39. Retirement Benefits Schemes

With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme, the Mandatory Provident Fund Scheme (the "MPF Scheme"), for all the eligible employees of the Group. The Group did not provide retirement benefits for its employees prior to set up of the MPF Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$1,000 (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contribution upon their retirement at the age of 65 years old, death or total incapacity.

40. Material Related Party Transactions

(a) During the year, the Group entered into the following transactions with China Star Group:

Nature of transactions	*Notes*	2006 *HK$'000*	2005 *HK$'000*
Interest expense			
— Loan interest	*(i)*	100	100
— Interest on convertible notes payable	*(i)*	—	238
Repayment of convertible notes payable	*(i)*	—	33,800
Post-production expenses	*(ii)*	90	736
Loan received	*(i)*	—	(33,800)
Sale of leasehold land and buildings	*(iii)*	—	(9,000)
Purchase of distribution rights to films	*(iv)*	—	3,600
Purchase of film rights	*(v)*	—	5,347
Sale of film rights	*(vi)*	(200)	—
Repayment of loan	*(vii)*	33,800	—

Notes:

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

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

(iii) On 7 July 2005, the Group disposed its leasehold land and buildings to China Star Group at a total consideration of HK$9,000,000. The consideration was agreed between the parties on arms' length negotiations with reference to a property valuation done by an independent firm of professional chartered surveyors appointed by China Star Group.

The disposal constitutes a discloseable and connected transaction for the Company under Chapter 14 of the Listing Rules. Please refer to the Company's announcement dated 7 July 2005 and circular dated 29 July 2005 for details.

(iv) During the year ended 31 December 2005, the Group acquired the distribution rights of 5 films from China Star Group at a total consideration of HK$3,600,000.

(v) During the year ended 31 December 2005, the Group acquired the theatrical rights of 5 films from China Star Group at total license fees of HK$5,347,000.

(vi) During the year ended 31 December 2006, the Group sold four film rights to China Star Group.

(vii) During the year ended 31 December 2006, the Company repaid the one year term loan of HK$33,800,000 to China Star.

(b) Compensation for key management personnel

Remuneration for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in notes 29 and 30 to the financial statements, is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries	3,954	3,276
Contribution to retirement benefits scheme	24	36
	3,978	3,312

41. Pledge of Assets

At 31 December 2006, the Group has pledged its investment properties with fair value of HK$678,000,000 which are held by Beijing Jianguo to secure the bank loans amounted to HK$357,427,000.

42. Subsequent Events

(a) On 19 March 2007, Classical Statue Limited, a substantial shareholder of the Company, entered into a placing agreement and a top-up subscription agreement with a placing agent and the Company respectively. Pursuant to the placing agreement, Classical Statue Limited agreed to place, through the placing agent, an aggregate of 1,296,860,000 shares of HK$0.01 each, on a fully underwritten basis, to not fewer than six independent investors at a price of HK$0.04 per share (the "Placing"). Pursuant to the top-up subscription agreement, Classical Statue Limited conditionally agreed to subscribe for an aggregate of 1,296,860,000 new share of HK$0.01 each at a price of HK$0.04 per share (the "Top-Up Subscription"). The net proceeds from the Top-Up Subscription of HK$50,500,000 are intended to be used for financing the possible diversified investments of the Group and the general working capital of the Group. The Placing and Top-Up Subscription were completed on 22 March 2007 and 30 March 2007 respectively.

(b) On acquisition of Shinhan-Golden, Beijing Jianguo had a secured bank loan of RMB361,734,837 (or approximately HK$361,735,000) granted by China Merchants Bank, of which RMB250,000,000 (or approximately HK$250,000,000)was the principal portion and RMB106,956,000 (or approximately HK$106,956,000) was the interest portion. On 21 December 2006, the Group had borrowed RMB250,000,000 (or approximately HK$250,000,000) from Hang Seng Limited to repay the principal portion of the secured bank loan granted by China Merchants Bank. On 23 March 2007, the Group received a confirmation from China Merchants Bank stating China Merchants Bank agreed to waive the interest portion of RMB106,956,000 (or approximately HK$106,956,000).

(c) On 4 April 2007, the board of directors proposed that every ten existing ordinary shares of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one ordinary share of HK$0.10 each (the "Consolidated Shares") in the issued and unissued share capital of the Company (the "Share Consolidation"). The implementation of the Share Consolidation is conditional upon (i) the passing of the resolution by the shareholders to approve the Share Consolidation at the special general meeting which is expected to be held in May 2007; and (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consolidated Shares in issue upon the Share Consolidation becoming effective and any Consolidated Shares which may fail to be issued upon exercise of the share options.

(d) On 4 April 2007, the Company conditionally agreed to place (the "Placing"), through a placing agent on a fully underwritten basis, 155,620,000 Consolidated Shares (the "Placing Shares") to independent investors at a price of HK$0.55 per Placing Share. The Placing is conditional upon (i) the Share Consolidation becoming effective; (ii) the passing of the resolution by the shareholders to approve the allotment, issue and dealing with the Placing Shares under the Placing at a special general meeting which is expected to be held in May 2007; (iii) the Listing Committee of the Stock Exchange granting and agreeing to grant the listing of, and permission to deal in, the Placing Shares; and (iv) the obligations of the placing agent under the placing agreement becoming unconditional and not being terminated in accordance with the terms of the placing agreement, including provisions regarding force majeure event. The net proceeds from the Placing of HK$83,300,000 are intended to be used for financing the possible diversified investments of the Group and the general working capital of the Group.

43. Approval of Financial Statements

The financial statements were approved by the board of directors on 26 April 2007.

3. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE GROUP

The following is an extract of the unaudited condensed consolidated interim financial statements from the interim report of the Company for the six months ended 30 June 2007:

Condensed Consolidated Income Statement
for the six months ended 30 June 2007

		Six months ended 30 June	
		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	29,191	12,762
Cost of sales		(24,465)	(9,965)
Gross profit		4,726	2,797
Other revenue	*4*	1,307	3,090
Other income	*4*	122,593	4,430
Administrative expenses		(15,656)	(8,574)
Share-based payment expenses		(13,688)	—
Loss on disposal of property, plant and equipment		—	(1,034)
Provision for impairment of trade receivables		—	(1,050)
Provision for impairment of deposits, prepayments and other receivables		—	(131)
Profit/(loss) from operations	*5*	99,282	(472)
Finance costs	*6*	(8,334)	(668)
Profit/(loss) before taxation		90,948	(1,140)
Taxation	*7*	—	—
Profit/(loss) for the period		90,948	(1,140)
Attributable to:			
Equity holders of the Company		90,948	(1,140)
Dividend	*8*	—	—
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company			
— Basic	*9*	HK12.05 cents	(HK0.22 cents)
— Diluted	*9*	HK11.96 cents	(HK0.22 cents)

Condensed Consolidated Balance Sheet

	Notes	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	9,677	2,468
Investment properties	*11*	701,079	678,000
Goodwill		77,284	77,284
Available-for-sale financial assets		172	172
		788,212	757,924
Current assets			
Inventories	*12*	45,154	45,154
Trade receivables	*13*	736	936
Deposits, prepayments and other receivables		14,746	19,254
Financial assets at fair value through profit or loss		19,392	28,100
Tax prepayments		9,720	7,720
Cash and cash equivalents		203,961	63,140
		293,709	164,304
Total assets		1,081,921	922,228
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*14*	96,614	64,843
Reserves		556,208	334,793
		652,822	399,636
Minority interests		3,896	3,896
		656,718	403,532

	Notes	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
LIABILITIES			
Current liabilities			
Accruals and other payables		15,079	20,208
Receipts in advance	*15*	60,838	60,898
Amounts due to related companies	*16*	600	606
Secured bank loan — due within one year	*17*	15,000	5,470
Tax payable		22,969	23,240
		114,486	110,422
Non-current liabilities			
Secured bank loan — due after one year	*17*	254,400	351,957
Deferred taxation		56,317	56,317
		310,717	408,274
Total equity and liabilities		1,081,921	922,228
Net current assets		179,223	53,882
Total assets less current liabilities		967,435	811,806

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Share capital	Share premium	Share-based payment reserve	Capital reserve	Contributed surplus	Special reserve	Exchange reserve	Accumulated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2006	51,540	127,865	–	19,834	80,103	–	–	(111,732)	167,610	–	167,610
Issuance of new shares	13,303	252,761	–	–	–	–	–	–	266,064	–	266,064
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	3,896	3,896
Loss for the period	–	–	–	–	–	–	–	(1,140)	(1,140)	–	(1,140)
At 30 June 2006	64,843	380,626	–	19,834	80,103	–	–	(112,872)	432,534	3,896	436,430
At 1 January 2007	64,843	380,626	–	19,844	80,103	(19,955)	7,201	(133,026)	399,636	3,896	403,532
Issuance of new shares	28,531	105,161	–	–	–	–	–	–	133,692	–	133,692
Exercise of share options	3,240	15,827	(3,840)	–	–	–	–	–	15,227	–	15,227
Exchange differences arising from translation of investment in a foreign subsidiary	–	–	–	–	–	–	(369)	–	(369)	–	(369)
Share-based payment expenses	–	–	13,688	–	–	–	–	–	13,688	–	13,688
Profit for the period	–	–	–	–	–	–	–	90,948	90,948	–	90,948
At 30 June 2007	96,614	501,614	9,848	19,844	80,103	(19,955)	6,832	(42,078)	652,822	3,896	656,718

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2007

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(17,269)	27,635
Net cash (used in)/generated from investing activities	(4,895)	10,725
Net cash generated from/(used in) financing activities	163,354	(40,578)
Net increase/(decrease) in cash and cash equivalents	141,190	(2,218)
Effect on foreign exchange rate	(369)	—
Cash and cash equivalents at beginning of period	63,140	137,973
Cash and cash equivalents at end of period	203,961	135,755
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	203,961	135,755

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2007

1. Basis of Preparation

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss, which are measured at fair values, as appropriate.

2. Summary of Significant Accounting Policies

The accounting policies used in the Interim Financial Statements are consistent with those used in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1 January 2007. The adoption of the new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting periods.

Standards or interpretations issued but not yet effective

The Group has not applied the new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK (IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK (IFRIC) — Int 12	Service Concession Arrangements[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008

The Group is still considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

3. Segment Information

(a) Business segments

	Six months ended 30 June 2007				
	Distribution	**Sub-licensing**	**Sales of financial assets**	**Property investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	—	—	27,575	1,616	29,191
Segment profit	—	—	3,230	1,496	4,726
Unallocated other revenue					123,900
Unallocated corporate expenses					(29,344)
Profit from operations					99,282
Finance costs					(8,334)
Profit before taxation					90,948
Taxation					—
Profit for the period					90,948

	Six months ended 30 June 2006				
	Distribution	**Sub-licensing**	**Sales of financial assets**	**Property investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	122	200	12,440	—	12,762
Segment (loss)/profit	(1,391)	(10)	3,320	—	1,919
Unallocated other revenue					2,590
Unallocated corporate expenses					(4,981)
Loss from operations					(472)
Finance costs					(668)
Loss before taxation					(1,140)
Taxation					—
Loss for the period					(1,140)

(b) Geographical segments — Turnover

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong and Macau	27,575	12,762
The People's Republic of China (the "PRC")	1,616	—
	29,191	12,762

4. Other Revenue and Other Income

	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Other revenue		
Interest income on bank deposits	1,276	2,514
Dividend income from financial assets at fair value through profit or loss	30	576
Sundry income	1	—
	1,307	3,090
Other income		
Increase in fair value of financial assets at fair value through profit or loss	15,637	4,430
Loan interest waived	106,956	—
	122,593	4,430

5. Profit/(Loss) from Operations

	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Profit/(loss) from operations has been arrived at after charging:		
Cost of inventories sold	—	10
Depreciation of property, plant and equipment	708	351
Loss on disposal of property, plant and equipment	—	1,034
Provision for impairment of trade receivables	—	1,050
Provision for impairment of deposits, prepayments and other receivables	—	131
Staff costs including directors' emoluments:		
— Salaries and other allowances	4,299	3,205
— Contributions to retirement benefits scheme	60	62

6. Finance Costs

	Six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Interest expenses on borrowings wholly repayable within five years:		
— secured bank loan	8,334	568
— loan payable	—	100
	8,334	668

7. Taxation

No provision for Hong Kong Profits Tax has been made for the period since the Group has no estimated assessable profits (six months ended 30 June 2006: Nil).

No provision for the PRC Enterprise Income Tax was made as the Company's subsidiaries in the PRC did not have taxable income (six months ended 30 June 2006: Nil).

8. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

9. Earnings/(Loss) Per Share

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company for the purposes of basic and diluted earnings/(loss) per share	90,948	(1,140)
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	754,792	522,053
Effect of dilutive potential ordinary shares: Share options	5,639	—
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	760,431	522,053

The weighted average number of shares for the six months ended 30 June 2006 for the purposes of basic and diluted loss per share has been adjusted to take into effect of the share consolidation that became effective on 21 May 2007. Details of the share consolidation are set out in note 14 to the Interim Financial Statements.

The computation of diluted loss per share for the six months ended 30 June 2006 did not assume the exercise of the Company's share options as the effect of the assumed exercise of the Company's outstanding share options would be anti-dilutive.

10. Property, Plant and Equipment

	HK$'000
Cost	
At 1 January 2007	5,873
Additions	7,917
At 30 June 2007	13,790
Accumulated depreciation	
At 1 January 2007	3,405
Charged for the period	708
At 30 June 2007	4,113
Net book value	
At 30 June 2007	9,677
At 31 December 2006	2,468

11. Investment Properties

	HK$'000
At 1 January 2007	678,000
Additions	23,079
At 30 June 2007	701,079

At 30 June 2007, the directors considered the carrying amounts of the Group's investment properties do not differ significantly from their fair values.

At 30 June 2007, all of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

12. Inventories

Inventories at 30 June 2007 solely comprised of certain apartments held by Beijing Jianguo Real Estate Development Company Limited ("BJ Jianguo"), a subsidiary of the Company, which were sold in previous years, of which sale and purchase agreements had been entered into and considerations had been received by BJ Jianguo. However, the transferrals of the legal titles of those apartments have not been completed as at the date of the Interim Financial Statements.

13. Trade Receivables

The granting of distribution rights and sub-licensing of film rights are covered by customers' deposits placed with the Group. The balances are receivable upon delivery of the master materials to customers.

The following is an aged analysis of trade receivables at the reporting date:

	At 30 June 2007 *HK$'000* (Unaudited)	At 31 December 2006 *HK$'000* (Audited)
0 — 30 days	—	—
31 — 60 days	—	—
61 — 90 days	—	—
Over 90 days	1,786	1,986
	1,786	1,986
Less: Provision of bad and doubtful debts	(1,050)	(1,050)
	736	936

The Group allows an average credit period of 90 days to its customers. The directors considered that the carrying amounts of trade receivables approximate to their fair values.

14. Share Capital

	Number of shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.10 each (2006: HK$0.01)		
Authorised:		
At 1 January 2007	20,000,000	200,000
Share consolidation *(note iii)*	(18,000,000)	—
At 30 June 2007	2,000,000	200,000
Issued and fully paid:		
At 1 January 2007	6,484,340	64,843
Issuance of new shares *(note i)*	1,296,860	12,969
Exercise of share options *(note ii)*	324,000	3,240
Share consolidation *(note iii)*	(7,294,680)	—
Issuance of new shares *(note iv)*	155,620	15,562
At 30 June 2007	966,140	96,614

Notes:

(i) On 30 March 2007, 1,296,860,000 new shares of HK$0.01 each were allotted and issued to Classical Statute Limited, a substantial shareholder of the Company, at a price of HK$0.04 per share pursuant to the placing and subscription agreements dated 19 March 2007. The net proceeds of approximately HK$50,500,000 were intended to be used for financing possible diversified investments of the Group and general working capital of the Group.

(ii) On 17 May 2007, the Company allotted and issued 324,000,000 new shares of HK$0.01 each pursuant to the exercise of share options granted to the Group's employees. The exercise price was HK$0.047 per share.

(iii) On 4 April 2007, the board of directors proposed that every ten issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company be consolidated into one issued and unissued ordinary share of HK$0.10 each in the share capital of the Company. The share consolidation became effective on 21 May 2007.

(iv) On 31 May 2007, the Company allotted and issued 155,620,000 new shares of HK$0.10 each to independent investors at a price of HK$0.55 per share. The net proceeds of approximately HK$83,300,000 were intended to be used for financing possible diversified investments of the Group and general working capital of the Group.

15. Receipts in Advance

At 30 June 2007, receipts in advance represented the full amounts of considerations received from sales of certain units of apartments as set out in note 12 to the Interim Financial Statements. Since the transfer of legal title on the ownership of these units have not yet been completed, no revenue could be recognised during the period under review.

16. Amounts Due to Related Companies

	At 30 June 2007	At 31 December 2006
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
China Star Entertainment Limited and its subsidiaries (the "China Star Group")	600	606

The amounts due to the China Star Group are unsecured, non-interest bearing and have no fixed terms of repayment.

17. Secured Bank Loan

The secured bank loan bears interest at rates ranging from 6.156% to 6.584% per annum and is secured by the Group's investment properties in the PRC with fair value of approximately HK$701,079,000 *(note 11)*.

18. Lease Commitments

As lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	At 30 June 2007 *HK$'000* (Unaudited)	At 31 December 2006 *HK$'000* (Audited)
Within one year	1,207	1,332
In the second to fifth year inclusive	988	1,646
	2,195	2,978

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

As lessor

The Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of the Group's investment properties, which fall due as follows:

	At 30 June 2007 *HK$'000* (Unaudited)	At 31 December 2006 *HK$'000* (Audited)
Within one year	—	2,700

At the balance sheet date, the Company did not have any lease commitments.

19. Commitments

At 30 June 2007, the Group had capital expenditures amounting to approximately HK$31,050,000 (31 December 2006: HK$63,739,000) in respect of renovation works of investment properties contracted for but not provided in the Interim Financial Statements.

On 11 May 2007, the Company and Legend Rich Limited, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Steve Leung Hotel Design and Management Limited for the purpose of setting up Best Season Holdings Corp. ("JV Co"), which is held as to 75% by Legend Rich Limited and as to 25% by Steve Leung Hotel Design and Management Limited. Rich Joy Investment Limited, a wholly-owned subsidiary of the Company, has agreed to grant JV Co. the revolving facility of up to HK$200,000,000. An interest of 6.5% per annum of the facility is payable together with the principal and not exceeding 3 years commencing on the drawn down date. As at the date of the Interim Financial Statements, JV Co has not drawn down the facility.

20. Material Related Party Transactions

(a) During the period, the Group had the following transactions with the China Star Group:

Name of company	Nature of transaction	Six months ended 30 June 2007 *HK$'000* (Unaudited)	2006 *HK$'000* (Unaudited)
Paid or payable to:			
1. China Star Entertainment Limited	Salaries	(600)	—
2. China Star Entertainment Limited	Interest expense	—	(100)
3. China Star Production Services Limited	Post-production services expense	—	(85)
Received or receivable from;			
4. China Star HK Distribution Limited	Sub-licensing income	—	200

(b) ***Compensation for key management personnel***

Remuneration for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 June 2007 *HK$'000* (Unaudited)	2006 *HK$'000* (Unaudited)
Salaries	1,760	1,656
Contribution to retirement benefits scheme	12	12

Save as aforesaid and disclosed elsewhere in the Interim Financial Statements, there was no other material related party transactions during the period under review.

21. Subsequent Events

(i) On 11 July 2007, the Company allotted and issued 162,100,000 new shares of HK$0.10 each at a price of HK$0.50 per share by way of placing of new shares under general mandate. The net proceeds of HK$78,900,000 are intended to be used for expansion of the Group's property investment business. Details of this transaction was set out in the Company's announcement dated 25 June 2007.

(ii) On 19 July 2007, a conditional sale and purchase agreement was entered into between the Company, Legend Rich Limited, a wholly-owned subsidiary of the Company, and Ms. Chen Ming Yin, Tiffany, an executive director of the Company, in relation to the acquisition of a 100% interest in Modern Vision (Asia) Limited by Legend Rich Limited at a consideration of HK$684,000,000 (subject to adjustment). The major asset of Modern Vision (Asia) Limited is its indirect 50% interest in a lot of land with the area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. The consideration will be satisfied in cash by the Company. Details of this transaction was set out in the Company's announcement dated 23 July 2007.

(iii) On 1 August 2007, a conditional sale and purchase agreement was entered into between the Company, Legend Rich Limited and China Star Entertainment Limited, a substantial shareholder of the Company, in relation to the acquisition of a 100% interest in Exceptional Gain Profits Limited and a sale loan by Legend Rich Limited at a consideration of HK$447,000,000. Exceptional Gain Profits Limited is an investment holding vehicle which indirectly holds a 50% interest in Kingsway Hotel. The consideration will be satisfied by the issue of a convertible note by the Company. Details of this transaction was set out in Company's announcement dated 8 August 2007.

(iv) On 7 August 2007, the Company allotted and issued 173,000,000 new shares of HK$0.10 each at a price of HK$0.83 per share by way of top-up placing. The net proceeds of HK$139,800,000 are intended to be used for expansion of the Group's property investment business. Details of this transaction was set out in the Company's announcement dated 25 July 2007.

22. Contingencies and Litigations

At 30 June 2007, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the directors to be pending or threatened against any member of the Group.

(i) The Commissioner of Inland Revenue issued proceedings on 30 March 2006 against Ocean Shores Licensing Limited ("OSLL"), a wholly-owned subsidiary of the Company, in respect of an aggregate amount of outstanding taxation of HK$13,928,226 for the estimated assessments for the years of assessments from 1998/1999 to 2000/2001. Provision for this amount has been made in the Company's audited financial statements for the year ended 31 December 2006. OSLL has formally objected to the estimated assessments and paid the outstanding tax by monthly cash instalments. On 23 January 2007, the Inland Revenue Department issued a letter to OSLL requesting for more information on the offshore income claim made by OSLL. The tax representatives of OSLL are preparing a reply to the Inland Revenue Department;

(ii) A writ of summons and statement of claim was made by CL3 Architects Limited against BJ Jianguo in February 2006 for a claim of approximately HK$2,500,000 over design contracts for the investment properties with BJ Jianguo. A verdict was issued by the PRC court that BJ Jianguo was liable to pay HK$2,500,000 to CL3 Architects Limited. BJ Jianguo is seeking further legal advice in relation to the judgement. In the opinion of the directors, the outcome of this case is yet to be certain and considered no provision should be made; and

(iii) A writ of summons and statement of claim was made by ICBC against BJ Jianguo for a claim of approximately RMB1,197,000 (or approximately HK$1,197,000) over the non-repayment of a mortgage loan granted to a owner (the "Borrower") of an apartment unit in the Group's investment properties. The Borrower purchased the apartment unit from BJ Jianguo in 2001 and the legal title of the apartment unit has not yet been transferred from BJ Jianguo to the Borrower. On 15 December 2006, the PRC court made a verdict that BJ Jianguo was liable to pay RMB1,197,000 if the Borrower failed to pay RMB1,197,000 to ICBC. BJ Jianguo has appealed to the PRC court. Up to the date of this report, the PRC court is processing the appeal. In the opinion of the directors, no provision for this liability should be made as the sale proceed of the apartment unit has been fully received by BJ Jianguo and the legal title of the apartment unit remains with BJ Jianguo.

23. Approval of Interim Financial Statements

The Interim Financial Statements were approved by the Board on 24 September 2007.

STATEMENT OF INDEBTEDNESS

As at the close of business of 31 October 2007, being the latest practicable date for the purpose of the statement of indebtedness, the Enlarged Group had outstanding borrowings, contingencies and commitments amounting to approximately HK$765,369,000, HK$2,500,000 and HK$235,357,000 respectively, details of which are as follows:

Borrowings

As at 31 October 2007, the Enlarged Group had secured bank borrowings amounted to approximately HK$765,369,000 which were secured by the leasehold land and buildings and investment properties of the Enlarged Group and an amount due to a Director of approximately HK$45,000,000.

Contingencies

As at 31 October 2007, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group:

i. The Commissioner of Inland Revenue had issued proceedings on 30 March 2005 against Ocean Shores Licensing Limited ("OSLL"), a wholly-owned subsidiary of the Company, in respect of an aggregate amount of outstanding taxation of HK$13,928,226 for the estimated assessments for the years of assessments from 1998/1999 to 2000/2001. Provision for this amount has been made in the Group's audited financial statements for the year ended 31 December 2006. OSLL has formally objected to the estimated assessments and paid the outstanding tax by monthly cash installments. On 23 January 2007, the Inland Revenue Department issued a letter to OSLL requesting for more information on the offshore income claim made by OSLL. A reply was sent to the Inland Revenue Department on 9 November 2007.

ii. A writ of summons and statement of claim was made by CL3 Architects Limited against 北京建國房地產開發有限公司 ("Beijing Jianguo"), a 96.7% owned subsidiary of the Company, in February 2006 for a claim of approximately HK$2,500,000 over design contracts for the investment properties with Beijing Jianguo. A verdict was issued by the PRC court that Beijing Jianguo was liable to pay HK$2,500,000 to CL3 Architects Limited. Beijing Jianguo has appealed to Beijing City Supreme People's Court. Up to the Latest Practicable Date, Beijing City Supreme People's Court is processing the appeal.

Commitments

i. As at 31 October 2007, the Enlarged Group had commitments in respect of renovation contracts in the amount of approximately HK$35,357,000 which were not provided for in the consolidated financial statements.

ii. As at 31 October 2007, the Enlarged Group had a commitment in respect of the unused revolving facility of up to HK$200,000,000 granted to Best Season Holdings Corp., a 75% owned subsidiary of the Company.

iii. Pursuant to the undertaking letters issued by the owners of 上海昇平文化發展有限公司 ("Shanghai Shengping") during the year ended 31 December 2003, they will transfer their ownership in Shanghai Shenping to the Enlarged Group at price determined by the valuers in the PRC when the laws in the PRC allow foreign investors to own more than 51% in Shanghai Shengping.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, capital commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2007.

WORKING CAPITAL

As at the Latest Practicable Date, after taking into account of the available credit facilities and the internal resources of the Enlarged Group, the Directors were of the opinion that the Enlarged Group had sufficient working capital for the 12-month period from the date of this circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2006, being the date to which the latest audited financial statements of the Group were made up.

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

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

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

14 December 2007

The Directors
Riche Multi-Media Holdings Limited
Room 3408, 34th Floor
Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Riche Multi-Media Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix VI under the heading of "Unaudited Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") of the Company's circular dated 14 December 2007 (the "Circular") in connection to the proposed acquisition of 100% equity interest in Exceptional Gain Profits Limited ("Exceptional Gain") and its subsidiaries (the "Exceptional Gain Group", together with the Group hereinafter collectively referred to as the "Enlarged Group") and all obligations, liabilities and debt owing by the Exceptional Gain Group to China Star Entertainment Limited (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information in respect of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 212 to 220 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source document, 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 underlying financial information.

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

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

— the financial position of the Group as at 30 June 2007 or any future date, or

— the results and cash flows of the Group for the year ended 31 December 2006 or any future periods.

OPINION

In our opinion:

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

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

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

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

UNAUDITED PRO FORMA FINANICAL INFORMATION OF THE ENLARGED GROUP

1. Basis of preparation

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix IV of the Circular and the audited consolidated balance sheet of the Exceptional Gain Group as at 30 June 2007 as extracted from the accountants' report as set out in Appendix II of the Circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 30 June 2007.

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group are prepared based on (1) the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix IV of the Circular; (2) the audited consolidated income statement and audited consolidated cash flow statement of the Exceptional Gain Group for the year ended 31 December 2006 as extracted from the accountants' report as set out in Appendix II of the Circular; and (3) the audited consolidated income statement and audited consolidated cash flow statement of KHL for the year ended 31 December 2006 as extracted from the accountants' report as set out in Appendix III of the Circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 1 January 2006.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. As it is prepared for illustrative purpose only, it does not purport to predict what the results and cash flows of the Enlarged Group will be after the Acquisition or what the financial position of the Enlarged Group will be upon completion of the Acquisition. Because of this nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results and cash flows of the Enlarged Group upon completion of the Acquisition.

On 23 July 2007, the Company also proposed to acquire 100% equity interest in Modern Vision (Asia) Limited ("Modern Vision"). The major asset of Modern Vision is its 50% indirect interest in a lot of land in Macau. The acquisition of Modern Vision was independent to the Acquisition. Details of the proposed acquisition of Modern Vision were set out in the Company's announcement dated 23 July 2007 and circular dated 5 November 2007.

2. Unaudited pro forma consolidated balance sheet

	The Group as at 30 June 2007	The Exceptional Gain Group as at 30 June 2007	Pro forma adjustments #1	#2	#3	#4	The Pro forma Enlarged Group as at 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets							
Property, plant and equipment	9,677	266,137	39,642				315,456
Interest in leasehold land	—	536,169	80,234				616,403
Investment properties	701,079	—					701,079
Goodwill	77,284	—					77,284
Available-for-sale financial assets	172	—					172
Amount due from a minority shareholder	—	—				156,801	156,801
	788,212	802,306					1,867,195
Current assets							
Inventories	45,154	392					45,546
Trade receivables	736	6,080					6,816
Prepayment, deposit and other receivables	14,746	1,438					16,184
Financial assets at fair value through profit or loss	19,392	—					19,392
Tax prepayments	9,720	—					9,720
Cash and cash equivalents	203,961	14,786	(1,500)		450,000	(196,000)	471,247
	293,709	22,696					568,905
Total assets	1,081,921	825,002					2,436,100
EQUITY							
Capital and reserves attributable to the Company's equity holders							
Share capital	96,614	—					96,614
Reserves	556,208	(33,318)	311,444	(42,983)			791,351
	652,822	(33,318)					887,965
Minority interest	3,896	320,472					324,368
	656,718	287,154					1,212,333

	The Group as at 30 June 2007	The Exceptional Gain Group as at 30 June 2007	Pro forma adjustments				The Pro forma Enlarged Group as 30 June 2007
			#1	#2	#3	#4	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities							
Trade payables	—	882					882
Accruals, deposit received and other payables	15,079	7,242					22,321
Receipts in advance	60,838	—					60,838
Amounts due to related companies	600	—					600
Secured bank loans — due within one year	15,000	—					15,000
Tax payable	22,969	—					22,969
	114,486	8,124					122,610
Non-current liabilities							
Unsecured convertible bonds	—	—	201,384				201,384
Secured bank loans — due after one year	254,400	—			450,000		704,400
Deferred taxation	56,317	80,888	14,385	42,983			194,573
Amount due to ultimate holding company	—	408,837	(408,837)				—
Amount due to minority shareholders	—	39,999				(39,199)	800
	310,717	529,724					1,101,157
Total equity and liabilities	1,081,921	825,002					2,436,100
Net current assets	179,223	14,572					446,295
Total assets less current liabilities	967,435	816,878					2,313,490

Note to the unaudited pro forma consolidated balance sheet

1. The pro forma adjustments reflected the effect on consolidation of the Exceptional Gain Group upon completion of the Acquisition as at 30 June 2007.

   Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of the Exceptional Gain Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Exceptional Gain Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount on acquisition arising on the Acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Exceptional Gain Group at the date of completion. Discount on acquisition resulting from the business combinations should be recognised immediately in the consolidated income statement.

   (a) The fair value adjustments of approximately HK$119,876,000 represented the effect on the excess of fair value of the property, plant and equipment and interest in leasehold land held by the Exceptional Gain Group as at 30 June 2007 over their carrying amounts as at 30 June 2007, as if the Acquisition was completed on 30 June 2007. The fair values of these assets as at 30 June 2007 were determined with reference to valuation as at 31 October 2007 carried out by Vigers Appraisal and Consulting Limited, an independent qualified professional property valuer not connected to the Group, assuming there was no significant difference in the valuation of the assets between the date of 30 June 2007 and 31 October 2007. The deferred tax amounted to approximately HK$14,385,000 was calculated based on 12% Macau income tax rate on the fair value adjustments of the property, plant and equipment and interest in leasehold land.

   (b) The consideration of the Acquisition was HK$447,000,000 (the "Consideration") was satisfied by cash which generated from issuing of an unsecured zero coupon convertible bond (the "Bond") by the Company as at 30 June 2007. Transaction cost which mainly comprised of professional fees amounted to approximately HK$1,500,000 was also satisfied by cash.

       The Bond with face value of HK$447,000,000 was issued as the Consideration of the Acquisition. Following the adoption of Hong Kong Accounting Standards 39, Financial Instruments: Recognition and Measurement, the Bond were split into the equity component of approximately HK$245,616,000 and the liability component of approximately HK$201,384,000 of which the values were determined based on discounting the estimated future cash outflows of the Bond at prevailing market rate.

(c) Discount on acquisition amounted to approximately HK$32,510,000 was calculated on the basis of the Consideration plus transaction cost amounted to approximately HK$448,500,000 less (i) the net asset values of the Exceptional Gain Group amounted to approximately HK$72,173,000 at 30 June 2007, assuming all assets and liabilities at 30 June 2007, were at their fair value and (ii) a loan owed by Exceptional Gain to China Star Entertainment Limited ("China Star") amounted to approximately HK$408,837,000 and was immediately credited to the consolidated income statement, by assuming all assets and liabilities of the Exceptional Gain Group as at 30 June 2007, being the date of completion of the Acquisition, were at their fair values.

As a result, the reserve was increased by HK$311,444,000 which contributed from (i) the increase in the net asset value of the Exceptional Gain Group of approximately HK$33,318,000; (ii) the discount on acquisition of approximately HK$32,510,000; and (iii) the equity component of the Bond of approximately HK$245,616,000.

2. The pro forma adjustment represented the deferred tax liabilities amounted to approximately HK$42,983,000 arising from taxable temporary difference between the face value of the Bond and the liability component of the Bond.

3. The pro forma adjustment represented the term loan of HK$450,000,000 (the "Banking Facility") granted to KHL by Seng Heng Bank, assuming the Banking Facility has been granted as at 30 June 2007.

4. The pro forma adjustment represented an unsecured and interest-free loan facility (the "Loan Facility") of up to HK$196,000,000 granted by KHL to Most Famous pro rated to its shareholding in KHL, in which of approximately HK$39,199,000 was repaid to Most Famous and the remaining HK$156,801,000 was recognised as an amount due from a minority shareholder in the pro forma consolidated balance sheet. The Loan Facility was financed by the Banking Facility. Details of the transaction were set out in the circular of China Star Entertainment Limited dated 16 November 2007.

3.(a) Unaudited pro forma consolidated income statement

	The Group for the year ended 31 December 2006	The Exceptional Gain Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Pro forma adjustments			The Pro forma Enlarged Group for the year ended 31 December 2006
				#5	#6	#7	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	17,476	—	62,922				80,398
Cost of sales	(13,998)	—	(19,456)				(33,454)
Gross profit	3,478	—	43,466				46,944
Other revenue	5,699	8	362				6,069
Other income	5,560	—	551				6,111
Increase in fair value of investment properties	590	—	—				590
Loss on disposal of subsidiaries	—	—	—	(9,175)			(9,175)
Gain on disposal of property, plant and equipment	—	1,291	—				1,291
Administrative expenses	(26,811)	(237)	(26,545)				(53,593)
(Loss)/profit from operation	(11,484)	1,062	17,834				(1,763)
Finance costs	(9,615)	—	—			(16,732)	(26,347)
(Loss)/profit before taxation	(21,099)	1,062	17,834				(28,110)
Taxation	(195)	—	(873)			2,928	1,860
(Loss)/profit for the year	(21,294)	1,062	16,961				(26,250)
Attributable to:							
Equity holders of the Company	(21,294)	1,062	16,961	(9,175)	(8,480)	(13,804)	(34,730)
Minority interest	—	—	—		8,480		8,480
	(21,294)	1,062	16,961				(26,250)

3.(b) Unaudited pro forma consolidated cash flow statement

	The Group for the year ended 31 December 2006	The Exceptional Gain Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Pro forma adjustments #8	#9	#10	The Pro forma Enlarged Group for the year ended 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOW FROM OPERATING ACTIVITIES							
(Loss)/profit before taxation	(21,099)	1,062	17,834	(9,175)		(16,732)	(28,110)
Adjustments for:							
Interest income	(4,314)	—	(341)				(4,655)
Dividend income	(754)	—	—				(754)
Increase in fair value of financial assets at fair value through profit or loss	(5,360)	—	—				(5,360)
Increase in fair value of investment properties	(590)	—	—				(590)
Finance cost	9,615	—	—			16,732	26,347
Depreciation of property, plant and equipment	652	75	7,072				7,799
Amortisation of interest in leasehold land	—	19	5,979				5,998
Impairment loss recognised in respect of trade receivables	1,050	—	—				1,050
Impairment loss recognised in respect of prepayment	131	—	—				131
Loss/(profit) on disposal of property, plant and equipment	1,956	(1,291)	7				672
Loss on disposal of subsidiaries	—	—	—	9,175			9,175
Reversal on overprovision of accruals in previous year	(200)	—	—				(200)
Operating cash flow before movement in working capital	(18,913)	(135)	30,551				11,503
(Increase)/decrease in inventories	(1,309)	—	26				(1,283)
Decrease in film rights deposit	14	—	—				14
Decrease/(increase) in trade receivbables	2,755	—	(80)				2,675
Decrease/(increase) in deposits, prepayment and other receivables	34,988	8	(10)				34,986
Decrease in trade payables	(1,714)	—	(524)				(2,238)
(Decrease)/increase in accruals and other payables	(41,337)	(2)	1,547				(39,792)
Increase in receipts in advance	1,335	—	—				1,335
Decrease in amount due to related companies	(34,226)	—	(223)				(34,449)
Cash (used in)/generated from operations	(58,407)	(129)	31,287				(27,249)
Tax paid	(3,303)	—	(116)				(3,419)
Net cash (used in)/generated from operating activities	(61,710)	(129)	31,171				(30,668)

	The Group for the year ended 31 December 2006	The Exceptional Gain Group for the year ended 31 December 2006	KHL for the year ended 31 December 2006	Pro forma adjustments #8	#9	#10	#11	#12	The Pro forma Enlarged Group for the year ended 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOW FROM INVESTING ACTIVITIES									
Interest received	4,314	—	341						4,655
Dividend income	754	—	—						754
Proceeds from disposal of financial assets at fair value through profit or loss	13,461	—	—						13,461
Effect from acquisition of subsidiaries	415	—	—						415
Proceeds from disposal of subsidiaries	—	—	—	315,000					315,000
Additions to investment properties	(15,852)	—	—						(15,852)
Acquisition of subsidiaries	—	—	—		24,011				24,011
Purchase of financial assets at fair value through profit or loss	(5,634)	—	—						(5,634)
Proceeds from disposal of property, plant and equipment	—	6,900	—						6,900
Purchase of property, plant and equipment	(1,156)	—	(2,036)						(3,192)
Net cash (used in)/generated from investing activities	(3,698)	6,900	(1,695)						340,518
FINANCING ACTIVITIES									
Interest paid	(9,615)	—	—						(9,615)
Repayment of a secured bank loan	(250,000)	—	—						(250,000)
New secured bank loan raised	250,470	—	—				450,000		700,470
Decrease in shareholders' loan	—	—	(25,000)						(25,000)
Increase in amount due from a minority shareholder								(196,000)	(196,000)
Decrease in amount due to ultimate holding company	—	(6,771)	—						(6,771)
Net cash (used in)/generated from financing activities	(9,145)	(6,771)	(25,000)						213,084
Net (decrease)/increase in cash and cash equivalents	(74,553)	—	4,476						522,934
Effect on foreign exchange rate	(280)	—	—						(280)
Cash and cash equivalents at the beginning of the year	137,973	—	25,459						163,432
	63,140	—	29,935						686,086
Analysis of the balances of cash and cash equivalents									
Cash and bank balances	63,140	—	29,935	315,000	24,011		450,000	(196,000)	686,086

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT AND UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following transactions were presuming that the Disposals and the Acquisition took place simultaneously and completed on 1 January 2006.

Notes to the unaudited pro forma consolidated income statement

5. The pro forma adjustment represented the loss on the Disposals, amounted to approximately HK$9,175,000 attributable to the Group of which the calculation was based on cash consideration received of HK$315,000,000 less (i) 50% net asset value of KHL amounted to approximately HK$307,586,000 at 1 January 2006 and (ii) the SJM Sale Loan and the Most Famous Sale Loan amounted to approximately HK$16,589,000 at 1 January 2006, assuming that the Disposals were completed on 1 January 2006 and assuming that the net asset values of KHL at 1 January 2006 were at their fair values.

6. The pro forma adjustment recognised 50% net profit of KHL as profit attributable to the 50% minority interest following the Disposals.

7. The pro forma adjustment represented the imputed interest on the Bond amounted to approximately HK$16,732,000 and estimated deferred tax amounted to approximately HK$2,928,000 for the year ended 31 December 2006 on the Bond.

Notes to the unaudited pro forma consolidated cash flow statement

8. The pro forma adjustment represented the cash consideration received of HK$315,000,000 and the loss on the Disposals amounted to approximately HK$9,175,000, assuming that the Disposals have been completed on 1 January 2006.

9. The pro forma adjustment represented the cash flow effects of the Acquisition for the year ended 31 December 2006 by assuming the Acquisition was completed on 1 January 2006.

10. The pro forma adjustment represented one year of imputed interest amounted to approximately HK$16,732,000 on the Bond, which was calculated at prevailing market rate.

11. The pro forma adjustment recognised the Bank Facility granted to KHL by Seng Heng Bank, assuming the Banking Facility has been granted as at 1 January 2006.

12. The pro forma adjustment recognised the Loan Facility granted by KHL to a minority shareholder, Most Famous, assuming the Loan Facility has been granted as at 1 January 2006.

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from ***Vigers Appraisal and Consulting Limited****, an independent professional valuer, in connection with the valuations of the properties to be held by the Group as at 31 October 2007.*

Vigers Appraisal and Consulting Limited
International Property Consultants
10/F, The Grande Building
398 Kwun Tong Road, Kowloon, Hong Kong
Tel: (852) 2810 1100 Fax: (852) 2153 6180
www.vigers.com

14 December 2007

The Board of Directors
Riche Multi-Media Holdings Limited
Unit 3408, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the property interests to be held by Riche Multi-Media Holdings Limited (referred to as "the Company") or its subsidiaries (hereinafter together referred to as "the Group"), we confirm that we have inspected the properties, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing with our opinion of values of the property interests of the properties as at 31 October 2007 (the "Valuation Date").

Our valuations are our opinion of market values of the property interests of the properties in concern which is defined 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 on an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*. Our valuations have been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

In the course of our valuation, we have valued the property interests of the properties in concern by adopting the comparison method of valuation on the assumption that the property interests of the properties can be sold with the benefit of vacant possession. Comparisons based on prices realized on actual sales or offerings of comparable properties have been made. Comparable properties with similar sizes, character, location and so on are analyzed and carefully weighted against all respective advantages and disadvantages of the property interests of the properties in order to arrive at the fair comparison of values.

The properties are located in Macau Special Administrative Region ("Macau") and we have conducted *"Informacao por Escrito do Registo Predial" at the "Conservatoria do Registo Predial"* but we have not searched the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference purposes and all dimensions, measurements and areas are therefore approximations.

Our valuations have been made on the assumption that the property interests of the properties can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the values of the property interests of the properties unless otherwise noted or stated.

In addition, no account has been taken into any option or right of pre-emption concerning or affecting the sale of the property interests of the properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios.

In valuing the property interests of the properties, we have assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to the payment of usual land-use fees.

No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected on the properties. Our valuations have been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the values of the property interests of the properties in concern.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the properties in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

Other special assumptions for each of the property interests of the property have been stated in the footnotes of the valuation certificate for the respective property, if any.

We have inspected the properties included in the attached valuation certificate. During the course of our inspections, we did not note any serious defect. However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the properties in concern are free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals, statutory notices, easements, tenure, site and floor areas, occupancy status and in the identification of the properties in concern.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.

We declare hereby that we are independent to the Group and we are not interested directly or indirectly in any shares in any member of the Group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

Unless otherwise stated, all sums stated in our valuations are donated in Hong Kong Dollars ("HK$"), the lawful currency of Hong Kong Special Administrative Region ("Hong Kong"). The exchange rate adopted in our valuations for the conversion of Macau Pacata ("MOP"), the lawful currency of Macau, is HK$1.00 to MOP1.03 which is prevailing as of the Valuation Date

We enclose herewith our Summary of Values and Valuation Certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL AND CONSULTING LIMITED

David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in various regions including Macau, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

SUMMARY OF VALUES

No.	Property Address	Capital Value in Existing State as at 31 October 2007
1.	Kingsway Hotel, Rue de Luis Gonzaga Gomes Nos. 176-230, Rua de Nagasaki Nos. 64-A - 82 and Rua de Xiamen Nos. 37-A-59, Macau	HK$912,000,000
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on the 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kiu Wa, Rua Do Canal Novo N97, Rua Nova Da Areia Preta N170, Macau	HK$9,250,000
	Grand Total	**HK$921,250,000**

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31 October 2007
1.	Kingsway Hotel, Rue de Luis Gonzaga Gomes Nos. 176-230, Rua de Nagasaki Nos. 64-A - 82 and Rua de Xiamen Nos. 37-A-59, Macau	Completed in or about 1992, the property comprises a 18-storey (including basement) hotel erected on a roughly rectangular site with ancillary facilites such as commercial podium provided therein. The property has a registered site area and saleable area of approximately 4,504 square meters (48,481 square feet) and 18,165.76 square metres (195,534 square feet) respectively. Upon completion of internal decoration, the property will accommodate the following:	The property is under decoration.	HK$912,000,000

Floor Level	Main Use
Basement	Car park
Ground Floor	Hotel Lobby/Mocha/ Casino
1st Floor	Casino
2nd Floor	Nightclub
3rd Floor	Reception/Cafe/Bar/ Back-of-house Facilities
4th Floor	Back-of-house Facilities
5th Floor	Back-of-house Facilities
6th to 8th Floor	Guestrooms
9th to 14th Floor	Guestrooms and Suites
15th to 16th Floor	Executive Rooms
17th Floor	Casino (VIP Rooms)

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31 October 2007
		The property is held under "Concessao por Arrendamento" for a term of 25 years from 13 October 1989. In the course of our valuation, we have assumed that the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049. The current Government rent payable for the property is MOP419,312 per annum.		

Note:

1. The current registered owner of the property is "HOTEL KINGSWAY, LIMITADA."

2. The property is subject to "Hipoteca Voluntaria" in favour of "BANCO SENG HENG, S.A." vide Registration No. 79632C dated 25 July 2007.

3. The property is also subject to "Consignacao de Rendimentos" in favour of "BANCO SENG HENG, S.A." vide Registration No. 31766F dated 25 July 2007.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31 October 2007
2.	Units D and E on 3rd Floor of Block 5, Units A, B, C, D, E, F, G and H on the 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Edificio Kiu Wa, Rua Do Canal Novo N97, Rua Nova Da Areia Preta N170, Macau	The property comprises 16 domestic units in two 15-storey residential buildings which are erected upon a 3-level commercial and car parking podium completed in or about 1991. The property has a total saleable area approximately 859.66 square meters (9,253 square feet). The property is held under "Concessao por Arrendamento" for a term of 25 years from 13 March 1986. In the course of our valuation, we have assumed that the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049. The Government rent payable is MOP4 per square metre on gross construction area per annum.	The property is owner-occupied as staff quarter.	HK$9,250,000

Note:

1. The current registered owner of the property is "HOTEL KINGSWAY, LIMITADA".

2. The property is subject to "Hipoteca Voluntaria" in favour of "BANCO SENG HENG, S.A." vide Registration No. 79633C dated 25 July 2007.

3. The property is also subject to "Consignacao de Rendimentos" in favour of "BANCO SENG HENG, S.A." vide Registration no. 31767F dated 25 July 2007.

Set out below is the letter and valuation certificate received from DTZ Debenhan Tie Leung Limited, an independent property valuer, prepared for the purpose of incorporation in this circular in connection with the valuation on the Property as at 31 October 2007.

DTZ 戴德梁行

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

14 December 2007

The Directors
Riche Multi-Media Holdings Limited
Unit 3408, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties held by Riche Multi-Media Holdings Limited (the "Company") and its subsidiaries (together the "Group")in Hong Kong and the People's Republic of China ("the PRC") as listed in the attached summary of valuations, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Company with our opinion of the market values of such properties as at 31 October 2007 (the "date of valuation").

Our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "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."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the property in the PRC, we have assumed that transferable land use rights in respect of the property for its specific term at nominal annual land use fees have been granted and that any land premium payable has already been fully settled. We have relied on the advice given by the Company and the opinion of its PRC legal adviser, Beijing Sino-Promise Law Firm, regarding the title of the property.

In valuing the property, we have assumed that the grantees or users of the property have proper enforceable title to the property and have free and uninterrupted rights to use or to assign or lease the property for the whole of the unexpired terms as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

In valuing Property No. 1 in Group I, which is held and occupied by the Group in the PRC, we have valued it by Direct Comparison Approach assuming sale of the property in its existing state with the benefit of vacant possession and by making reference to comparable sale evidences as available in the relevant market. We have also taken into account the estimated renovation costs that will be expended to complete the renovation to reflect the quality of the renovated property.

Regarding Property No. 2 in Group II, which is leased by the Group in Hong Kong, we consider that it has no commercial value due to prohibition of sub-leasing or lack of substantial profit rent.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (First Edition 2005) on Properties of The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and the opinion of legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date, identification of properties, particulars of occupancy, tenancy details, renovation costs, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise your Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

We have been provided with copies of title documents in respect of the property in the PRC but we have not been able to conduct searches to verify the ownership of the properties or to ascertain the existence of any amendment which may not appear on the copies handed to us.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey had been made and no tests had been carried out on any of the services. 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 defect.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

Unless otherwise stated all money amounts stated are in Renminbi (RMB), the official currency of PRC.

We enclose herewith a summary of our valuation and valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Philip C Y Tsang
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S
Senior Associate Director

Note: Mr. Philip C Y Tsang is a Registered Professional Surveyor who has over 15 years of experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

Property		Capital value in existing state as at 31 August 2007 *RMB*	Capital value in existing state as at 31 October 2007 *RMB*
Group I — Property held for investment purpose in the PRC			
1. The Unsold Portion of Jianguo Apartment, No. 9 Gong Yuan Xi Jie, Dongcheng District, Beijing, the PRC	**Sub-total:**	754,000,000	790,000,000
		754,000,000	**790,000,000**
Group II — Property leased by the Group in Hong Kong			
2. Unit 3407-3408, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong		No commercial value	No commercial value
	Grand Total:	**754,000,000**	**790,000,000**

Note: We have also issued a valuation certificate dated 5 November 2007 in respect of the Property Nos. 1 and 2 as at 31 August 2007.

The expended renovation cost of Property No. 1 as at 31 August 2007 was approximately RMB81,500,000.

VALUATION CERTIFICATE

Group I — Property held for investment purpose in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2007 *RMB*
1.	The Unsold Portion of Jianguo Apartment, No. 9 Gong Yuan Xi Jie, Dongcheng District, Beijing, the PRC	Jianguo Apartment is erected on a site with a site area of 5,679.75 sq.m. (61,137 sq.ft.). It consists of two buildings, the main building and the ancillary building with a total gross floor area of approximately 46,809.97 sq.m. (503,863 sq.ft.) completed in 2000. The main building is a 19-storey plus 3 levels of basement. Level 1 and 2 are for ancillary commercial use, Level 3 to 19 are designed for apartment use and the basement is for car parking and refuge uses. The ancillary building is a 5-storey plus 1 level of basement composite building mainly devoted as a residents' clubhouse. The property, our scope of valuation, comprises the unsold portion of the development with a total gross floor area of 41,300.45 sq.m. (444,558 sq.ft.). (including apartment and retail portions with gross floor area of 34,414.05 sq.m. (370,433 sq.ft.) and basement car park portion with gross floor area of 6,886.38 sq.m. (74,125 sq.ft.)) The land use right of the property has been granted for a term due to expire on 20 May 2067 for apartment use.	According to our inspection, the property is being renovated and is scheduled for completion by the end of December 2007. We have valued the property according to the proposed finishing standard provided to us.	790,000,000

Notes:

(1) According to the development scheme provided by the Company, the floor area breakdown for different usage and each respective floor of unsold portion in Jianguo Apartment is provided as follows:

GFA of Unsold Part:	Main Building Retail portion	:	F1-F2: 3,822.61 sq.m.
	Apartment portion:	:	F3-F19: 28,273.05 sq.m.
	Car parking portion	:	B1-B3: 6,279.82 sq.m. (138 lots)
	Ancillary Building Retail portion	:	F1-F2: 851.18 sq.m.
	Studio Units portion	:	F3-F5: 1,467.23 sq.m.
	Club portion	:	B1&F1: 606.56 sq.m.
	Total	**:**	**41,300.45 sq.m. (include basement car park area)**

(2) According to Certificate for the Use of State-owned Land No. (2001) 10136 issued by Beijing Municipal State Resources & Housing Administrative Bureau dated 9 April 2001, the land use right of the site is granted to Beijing Jian Guo Real Estate Development Co., Ltd. with details as follows:

User of the Land	:	Beijing Jian Guo Real Estate Development Co., Ltd.
Location	:	No. 9, Gong Yuan Xi Jie, Dongcheng District
Land Type	:	Granted
Land Usage	:	Apartment
Site Area	:	5,679.75 sq.m.
Expiration Date	:	20 May 2067

Notes:

Beijing Jian Guo Real Estate Development Co., Ltd. does not entirely own the above entire 5,679.75 sq.m. of land use right as 31 units of apartments and 22 parking lots, together with the related area of land use right allocated to them, have been sold to different individuals. According to the certificate, the ownership of 9 units of sold apartments and 5 parking lots have been transferred to related individuals. Thus, the site area in the Certificate has been changed to 5,528.99 sq.m. from the date of 9 September 2005.

According to the Certificate for the Use of State-owned Land No. (2001) 10136, Beijing Jian Guo Real Estate Development Co., Ltd has charged the unsold portion of Jianguo Apartment with a site area of 5,146.17 sq.m. to China Merchants Bank as collateral dated from 28 April 1999 to 30 August 2008. Beijing Jian Guo Real Estate Development Co., Ltd has obtained a the mortgage loan of RMB297,800,000 subject to the collateral being encumbered during that period.

(3) According to Building Ownership Certificate issued by Beijing Municipal State Resources & Housing Administrative Bureau dated 9 April 2001, the building ownership is granted to Beijing Jian Guo Real Estate Development Co., Ltd. with details as follows:

Building Ownership	:	Beijing Jian Guo Real Estate Development Co., Ltd.
Location	:	No. 9, Gong Yuan Xi Jie, Dongcheng District
Total Gross Floor Area	:	46,809.97 sq.m.

Notes:

Beijing Jian Guo Real Estate Development Co., Ltd. does not entirely own the above 46,809.97 sq.m. of building ownership as 31 units of apartments and 22 parking lots, together with the related gross floor area, have been sold to different individuals. According to the certificate, the ownership of 9 units of sold apartments and 5 parking lots have been transferred to related individuals. Thus, the gross floor area in the Certificate has been changed to 45,450.08 sq.m. from the date of 9 September 2005.

(4) According to the Building & Land Survey Report prepared by Beijing Real Estate Survey Office on 8 December 2006, the 138 lots basement car parking portion has a total gross floor area of 6,279.82 sq.m.

(5) As advised by the Company, the estimated total renovation costs in respect of the serviced apartment, commercial area and club is approximately RMB150,000,000 and the expended renovation cost as at 31 October 2007 was approximately RMB105,600,000. In the course of our valuation, we have taken into account the said renovation costs.

(6) We are of the opinion that the Capital Value when Completed of the Property, assuming sale with the benefit of vacant possession as at 31 October 2007, was in the sum of RMB860,000,000.

(7) According to the PRC legal opinion prepared by the Company's PRC legal adviser on the PRC law:

(i) Beijing Jian Guo Real Estate Development Co., Ltd. (北京建國房地產開發有限公司) is the legal land user of the property and has obtained the relevant rights certificates and entity approval from the government;

(ii) The State owned Land Use Rights Certificates are valid, legal and enforceable under the PRC laws;

(iii) Beijing Jian Guo Real Estate Development Co., Ltd. (北京建國房地產開發有限公司) has the right to occupy, use, transfer, mortgage and dispose of the land use rights of the property; and

(iv) The property is not subject to any mortgage.

(8) In accordance with the information provided by the Company and the PRC legal opinion, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes

VALUATION CERTIFICATE

Group II — Property leased by the Group in Hong Kong

	Property	Description and tenure	Capital value in existing state as at 31 October 2007
2.	Unit 3407-3408, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong	Shun Tak Centre comprises two office towers erected upon a 7-storey commercial podium completed in 1986. The property comprises 2 units on 34th floor of the west office tower. The property has a gross floor area of approximately 351.55 sq.m. (3,784 sq.ft.) and is occupied by the Group for office purpose. The property is leased to the Group for a term of 3 years from 1 April 2006 to 31 March 2009 at a monthly rent of HK$109,736, exclusive of management fee, air-conditioning charges and government rates.	No commercial value

1. RESPONSIBILITY STATEMENT

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

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

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

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

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

Long Positions

Name	*Notes*	Capacity	Interest in Shares	Interest in underlying Shares	Total interest	Percentage of the issued capital of the Company
The Vendor	*1,4*	Interest of corporation	583,606,128	447,000,000	1,030,606,128	52.80%
China Star Entertainment (BVI) Limited	*1,4*	Interest of corporation	583,606,128	447,000,000	1,030,606,128	52.80%
Classical Statue Limited	*1*	Beneficial owner	583,606,128	447,000,000	1,030,606,128	52.80%
Kingston Securities Limited	*2*	Other	343,364,859	—	343,364,859	17.59%
Ms. Chu Yuet Wah	*2*	Interest of corporation	343,364,859	—	343,364,859	17.59%
Ms. Ma Siu Fong	*2*	Interest of corporation	343,364,859	—	343,364,859	17.59%
Mr. Andrew Nan Sherrill	*3*	Interest of corporation	129,492,174	nil	129,492,174	9.95%
Asia Vest Partners Limited	*3*	Interest of corporation	129,492,174	nil	129,492,174	9.95%
Asia Vest Partners VII Limited	*3*	Interest of corporation	129,492,174	nil	129,492,174	9.95%
Asia Vest Partners X Limited	*3*	Interest of corporation	129,492,174	nil	129,492,174	9.95%
Northbay Investments Holdings Limited	*3*	Beneficial owner	129,492,174	nil	129,492,174	9.95%

Notes:

1. 583,606,128 Shares and 447,000,000 underlying Shares are beneficially owned by Classical Statue Limited. Classical Statue Limited is a wholly-owned subsidiary of China Star Entertainment (BVI) Limited. China Star Entertainment (BVI) Limited is a wholly-owned subsidiary of the Vendor. The Vendor and China Star Entertainment (BVI) Limited are deemed to be interested in the Shares and the underlying Shares owned by Classical Statue Limited.

2. Kingston Securities Limited interests in 343,364,859 Shares by virtue of its capacity as the underwriter in relation to the open offer as announced by the Company on 18 October 2007. 51% and 49% of the shareholding of Kingston Securities Limited are respectively owned by Ms. Chu Yuet Wah and Ms. Ma Siu Fong. Ms. Chu Yuet Wah and Ms. Ma Siu Fong are deemed to be interested in the 343,364,859 Shares.

3. 129,492,174 Shares are beneficially owned by Northbay Investments Holdings Limited. 35.5% and 64.5% of the shareholding of Northbay Investments Holdings Limited are respectively owned by Asia Vest Partners VII Limited and Asia Vest Partners X Limited, and both of them are indirectly wholly-owned by Mr. Andrew Nan Sherrill through Asia Vest Partners Limited.

4. Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Mr. Ho Wai Chi, Paul are directors of the Company and the Vendor. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are also directors of China Star Entertainment (BVI) Limited and Classical Statue Limited.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save for a loan agreement dated 5 November 2007 entered into between the Company and Ms. Chen Ming Yin, Tiffany, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

5. COMPETING INTEREST

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

6. LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

(a) The Commissioner of Inland Revenue had issued proceedings on 30 March 2005 against OSLL, a wholly-owned subsidiary of the Company, in respect of an aggregate amount of outstanding taxation of HK$13,928,226 for the estimated assessments for the years of assessments from 1998/1999 to 2000/2001. Provision for this amount has been made in the Company's audited financial statements for the year ended 31 December 2006. OSLL has formally objected to the estimated assessments and paid the outstanding tax by monthly cash installments. On 23 January 2007, the Inland Revenue Department issued a letter to OSLL requesting for more information on the offshore income claim made by OSLL. A reply was sent to the Inland Revenue Department on 9 November 2007.

(b) A writ of summons and statement of claim was made by CL3 Architects Limited against Beijing Jianguo, a 96.7% owned subsidiary of the Company for a claim of approximately HK$2,500,000 over the design contracts for the investment properties with Beijing Jianguo. A verdict was issued by the PRC court that Beijing Jianguo was liable to pay HK$2,500,000 to CL3 Architects Limited. Beijing Jianguo has appealed to Beijing City Supreme People's Court. Up to the Latest Practicable Date, Beijing City Supreme People's Court is processing the appeal.

7. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

8. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise, which is contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Grand Cathay Securities (Hong Kong) Limited	a licensed corporation registered under the SFO to carry on type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activity
DTZ Debenham Tie Leung Limited	Property Valuer
Vigers Appraisal and Consulting Limited	Property Valuer

Each of HLB Hodgson Impey Cheng, Grand Cathay Securities (Hong Kong) Limited, DTZ Debenham Tie Leung Limited and Vigers Appraisal and Consulting Limited has given and has not withdrawn their written consent to the issue of this circular with the inclusions of their respective letters and references to their names in the form and context in which they appear.

9. EXPERTS' INTERESTS IN ASSETS

As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng, Grand Cathay Securities (Hong Kong) Limited, DTZ Debenham Tie Leung Limited and Vigers Appraisal and Consulting Limited:

(a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding interest in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

10. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

11. MISCELLANEOUS

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal office of the Company is situated at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) Mr. Chan Kin Wah, Billy, the company secretary and qualified accountant of the Company, is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia.

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

12. MATERIAL CONTRACTS

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

(i) a deed of variation dated 29 December 2005 entered into between Dragon Leader Limited, Leadfirst Limited and Mr. Benny Ki relating to a conditional sale and purchase agreement dated 9 April 2005;

(ii) a placing agreement dated 7 September 2005 in relation to the placing by Goldbond Securities Limited of up to 400,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$0.34 per share;

(iii) a facilities letter entered into between the Company and Kingston Finance Limited dated 30 March 2006 relating to a HK$250,000,000 loan facility;

(iv) a conditional sale and purchase agreement dated 17 February 2006 entered into among Riche (BVI) Limited, a wholly-owned subsidiary of the Company and Northbay Investments Holdings Limited ("Northbay") relating to the acquisition of 100% interest in the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and all debts owing or incurred by Shinhan-Golden to Northbay (the "Shinhan-Golden S&P Agreement");

(v) a supplemental agreement dated 10 May 2006 entered into between the parties to the Shinhan-Golden S&P Agreement relating to the Shinhan-Golden S&P Agreement;

(vi) a placing agreement dated 19 March 2007 entered into between Classical Statute Limited, Kingston Securities Limited and the Company in relation to the top-up placing of 1,296,860,000 new ordinary shares of HK$0.01 each in the share capital of the Company at a price of HK$0.04 per share;

(vii) a conditional placing agreement dated 4 April 2007 entered into between the Company and Kingston Securities Limited in relation to the placing of 155,620,000 new Shares at a price of HK$0.55 per Share;

(viii) a joint venture agreement dated 11 May 2007 entered into between Legend Rich, the Company and Steve Leung Hotel Design and Management Limited;

(ix) a facility agreement dated 11 May 2007 entered into between Rich Joy Investments Limited, a wholly-owned subsidiary of the Company and Best Season Holdings Corp., a 75% owned subsidiary of the Company in relation to the revolving facility of up to HK$200,000,000;

(x) a placing agreement dated 25 June 2007 entered into between the Company and Kingston Securities Limited in relation to the placing of 162,100,000 new Shares at a price of HK$0.5 per Share;

(xi) a placing agreement dated 24 July 2007 entered into between Classical Statute Limited, Kingston Securities Limited and the Company in relation to the top-up placing of 173,000,000 new Shares at a price of HK$0.83 per Share;

(xii) a conditional sale and purchase agreement dated 19 July 2007 entered into between Legend Rich and Ms. Chen Ming Yin, Tiffany, an executive Director, relating to an acquisition of 100% interest in Modern Vision (Asia) Limited;

(xiii) the S&P Agreement;

(xiv) the underwriting agreement dated 16 October 2007 entered into between the Company and Kingston Securities Limited in relation to the proposed issue of 650,619,987 new Shares by way of open offer to the qualifying Shareholders for subscription on the basis of one new Share for every two existing Shares held on the record date; and

(xv) a loan agreement dated 5 November 2007 entered into between the Company and Ms. Chen Ming Yin, Tiffany, an executive Director, pursuant to which Ms. Chen Ming Yin, Tiffany granted an unsecured and interest-free loan of HK$45,000,000 to the Company for a period of six months from the date of the loan agreement.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

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

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

(c) the annual reports of the Group for the three financial years ended 31 December 2004, 2005 and 2006;

(d) the interim report of the Company for the six months ended 30 June 2007;

(e) a copy of each of the circulars issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Company was made up);

(f) the accountants' report on the Exceptional Gain Group, the text of which is set out in Appendix II to this circular;

(g) the accountants' report on KHL, the text of which is set out in Appendix III to the circular;

(h) the letter from the reporting accountants regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to this circular;

(i) the valuation report on the Kingsway Hotel, the text of which is set out in Appendix VIIa to the circular;

(j) the valuation report on the properties held by the Group, the text of which is set out in Appendix VIIb to the circular; and

(k) the written consent referred to in paragraph 8 of this Appendix.

RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

NOTICE IS HEREBY GIVEN that the special general meeting of Riche Multi-Media Holdings Limited (the "Company") will be held at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 31 December 2007 at 12:00 noon for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT

(a) the sale and purchase agreement dated 1 August 2007 (the "S&P Agreement") entered into between Legend Rich Limited as purchaser; China Star Entertainment Limited as vendor and Riche Multi-Media Holdings Limited as guarantor of the purchaser relating to the acquisition of a 100% interest in the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a shareholders' loan owing by Exceptional Gain to China Star Entertainment Limited as at the date of the S&P Agreement of approximately HK$409,222,000 at an aggregate consideration of HK$447,000,000 (a copy of which has been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification) be and is hereby approved, ratified and confirmed in all respects and that all transactions contemplated under the S&P Agreement be and is hereby approved and that any one director of the Company be and is hereby authorised to do or execute all such acts or such other documents which the director may deem to be necessary, desirable or expedient to carry into effect or to give effect to the S&P Agreement and all transactions contemplated under the S&P Agreement; and

(b) the issue of a convertible note (the "Convertible Note") in an aggregate amount of HK$447,000,000 by the Company in accordance with the terms and conditions of the S&P Agreement be and is hereby approved and that any one or more of the Directors be and is/are hereby authorised to take all steps necessary or expedient in his/their opinion to implement and/or give effect to the issue of the Convertible Note including but not limited to the allotment and issue of ordinary shares of HK$0.10 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Note."

By Order of the Board
Riche Multi-Media Holdings Limited
Heung Wah Keung
Chairman

Hong Kong, 14 December 2007

Head office and principal place of business in Hong Kong:
Unit 3408, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

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

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

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy needs not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

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

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