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 China Star Investment Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CHINA STAR INVESTMENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

(1) VERY SUBSTANTIAL ACQUISITIONS: SUBSCRIPTION OF CONVERTIBLE BOND AND CONVERSION OF CONVERTIBLE BOND; (2) REFRESHMENT OF SCHEME MANDATE LIMIT; AND (3) NOTICE OF SPECIAL GENERAL MEETING

A notice convening the special general meeting of China Star Investment Holdings Limited to be held at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on, Monday, 14 September 2009 at 4:30 p.m. is set out on pages 296 to 298 of this circular. Whether or not you intend to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

28 August 2009

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

"Announcement"	the announcement dated 27 July 2009 jointly issued by the Company and CSE in relation to the CB Subscription Agreement
"associates"	has the meaning ascribe thereto under the Listing Rules
"Board"	the board of Directors
"CB Subscription"	the proposed subscription of the Convertible Bond by the Company pursuant to the CB Subscription Agreement
"CB Subscription Agreement"	the conditional subscription agreement dated 23 July 2009 entered into between CSE and the Company in respect of the CB Subscription
"Classical Statue"	Classical Statue Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial Shareholder, which is wholly owned by Glenstone Investment Limited which in turn is owned as to 60% by Porterstone and 40% by Mr. Heung
"Code"	the Hong Kong Code on Takeovers and Mergers
"Company"	China Star Investment Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares are listed on the main board the Stock Exchange
"Completion"	completion of the CB Subscription in accordance with the CB Subscription Agreement
"Conversion Price"	the initial conversion price of HK$0.20 per Conversion Share (subject to adjustment) pursuant to the terms of the Convertible Bond

"Conversion Shares"	the new CSE Shares which would fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bond
"Convertible Bond"	the convertible bond in the principal amount of HK$200 million conferring rights to convert into the Conversion Shares at the Conversion Price to be allotted and issued by CSE to the Company
"CSE"	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued CSE Shares are listed on the main board of the Stock Exchange
"CSE Directors"	the directors of CSE
"CSE Group"	CSE and its subsidiaries
"CSE SGM"	the special general meeting of CSE to be convened and held to consider, if thought fit, and approve, amongst others, the CB Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bond
"CSE Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of CSE
"CSE Shareholder(s)"	the holder(s) of the issued CSE Share(s)
"Directors"	the directors of the Company
"Dorest"	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung

"Eligible Persons" means:

(i) (a) 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

(b) 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; or

(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; or

(iii) (a) any business or joint venture partner, contractor, agent or representative of,

(b) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to,

(c) any supplier, producer or licensor of films, television programmes, video features, goods or services to,

(d) any customer, licensee (including any sub-licensee) or distributor of films, television programmes, video features, goods or services of , or

	(e) any landlord or tenant (including any sub-tenant) of, any member of the Group or any controlling Shareholder or any company controlled by a controlling Shareholder; and, for the purposes of the Share Option Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants
"Enlarged Group"	the Group upon Completion and conversion of the Convertible Bond to the extent that the Company and parties acting in concert with it are interested in not more than 30% of the issued share capital of CSE
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last Trading Day"	23 July 2009, being the last trading day for the issued CSE Shares before the publication of the Announcement
"Latest Practicable Date"	26 August 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Advance"	the loan advance in the outstanding principal amount of HK$200 million drawn by CSE under the Loan Facility as at the date of the CB Subscription Agreement
"Loan Facility"	the unsecured loan facility of up to HK$200 million granted by the Company to CSE, details of which were set out in the Previous Announcement

"Mr. Heung"	Mr. Heung Wah Keung, an executive CSE Director and an executive Director
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive CSE Director and an executive Director
"Options"	share options granted or to be granted by the Company under the Share Option Scheme
"Porterstone"	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen, is deemed to be interested in the CSE Shares held by Porterstone
"Previous Announcement"	the announcement dated 12 March 2009 issued by the Company in respect of the Loan Facility
"Prime Rate"	the rate of interest per annum as announced or applied by The Hongkong and Shanghai Banking Corporation Limited (or such other bank as the Company may from time to time select in its absolute discretion) from time to time as its prime interest rate in Hong Kong for lending Hong Kong dollars to its prime customers
"Scheme Mandate Limit"	the maximum number of Shares which may be allotted and issued upon exercise of all Options which initially shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve the transactions contemplated under the CB Subscription Agreement (including the CB Subscription and the conversion of the Convertible Bond) and the refreshment of the Scheme Mandate Limit
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the issued Share(s)
"Share Option Scheme"	the share option scheme adopted by the Company on 21 January 2002
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US Treasuries"	the government debts issued by the Department of the Treasury of the United States of America through the Bureau of the Public Debt
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

CHINA STAR INVESTMENT 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

28 August 2009

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITIONS:
SUBSCRIPTION OF CONVERTIBLE BOND
AND CONVERSION OF CONVERTIBLE BOND;
(2) REFRESHMENT OF SCHEME MANDATE LIMIT;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Previous Announcement issued by the Company in respect of the Loan Facility of up to HK$200 million. The maximum amount of the Loan Facility of HK$200 million was drawn by CSE on 29 April 2009.

As stated in the Announcement, on 23 July 2009 (after trading hours), CSE and the Company entered into the CB Subscription Agreement, pursuant to which CSE has conditionally agreed to issue and the Company has conditionally agreed to subscribe or procure subscription for the Convertible Bond in the principal amount of HK$200 million, the subscription price of which shall be satisfied by setting off against the Loan Advance.

The CB Subscription and the conversion of the Convertible Bond constitute very substantial acquisitions of the Company under the Listing Rules and are subject to Shareholders' approval at the SGM. Mr. Heung, Ms. Chen and their associates will abstain from voting on the relevant resolutions in respect of the CB Subscription Agreement and the transactions contemplated thereunder at the SGM.

The Board also proposes to seek Shareholders' approval for the refreshment of the Scheme Mandate Limit. No Shareholder is required to abstain from voting on the relevant resolution in respect of the proposed refreshment of the Scheme Mandate Limit at the SGM.

The purpose of this circular is to provide further information in respect of the CB Subscription Agreement and the transactions contemplated thereunder and the refreshment of the Scheme Mandate Limit, together with a notice of the SGM.

THE CB SUBSCRIPTION

On 23 July 2009 (after trading hours), CSE and the Company entered into the CB Subscription Agreement, pursuant to which CSE has conditionally agreed to issue and the Company has conditionally agreed to subscribe or procure subscription for the Convertible Bond in the principal amount of HK$200 million, the subscription price of which shall be satisfied by setting off against the Loan Advance.

The principal terms of the Convertible Bond are summarised as follows:

Issuer:	CSE.
Principal amount:	HK$200 million.
Maturity:	The third anniversary from the date of issue of the Convertible Bond.
Interest:	the Convertible Bond carries an interest to be accrued at the Prime Rate on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of three (3) % per annum above the Prime Rate is payable on any overdue amount, whether principal or interest. Interest on the Convertible Bond shall be payable on the last day of each interest period, which is of six (6) months intervals commencing from the date of issue of the Convertible Bond. The above terms regarding the interest and default interest are identical to those under the Loan Advance. The interest rate and default interest rate were determined after arms' length negotiation between the Company and CSE based on the fact that given the coupon rate for three (3)-year US Treasuries is currently at 1.50% and the Prime Rate is currently at 5.00%, there is a risk premium of 3.50% for the Loan Advance and the Convertible Bond.
Redemption:	CSE may at any time upon the date of issue and before the maturity date of the Convertible Bond, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the Convertible Bond, redeem the Convertible Bond at par.

Any amount of the Convertible Bond which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion Price: HK$0.20 per Conversion Share (subject to adjustment). The adjustments are subject to review by CSE's auditors or an approved merchant bank. The adjustments for the Conversion Price include the followings:

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

(ii) an issue (other than in lieu of a cash dividend) by CSE of CSE 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 CSE, whether on a reduction or otherwise, to CSE Shareholders (in their capacity as such);

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

(v) an issue wholly for cash being made by CSE of securities convertible into or exchangeable for or carrying rights of subscription for new CSE Shares and the total effective consideration per CSE Share receivable for such securities is less than 90% of the market price on the date of announcement of the terms of the issue of such securities;

(vi) an issue of CSE Shares wholly for cash at a price per CSE Share which is less than 90% of the market price on the date of announcement of the terms of such issue; and

(vii) an issue of CSE Shares for acquisition of assets at a total effective consideration per CSE Share which is less than 90% of the market price of the date of the announcement of the terms of such issue.

The initial Conversion Price is arrived at after arms' length negotiation between CSE and the Company with reference to the prevailing share prices of CSE and the market risk relating to the volatility of the market condition assumed by the Company. The CSE Directors consider that the market risk relating to the volatility of the market condition assumed by the Company is fair and reasonable taking into account the placing price of HK$0.20 per CSE Share for the placing of 800,000,000 new CSE Shares completed in June 2009 and the duration of the Convertible Bond for three years.

The initial Conversion Price represents (i) a discount of approximately 27.27% to the closing price of HK$0.275 per CSE Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 24.81% over the average of the closing prices of HK$0.266 per CSE Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of approximately 25.09% to the average of the closing prices of HK$0.267 per CSE Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and (iv) a discount of approximately 15.61% to the closing price of HK$0.237 per CSE Share as quoted on the Stock Exchange on the Latest Practicable Date.

Conversion Shares:	Assuming the Convertible Bond is converted into CSE Shares in full at the initial Conversion Price, CSE will allot and issue an aggregate of 1,000,000,000 new CSE Shares, representing approximately 96.20% of the issued share capital of CSE as at the date of the Announcement and approximately 49.03% of the issued share capital of CSE as at the date of the Announcement as enlarged by allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the CSE SGM. There is no restriction which apply to the subsequent sale of the Conversion Shares.
Conversion:	Provided that any conversion of the Convertible Bond (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of CSE unable to meet the requirement under the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bond to convert the whole or part of the outstanding principal amount of the Convertible Bond into the Conversion Shares at the Conversion Price (in multiples of HK$1 million), save that if at any time the aggregate outstanding principal amount of the Convertible Bond is less than HK$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bond may be converted into the Conversion Shares.
Transferability:	The bondholder(s) may only assign or transfer the Convertible Bond to the transferee subject to the consent of CSE. CSE will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bond by any connected person.

Ranking:	The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing CSE Shares in issue on the date of the allotment and issue of the Conversion Shares.
Status of Convertible Bond:	The Convertible Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of CSE 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 CSE.
Voting rights:	The Convertible Bond does not confer any voting rights at any general meetings of CSE.
Application for listing:	No application will be made by CSE for listing of the Convertible Bond. Application will be made by CSE to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conditions Precedent

Completion of the CB Subscription is conditional upon:

(1) if necessary, the Shareholders having approved at the SGM the transactions contemplated under the CB Subscription Agreement (including the CB Subscription and the conversion of the Convertible Bond);

(2) if necessary, the CSE Shareholders having approved at the CSE SGM the transactions contemplated under the CB Subscription Agreement and the issue of the Convertible Bond and the issue and allotment of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond or otherwise pursuant to the terms and conditions of the Convertible Bond;

(3) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which CSE and the Company have no reasonable objection) the listing of, and permission to deal in, the Conversion Shares;

(4) all necessary consents and approvals required to be obtained on the part of CSE and the Company in respect of the CB Subscription Agreement and the transactions contemplated thereby having been obtained;

(5) all representations, warranties and undertakings made by CSE in the CB Subscription Agreement remaining true, accurate and complete in all material respects and not misleading in any material respect;

(6) there being no occurrence of circumstances which, in the reasonable opinion of the Company, will have a material adverse effect on the financial condition, prospects, earning, business, undertaking or assets of CSE and its subsidiaries, in each case, taken as a whole, since the date of the CB Subscription Agreement; and

(7) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of Conversion Shares upon conversion of the Convertible Bond.

Completion of the CB Subscription shall take place on the date falling on the second business day after the fulfillment of the conditions precedent set out above or such other date as the parties to the CB Subscription Agreement may agree.

If the conditions precedent set out above are not fulfilled on or before 31 December 2009 (or such other date as may be agreed by CSE and the Company in writings), the CB Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof, in accordance with the terms of the CB Subscription Agreement.

Termination

The Company may, by notice to CSE given at any time prior to Completion, terminate the CB Subscription Agreement in any of the following circumstances:

In the reasonable opinion of the Company, the success of the CB Subscription would be materially and adversely affected by:

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

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

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

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

(v) any suspension in the trading of securities generally or the CSE's securities on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the Announcement, the circular or other documents in connection with the CB Subscription; or

(vi) any material breach of any of the representations, warranties or undertakings contained in the CB Subscription Agreement comes to the knowledge of the Company.

If at any time prior to Completion any such notice as is referred to above is given by the Company, the obligations of all parties under the CB Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches of the CB Subscription Agreement.

Reasons for and benefits of the entering into of the CB Subscription Agreement

The CSE Group is principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

The Company is an investment holding company and its subsidiaries are principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets and provision of management services to concierge departments of gaming promoters.

The Directors consider that the CB Subscription would enable the Company to participate in the development of the CSE Group and provide the Company with the flexibility to be benefited from the interest income from the Convertible Bond as well as the upside of the share price performance of the CSE Shares through conversion of part or whole of the Convertible Bond into CSE Shares as and when the Company considers appropriate, and taking into account (a) the Conversion Price is arrived at after arms' length negotiation between CSE and the Company with reference to the prevailing share prices of CSE and the market risk relating to the volatility of the market condition assumed by the Company; and (b) the interest rate and default interest rate of the Convertible Bond are the same as, and no less favourable to the Company than, those of the Loan Advance and were determined based on the fact that given the coupon rate for three (3)-year US Treasuries is currently at 1.50% and the Prime Rate is currently at 5.00%, there is a risk premium of 3.50% for the Loan Advance and the Convertible Bond, the Directors consider that the terms of the CB Subscription Agreement (including the Conversion Price, the interest rate and the default interest rate of the Convertible Bond) are determined after arm's length negotiations and on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The CSE Group recorded an audited net profit before and after taxation credit of approximately HK$63.15 million and HK$65.59 million (before minority interests of approximately HK$25.01 million) for the financial year ended 31 December 2008, and an audited net loss before and after taxation charge of approximately HK$101.86 million and HK$103.81 million (before minority interests of approximately HK$11.26 million) for the financial year ended 31 December 2007. The CSE Group had an audited net assets of approximately HK$1,702.96 million as at 31 December 2008.

Effect on shareholding structure of CSE

To the best knowledge and information of the Directors, the shareholding structure of CSE (i) as at the Latest Practicable Date; (ii) assuming full conversion of the Convertible Bond at the initial Conversion Price; and (iii) assuming conversion of the Convertible Bond up to the extent that the Company and the parties acting in concert with it are interested in not more than 30% of the issued share capital of CSE are set out as below:

Shareholders	As at the Latest Practicable Date		Assuming full conversion of the Convertible Bond at the initial Conversion Price *(Note 2)*		Assuming conversion of the Convertible Bond to the extent that the Company and parties acting in concert with it are interested in not more than 30% of the issued share capital of CSE *(Note 2)*	
	CSE Shares	*Approximate %*	*CSE Shares*	*Approximate %*	*CSE Shares*	*Approximate %*
Porterstone	45,662,174	3.52	45,662,174	1.99	45,662,174	2.61
Dorest *(Note 1)*	137,025	0.01	137,025	0.01	137,025	0.01
Mr. Heung	23,176,653	1.79	23,176,653	1.01	23,176,653	1.33
Ms. Chen	1,427,247	0.11	1,427,247	0.06	1,427,247	0.08
The Company	—	—	1,000,000,000	43.54	452,566,783	25.87
Sub-total	70,403,099	5.43	1,070,403,099	46.61	522,969,882	29.90
Public	1,226,093,269	94.57	1,226,093,269	53.39	1,226,093,269	70.10
Total	1,296,496,368	100.00	2,296,496,368	100.00	1,749,063,151	100.00

Note 1: These CSE Shares held by Dorest are under a charging order.

Note 2: For illustrative purpose only. Pursuant to the terms of the Convertible Bond, the bondholder(s) shall have the right to convert the Convertible Bond into the Conversion Shares, provided that any conversion of the Convertible Bond (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of CSE unable to meet the requirement under the Listing Rules.

Financial and trading prospect of the Enlarged Group

For the year ended 31 December 2008, the Group recorded a loss from continuing operations of HK$96,736,000 and a loss from discontinued operations of HK$127,772,000. The net assets value of the Group amounted to HK$894,423,000 as at 31 December 2008

Given the recent global financial crisis and the depressed state of global economy, the Directors forecast a tough 2009 and a persist downturn in global economy for a long period of time. As such, the Directors believe the best strategies for the Group are to (i) restructure its business, (ii) enable the Group to concentrate its resources on provision of management services business and (iii) improve the Group's gearing ratio. On the other hand, the Group is seeking investment opportunities with attractive prices to diversify its businesses and broaden its revenue base.

During the year ended 31 December 2008, the CSE Group has successfully diversified its business into gaming and entertainment business, which broadens its revenue sources and provides stable cash inflow to the CSE Group. With the opening of Hotel Lan Kwai Fong, Macau in August 2009, the CSE Group believes that its income stream will become more solid and stable.

Financial effects of the CB Subscription and the conversion of Convertible Bond

The accounting treatments of the Company on the Convertible Bond are as follows:

(i) upon Completion, the Convertible Bond is recognised as a financial asset of the Company's consolidated balance sheet; or

(ii) upon any conversion of the Convertible Bond into the Conversion Shares, CSE is treated as an associate of the Company and the converted Conversion Shares are accounted for in the Company's consolidated financial statements using the equity method in accordance with Hong Kong Accounting Standard 28 — Investments in Associates.

Assets

As at 31 December 2008, the audited consolidated total assets of the Group amounted to HK$1,524,280,000.

As set out in section A of Appendix III to this circular, assuming completion of the CB Subscription had taken place on 31 December 2008, the unaudited pro forma consolidated total assets of the Group would be HK$1,497,715,000.

As set out in section D of Appendix III to this circular, assuming completion of the CB Subscription and the conversion of 10,159,603 CSE Shares had taken place on 31 December 2008, the unaudited pro forma consolidated total assets of the Enlarged Group would be HK$1,862,974,000.

Liabilities

As at 31 December 2008, the audited consolidated total liabilities of the Group amounted to HK$629,857,000.

As set out in section A of Appendix III to this circular, assuming completion of the CB Subscription had taken place on 31 December 2008, the unaudited pro forma consolidated total liabilities of the Group would remain at HK$629,857,000.

As set out in section D of Appendix III to this circular, assuming completion of the CB Subscription and the conversion of 10,159,603 CSE Shares had taken place on 31 December 2008, the unaudited pro forma consolidated total liabilities of the Enlarged Group would remain at HK$629,857,000.

Earnings

The Group recorded an audited consolidated loss from continuing and discontinued operations of HK$224,508,000 for the year ended 31 December 2008.

As set out in section B of Appendix III to this circular, assuming completion of the CB Subscription had taken place on 1 January 2008, the unaudited pro forma consolidated loss of the Group for the year ended 31 December 2008 would be HK$198,561,000.

As set out in section E of Appendix III to this circular, assuming completion of the CB Subscription and the conversion of 10,159,603 CSE Shares had taken place on 1 January 2008, the unaudited pro forma consolidated profit of the Enlarged Group for the year ended 31 December 2008 would be HK$121,324,000.

Gearing

As at 31 December 2008, the total borrowings of the Group amounted to HK$106,403,000 and the Group's gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 12%.

Assuming completion of the CB Subscription had taken place on 31 December 2008, the total borrowings of the Group would remain at HK$106,403,000 and the gearing ratio remain at 12%.

Assuming completion of the CB Subscription and the conversion of 10,159,603 CSE Shares had taken place on 31 December 2008, the total borrowings of the Enlarged Group would remain at HK$106,403,000 and the gearing ratio would be improved from 12% to 9%.

Listing Rules implications

The CB Subscription and the conversion of the Convertible Bond constitute very substantial acquisitions of the Company under the Listing Rules and are subject to Shareholders' approval at the SGM. As at the Latest Practicable Date, (i) Mr. Heung and Ms. Chen are the common executive directors of the Company and CSE and Mr. Ho Wai Chi, Paul is the common independent non-executive director of the Company and CSE; (ii) Mr. Heung, Ms. Chen and their associates are the common shareholders of the Company and CSE who are beneficially interested in 32,928,286 Shares, representing approximately 29.90% of the entire issued share capital of the Company, and 70,403,099 CSE Shares, representing approximately 5.43% of the entire issued share capital of CSE; (iii) Mr. Heung and Ms. Chen are also interested in 26,367 and 26,367 share options of CSE respectively; and (iv) Mr. Ho Wai Chi, Paul is not interested in any Shares or CSE Shares.

To the best of the Directors' information, knowledge and belief having made all reasonable enquiries, save as disclosed above, CSE and its associates are independent of and not connected with any connected person (as defined under the Listing Rules) of the Company. Mr. Heung, Ms. Chen and their associates will abstain from voting on the relevant resolution in respect of the CB Subscription Agreement and the transactions contemplated thereunder at the SGM. To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, no Shareholder, other than Classical Statue (being an associate of Mr. Heung and Ms. Chen), is required to abstain from voting on the relevant resolution in respect of the CB Subscription Agreement and the transactions contemplated thereunder at the SGM.

REFRESHMENT OF SCHEME MANDATE LIMIT

Pursuant to a resolution passed at the special general meeting of the Company held on 21 January 2002, the Share Option Scheme was adopted and the old share option scheme was terminated.

The purpose of the Share Option Scheme is to provide incentives and rewards to Eligible Persons for their contribution or potential contribution to the Group. The exercise price of an Option must be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business day immediately preceding the date of grant; and (iii) the nominal value of the Share.

Apart from the Share Option Scheme, the Company has no other share option scheme in place.

Pursuant to the Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted by the Company under the Share Option Scheme and any other options to be granted by the Company under any other share option schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme and as at the date of approving the refreshment of the Scheme Mandate Limit. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. The Scheme Mandate Limit may be refreshed by Shareholders in general meeting from time to time.

On 30 June 2009, the Company refreshed the Scheme Mandate Limit, which allows the Company to grant 11,012,804 Options.

During the period from 30 June 2009 to the Latest Practicable Date, 11,000,000 Options were granted and 944,840 Options were lapsed. As at the Latest Practicable Date, there were 13,723,000 Options, which were granted under the previously refreshed Scheme Mandate Limit, outstanding and unexercised under the Share Option Scheme to which holders were entitled to subscribe for 13,723,000 Shares, representing approximately 12.46% of the issued share capital of the Company.

Unless the Scheme Mandate Limit is refreshed at the SGM, 12,804 Options may be granted under the Share Option Scheme. The Directors consider that it is in the interests of the Company to refresh the Scheme Mandate Limit in accordance with the Share Option Scheme so that the Company has greater flexibility to provide incentives and rewards to the Eligible Persons for their contribution or potential contribution to the Group.

As at the Latest Practicable Date, there were 110,128,049 Shares in issue. Assuming no further Shares are issued and repurchased by the Company and no further Options are granted by the Company prior to the SGM, upon the granting of a refreshment of the Scheme Mandate Limit by the Shareholders at the SGM, the Scheme Mandate Limit (as refreshed) will allow the Company to grant Options entitling holders thereof to subscribe for Shares not exceeding 10% of the issued share capital of the Company as at the date of approving the refreshment of the Scheme Mandate Limit which are 11,012,804 Shares.

The limit on the number of Shares which may be allotted and issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Company must not exceed 30% of the Shares in issue from time to time. As at the Latest Practicable Date, such number of Shares which may by issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme does not exceed 30% of the Shares in issue.

The refreshment of the Scheme Mandate Limit is conditional upon:

(i) the passing by the Shareholders of an ordinary resolution at the SGM to approve the refreshment of the Scheme Mandate Limit; and

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, 10% of the Shares in issue as at the date of approval of the refreshment of the Scheme Mandate Limit which may be issued pursuant to the exercise of Options to be granted under the Share Option Scheme.

No Shareholder is required to abstain from voting on the relevant resolution in respect of the proposed refreshment of the Scheme Mandate Limit at the SGM. Application will be made to the Listing Committee of the Stock Exchange for the grant of listing of, and permission to deal in, 10% of the Shares in issue as at the date of approval of the refreshment of the Scheme Mandate Limit which may be issued pursuant to the exercise of Options to be granted under the Share Option Scheme.

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, 14 September 2009 at 4:30 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the resolutions to approve the transactions contemplated under the CB Subscription Agreement (including the CB Subscription and the conversion of the Convertible Bond) and the refreshment of the Scheme Mandate Limit is set out on pages 296 to 298 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 share registrar and transfer office 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 CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription and the conversion of the Convertible Bond) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) also consider that the refreshment of the Scheme Mandate Limit is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that Shareholders should vote in favour of the resolutions proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
China Star Investment Holdings Limited
Heung Wah Keung
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS EXTRACTED FROM ANNUAL REPORTS OF THE COMPANY

Set out below is the management discussion and analysis extracted from the annual reports of the Company for each of the three years ended 31 December 2006, 2007 and 2008.

(I) For the year ended 31 December 2008

Financial Review

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and World East Investments Limited ("World East") to Mega Shell Services Limited ("Mega Shell"), a wholly-owned subsidiary of Golife Concepts Holdings Limited ("Golife"), at a consideration of HK$211,466,310 (subject to adjustment). The major assets of Shinhan-Golden and World East are their interests in the registered capital of 北京莎瑪房地產開發有限公司 ("Beijing Shama"). The principal activity of Beijing Shama is property investment. As a result, the assets and liabilities of Shinhan-Golden and World East and their subsidiaries, namely Beijing Shama, Beijing Jianguo Real Estate Development Co., Limited and 上海昇平文化發展有限公司 ("Shanghai Shengping") (collectively the "Disposal Group"), are re-classified as assets and liabilities of disposal group classified as held for sale in the consolidated balance sheet at 31 December 2008. The results of the Disposal Group are presented separately as discontinued operations in the consolidated income statement for the year ended 31 December 2008.

Loss from continuing and discontinued operations for the year ended 31 December 2008 amounted to HK$224,508,000, whereas a profit of HK$25,694,000 was recorded in 2007. The deterioration was mainly attributable to the increase in impairment loss recognised in respect of goodwill of HK$104,519,000 in the current year and the recognition of the one-off gain of HK$106,956,000 arising from bank loan interest waived in 2007.

Results of continuing operations

The turnover for continuing operations increased from HK$7,722,000 in the year ended 31 December 2007 to HK$19,253,000 in the year ended 31 December 2008. Of the total turnover, HK$2,000,000 was generated from sub-licensing of film rights, HK$18,215,000 was generated from provision of management services and a loss of HK$962,000 was incurred by sales of financial assets. The loss from continuing operations deteriorated from HK$44,749,000 in the year ended 31 December 2007 to HK$96,736,000 in the year ended 31 December 2008. Such deterioration was mainly attributable to the recognition of impairment loss in respect of goodwill of HK$101,965,000, which was partly offset by the increase in gross profit of HK$11,038,000, the decrease in administrative expenses of HK$28,931,000 and a tax credit of HK$13,854,000.

Cost of sales for the year ended 31 December 2008 amounted to HK$493,000, which was wholly related to provision of management services. The gross profit margin for provision of management services was 97%. The gross profit margin for sub-licensing of film rights was 100% as the cost of film library had been fully amortised and/or impaired in previous years.

Other revenue decreased from HK$2,922,000 in the year ended 31 December 2007 to HK$2,427,000 in the year ended 31 December 2008. The decrease was mainly attributed to the decrease in interest income on bank deposits resulted from the decrease in the average monthly balance of the Group's cash and cash equivalents as explained below.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Rich Daily Group Limited ("Rich Daily") with reference to the valuation performed by the independent professional valuers. In the light of the downturn in Macau's VIP gaming, the directors determined that the goodwill should be fully impaired and recognised an impairment loss of HK$101,965,000 in the year ended 31 December 2008.

Administrative expenses (net of depreciation, impairment loss and loss on disposal of property, plant and equipment) amounted to HK$25,768,000 for the year ended 31 December 2008, a 53% decrease from HK$54,818,000 as compared to the correspondence figure for the previous year. The decrease was mainly attributable to the decreases in share-based payment expenses of HK$28,674,000 and consultancy fee of HK$2,541,000, which were partly offset by the surcharge of HK$3,637,000 paid to Inland Revenue Department in relation to the compromise settlement on the Group's offshore income claim.

Finance costs for the year ended 31 December 2008 amounted to HK$3,350,000, representing the imputed interest expense on the convertible notes in an aggregate principal amount of HK$144,000,000 issued in August 2008 for the acquisition of Rich Daily.

During the year ended 31 December 2008, the Group reached a compromise settlement with Inland Revenue Department in settling a tax dispute over the offshore sub-licensing income claim for an amount of HK$12,021,000, which included a surcharge of HK$3,637,000. As a tax provision of HK$22,238,000 had been made in previous years, a tax credit of HK$13,854,000 was recognised.

Results of discontinued operations

The turnover generated from property investment for the year ended 31 December 2008 amounted to HK$20,826,000, a 614% increase from HK$2,917,000 for the previous year. The significant increase was attributable to the commencement of operations of Beijing Shama in late June 2008. The loss for property investment amounted to HK$127,772,000 in the year ended 31 December 2008, whereas a profit of HK$70,443,000 was recorded in 2007. The deterioration was attributable to the recognition of decrease in fair value of investment properties of HK$74,045,000 and impairment loss in respect of goodwill of HK$40,382,000 in 2008, whereas the one-off gain of HK$106,956,000 arising from bank loan interest waived was recognised in 2007.

Cost of sales increased from HK$858,000 in the year ended 31 December 2007 to HK$7,176,000 in the year ended 31 December 2008. The gross profit margin for property investment dropped from 71% in the year ended 31 December 2007 to 66% in the year ended 31 December 2008. The drop in gross profit margin was due to the increase in overhead of Beijing Shama following its soft opening in late June 2008.

Other revenue increased from HK$283,000 in the year ended 31 December 2007 to HK$1,257,000 in the year ended 31 December 2008. The increase was mainly attributed to the increase in interest income on bank deposits resulted from the increase in the average monthly bank balances of Beijing Shama.

Other income for the year ended 31 December 2007 amounted to HK$106,956,000 representing the one-off gain arising from bank loan interest waived by China Merchants Bank.

In the light of the downturn in the Mainland China's property market, the Group recognised a decrease in fair value of investment properties of HK$74,045,000 in the year ended 31 December 2008 with reference to the valuation performed by the independent qualified professional valuers valuing the investment properties at HK$906,960,000 at 31 December 2008.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Shinhan-Golden with reference to the valuation performed by the independent professional valuers. In the light of the downturn in the Mainland China's property market, the directors determined that the goodwill should be fully impaired and an impairment loss of HK$40,382,000 was recognised in the year ended 31 December 2008.

Administrative expenses (net of depreciation) increased from HK$11,635,000 in the year ended 31 December 2007 to HK$20,835,000 in the year ended 31 December 2008. The increase was mainly attributable to the commencement of operations of Beijing Shama in the second half of 2008.

Finance costs for the year ended 31 December 2008 amounted to HK$25,289,000, a 30% increase as compared to HK$19,494,000 in the year ended 31 December 2007. The increase was attributable to the increase in the average monthly balances of the RMB bank loan for the payment of renovation costs in respect of the investment properties.

A tax credit of HK$22,214,000 was arisen from the transfer of deferred tax to income statement in relation to the recognition of the decrease in fair value of investment properties in the year ended 31 December 2008.

Liquidity and financial resources

During the year ended 31 December 2008, the Group mainly funded its operations through a combination of equity attributable to the Company's equity holders, bank borrowings and convertible notes. Equity attributable to the Company's equity holders at 31 December 2008 amounted to HK$894,423,000 (2007: HK$1,046,080,000).

At 31 December 2008, the cash and cash equivalents of the Group amounted to HK$7,218,000 (2007: HK$531,396,000). The decrease in cash and cash equivalents of the Group was mainly attributable to the cash payment of HK$360,000,000 to Well Will Investment Limited ("Well Will") for the acquisition of Rich Daily and the cash and cash equivalents balances of HK$82,152,000 were re-classified as assets of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the total borrowings of the Group amounted to HK$106,403,000 (2007: HK$329,719,000), comprising the advance of HK$600,000 made by China Star Entertainment Limited ("China Star") which is unsecured, interest-free and has no fixed terms of repayment; and the liability component of the convertible notes with an aggregate principal amount of HK$144,000,000 issued to Well Will of HK$105,803,000 which are unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 12% (2007: 32%). The improvement in gearing ratio was attributed to the re-classification of bank borrowings as liabilities of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the bank borrowings of Beijing Shama amounted to HK$319,418,000 (2007: HK$329,018,000), representing the RMB bank loan which is secured by certain of the investment properties with a fair value of HK$853,835,000, the bank deposits of HK$23,470,000 and a corporate guarantee given by the Company, interest bearing at 110% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within three years.

Net current assets and current ratio

At 31 December 2008, the Group's net current assets and current ratio were HK$602,720,000 (2007: HK$491,885,000) and 2.30 (2007: 5.19) respectively.

Capital structure

To reduce the overall transaction and handling costs for dealing in the Company's shares and allow the Company to declare dividends to its shareholders at an earlier opportunity, the directors proposed the following changes to the capital of the Company (the "Capital Reorganisation") on 19 March 2008:

(a) the consolidation of every ten issued and unissued existing shares of HK$0.10 each in the share capital of the Company into one share of HK$1.00;

(b) immediately after completion of the share consolidation in (a) above, the reduction of the nominal value of all issued and issued shares of HK$1.00 each in the share capital of the Company from HK$1.00 each to HK$0.01 each; and

(c) the cancellation of the entire amount of HK$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 by transferring such credit amount to the contributed surplus account of the Company and the application of HK$518,374,000 in the contributed surplus account to set off against the accumulated losses of the Company of HK$518,374,000 at 31 December 2006.

The Capital Reorganisation was approved by the shareholders on 30 April 2008 and became effective on 2 May 2008.

In April 2008, the Company issued 10,009 new shares of HK$0.10 each at an exercise price of HK$0.1146 per share pursuant to the exercise of share options granted to an employee.

On 4 November 2008, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"). Pursuant to the placing agreement, the Company has conditionally agreed to place through Kingston, on a best effort basis, a maximum of 500,000,000 new shares of HK$0.01 each by a maximum of five tranches to independent investors at a placing price, which must not be lower than 85% or more of the average closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the last 30 consecutive trading days up to and including the date on which the placing price was fixed for such tranche and should not be less than HK$0.05 per share. The placing agreement was approved by the shareholders on 19 December 2008. The first tranche of placing of 200,000,000 new shares at a placing price of HK$0.102 per share was completed on 11 February 2009 and the second tranche of placing of 300,000,000 new shares at a placing price of HK$0.091 per share was completed on 2 March 2009. The net proceeds from the placing of 500,000,000 new shares amounted to HK$46,720,000.

On 29 December 2008, the Company, Classical Statue Limited ("CSL"), a substantial shareholder of the Company, and Kingston entered into a top-up placing agreement relating to the placing of 39,000,000 existing shares of HK$0.01 each held by CSL to not fewer than six placees at a placing price of HK$0.102 per share and the top-up subscription of 39,000,000 new shares by CSL at a subscription price of HK$0.102 per new share. The top-up placing was completed on 9 January 2009 and raised HK$3,820,000 (net of expenses) to the Group.

Material acquisitions and disposals of subsidiaries and associated companies

On 29 May 2008, the Group acquired the remaining 3.3% interest in the registered capital of Beijing Shama from Beijing Urban Development Group Co. Ltd. at a net consideration of RMB84,000 (or HK$95,000), after deducting an amount of RMB4,150,000 (or HK$4,705,000) paid to Beijing Urban Development Group Co. Ltd. by the ex-owner in 1997. The directors believe that the acquisition of the remaining 3.3% interest provides the Group with a better protection on its interest in Beijing Shama and a greater flexibility in managing Beijing Shama.

On 29 August 2008, the Group acquired the entire issued share capital of Rich Daily from Well Will at an initial consideration of HK$504,000,000 (subject to adjustment). The initial consideration was settled by paying HK$360,000,000 in cash and issuing of convertible notes in an aggregate principle amount of HK$144,000,000, with an initial conversion price of HK$1.60 per conversion share. Rich Daily is a management services provider to the concierge departments of gaming promoters in Macau. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters.

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden and World East to Mega Shell at a consideration of HK$211,466,310 (subject to adjustment). On 8 April 2009, the conditional sale and purchase agreement was completed. The adjusted consideration of HK$212,731,827 was settled in the following manner (i) the cash payment of HK$6,847,230, (ii) the issue of 11,769,194 new shares in Golife (adjusted for the capital reorganisation of Golife as completed on 6 April 2009) credited as fully paid at an issue price of HK$0.50 per share, (iii) the issue of a promissory note of HK$100,000,000 by Golife and (iv) the issue of a convertible bond of HK$100,000,000 with an initial conversion price of HK$0.50 per conversion share (subject to adjustment) by Golife. Upon completion of the sale and purchase agreement, the Group holds 20.36% interest in the issued share capital of Golife and Golife is treated as an associated company of the Group for financial reporting purposes. Golife is a company listed on the GEM Board of the Stock Exchange.

Charges on assets

At 31 December 2008, certain of the investment properties with a fair value of HK$853,835,000 and the bank deposits of HK$23,470,000 have been pledged to a bank to secure the RMB bank loan granted to Beijing Shama.

Material commitments

At 31 December 2008, the Group had the following material commitments:

(a) capital expenditures of HK$10,408,000 in respect of the renovation works of the investment properties contracted for but not provided in the consolidated financial statements;

(b) a commitment in respect of acquiring the registered capital of Shanghai Shengping from its owners at a price determined by the valuers in Mainland China when the laws in Mainland China allow foreign investors to own more than 51% interest in the registered capital of Shanghai Shengping; and

(c) an unused revolving facility of up to HK$200,000,000 granted to Best Season Holdings Corp. ("Best Season").

Exchange risk and hedging

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

Contingent liabilities

At 31 December 2008, the Group had no material contingent liabilities (2007: nil).

Employees and remuneration policy

At 31 December 2008, the headcount of the Group was 118 (continuing operations: 22; discontinued operations: 96). Staff costs (including directors' remuneration) for continuing and discontinued operations amounted to HK$9,574,000 and HK$4,615,000 respectively in the year ended 31 December 2008. Employees are remunerated according to their performance and work experience. In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

Operations Review

Continuing operations

During the year ended 31 December 2008, the Hong Kong films market remained sluggish and the demand for Hong Kong made-movies in Mainland China, one of the major markets for Hong Kong made-movies, remained weak. The number of films produced by local producers had decreased. As a result, the Group was not able to secure quality films at reasonable prices for distribution. However, the Group has concluded an agreement to sell its film library at HK$2,000,000.

As volatility in equity market remained high in the first three quarters of 2008, the Group carried out a minimal trading in financial assets during the year. Following the outbreak of the global financial crisis, the Group sold all of its financial assets in order to reduce equity price risk.

The Group acquired the entire issued share of Rich Daily at an initial consideration of HK$504,000,000 (subject to adjustment) on 29 August 2008. Rich Daily is a management services provider to the concierge departments of gaming promoters. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters. Following the completion of the acquisition, Rich Daily generates a constant monthly cashflow to the Group. Although Rich Daily experienced a drop in its services fee income in September 2008 resulted from the outbreak of global financial crisis, the monthly service fee income has remained fairly stable in the fourth quarter of 2008. The directors believe that the newly expanded management service business provides the Group with a stable source of revenue and improves the Group's profitability.

Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. Due to the downturn in Macau's property market in the second half of 2008 and the concentration on the Group's resources on newly expanded business, the business development of Best Season has temporarily been suspended. As a result, no contribution was made from Best Season in the year ended 31 December 2008.

On 23 December 2008, the Group terminated the proposed acquisition of the entire interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan from China Star as the proposed acquisition had been hinged on the release of security given by China Star relating to Kingsway Hotel Limited to be replaced by security given by the Company. Both the Company and China Star had determined not to keep their shareholders and investors lingering on the status of the proposed acquisition or the proposed disposal, as the case may be, as it has been more than one year since the announcement of the proposed acquisition or the proposed disposal, as the case may be.

Discontinued operations

The soft opening of the Disposal Group's investment properties, namely Shama Luxe Chang An, commenced in late June 2008. During the year ended 31 December 2008, rental income of HK$16,033,000 was generated from short-term leasing in the "Olympic Month — August 2008". The occupancy of Shama Luxe Chang An was 16% during the second half of 2008. The unsatisfactory occupancy was a direct result of weak leasing demand in the second half of 2008. The weaken demand for serviced apartment in Beijing primarily resulted from the negative impact of the global financial crisis which caused a cut in the number of expatriates staff stationed in Beijing by many multinational companies. Beijing Shama is working with the management company to formulate plans to improve the occupancy and the cost structure of Shama Luxe Chang An.

Future Prospects

Given the recent global financial crisis and the depressed state of global economy, the directors forecast a tough 2009 and a persist downturn in global economy for a long period of time. As such, the Directors believe the best strategies for the Group are to (i) restructure its business, (ii) enable the Group to concentrate its resources on provision of management services business, and (iii) improve the Group's gearing ratio. On the other hand, the Group is seeking investment opportunities with attractive prices to diversify its businesses and broaden its revenue base.

Subsequent events

Subsequent to the year-end date, the Group has entered into the following transactions:

(a) On 16 February 2009, the Company and Kingston entered into an underwriting agreement in relation to the open offer of not less than 217,093,498 new shares and not more than 367,093,498 new shares at a subscription price of HK$0.10 per share on the basis of one new share for every two existing shares held by qualifying shareholders on 9 March 2009. The open offer was completed on 30 March 2009 and raised HK$34,339,000 (net of expenses) to the Group.

(b) On 20 February 2009, the directors proposed to reorganise the capital of the Company (the "Proposed Capital Reorganisation") in the following manner:

(i) share consolidation — that every ten existing issued shares of HK$0.01 each be consolidated into one consolidated issued share of HK$0.10 (each a "Consolidated Shares"); and

(ii) capital reduction — that (i) the total number of the Consolidated Shares in the issued share capital of the Company following the share consolidation be rounded down to a whole a number by cancelling the fractional Consolidated Shares arising from the share consolidation; (ii) the paid-up capital of each Consolidated Share be reduced from HK$0.10 to HK$0.01 by cancelling HK$0.09 so as to form a new share of HK$0.01; and (iii) the amount of credit arising from capital reduction be credited to the contributed surplus account of the Company.

The directors also proposed to change the board lot size for trading in the Company's shares from 5,000 shares to 2,000 shares upon the Proposed Capital Reorganisation becoming effective.

The Proposed Capital Reorganisation was approved by the shareholders at a special general meeting of the Company held on 22 April 2009 and became effective on 23 April 2009.

(c) On 11 March 2009, the Company entered into a loan agreement with China Star. Pursuant to the loan agreement, the Company has conditionally agreed to make available a loan facility of up to HK$200,000,000 to China Star. Each of the advances made to China Star under the loan facility carries an interest to be accrued at the prime rate per annum as quoted by HSBC. The drawdown of each advance is subject the conditions, among others, that the Company has sufficient fund available to make the advance. Please refer to the Company's circular dated 30 March 2009 for further details of the loan agreement.

The loan agreement was approved by the independent shareholders at another special general meeting of the Company held on 22 April 2009.

(d) On 18 March 2009, Rich Joy Investments Limited, a wholly-owned subsidiary of the Company, and Best Season entered into a deed of termination to terminate the revolving facility of up to HK$200,000,000 granted to Best Season.

(e) On 8 April 2009, the conditional sale and purchase agreement dated 26 November 2008 entered into between the Group, Mega Shell and Golife relating to the disposal of the entire issued share capital of Shinhan-Golden and World East was completed.

(f) On 23 April 2009, Riche (BVI) Limited, a wholly-owned subsidiary of the Company, gave an irrevocable undertaking in favour of Golife and Kingston relating to the subscription of 94,153,552 offer shares at a subscription price of HK$0.10 per offer share pursuant to an open offer of Golife on basis of eight offer shares for every one existing share held on the record date. The total subscription price for the offer shares is HK$9,415,355, which will be financed by the internal resources of the Group.

(II) For the year ended 31 December 2007

Financial Review

The Group recorded a turnover of HK$38,739,000 for the year ended 31 December 2007, a 122% increase from HK$17,476,000 for the previous year. Of the total turnover amount, HK$35,822,000 or 92% was generated from sales of financial assets and HK$2,917,000 or 8% was generated from property investment. The profit for the year ended 31 December 2007 was HK$25,694,000, whereas the Group recorded a loss of HK$21,294,000 in the year ended 31 December 2006. The turnaround was attributable to the recognition of a gain of HK$106,956,000 arising from the secured bank loan interest waived by China Merchants Bank and the increase in fair value of the Group's investment properties of HK$43,853,000, which were partially offset by the impairment loss recognised in respect of goodwill of HK$37,828,000, the provision for deferred taxation of HK$13,156,000 arising from the revaluation of investment properties and the increases in administrative expenses and finance costs.

Cost of sales for the year ended 31 December 2007 amounted to HK$28,958,000, of which HK$28,100,000 was related to sales of financial assets and HK$858,000 was related to property investment.

Gross profit for sales of financial assets amounted to HK$7,722,000 in the year ended 31 December 2007. Taking into account the dividend income of HK$78,000, the performance of the Group's sales of financial assets was a profit of HK$7,800,000. As volatility in equity market remained high, the Group sold all of its financial assets in the second half of 2007.

Gross profit for property investment amounted to HK$2,059,000 in the year ended 31 December 2007. As the Group's investment properties were under renovation during the year ended 31 December 2007, the contribution represented the rental income generated from the leasing of the ground floor of the Group's investment properties to a restaurant operator.

Other income increased from HK$5,560,000 in the year ended 31 December 2006 to HK$106,956,000 in the year ended 31 December 2007. The substantial increase was attributed to the recognition of a gain of HK$106,956,000 arising from the secured bank loan interest waived by China Merchants Bank.

At the end of financial year, the directors reassessed the recoverable amount of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") (the immediate holding company of Beijing Jianguo Real Estate Development Co. Ltd.), with reference to the valuation performed by an independent valuer, and determined that an impairment loss in respect of goodwill of HK$37,828,000 was recognised in the year ended 31 December 2007.

Administrative expenses (net of depreciation, impairment losses and loss on disposal of property, plant and equipment) amounted to HK$66,453,000 for the year ended 31 December 2007, a 189% increase from HK$23,008,000 as compared to the correspondence figure for the previous year. The increase was mainly attributed to the full year effect of the engagements of external consultants for the renovation works of the Group's investment properties, the payment of pre-operating services fee to Shama, the management company of the Group's investment properties, and the share-based payment expenses of HK$32,282,000 in relation to share options granted, of which HK$25,912,000 was related to the Group's employees and HK$6,370,000 was related to the consultants.

Finance costs increased from HK$9,615,000 in the year ended 31 December 2006 to HK$19,494,000 in the year ended 31 December 2007. The substantial increase was attributable to the full year effect of the interest expenses of Beijing Jianguo Real Estate Development Co. Ltd. ("Beijing Jianguo") as the acquisition of a 96.7% interest in the registered capital of Beijing Jianguo was completed in June 2006.

At 31 December 2007, the headcount of the Group was 70. Total staff costs (including directors' remuneration) amounted to HK$34,375,000 in the year ended 31 December 2007, a 366% increase from HK$7,375,000 as compared to the correspondence figure for the pervious year. The increase was attributable to the inclusion of share-based payment expenses of HK$25,912,000 and the increase in Beijing Jianguo's headcount. Employees are remunerated according to their performance and work experience. In addition to basic salaries, retirement benefits scheme and discretionary bonus, staff benefits include medical scheme and share options. An analysis of headcount and total staff costs of the Group for the years ended 31 December 2007 and 2006 is as follows:

	Year ended 31 December	
	2007	**2006**
Total staff costs in HK$		
— Salaries and contribution to retirement benefits scheme		
— Hong Kong and Macau	6,901,000	6,775,000
— the PRC	1,562,000	600,000
— Share-based payment expenses		
— Hong Kong and Macau	24,494,000	—
— the PRC	1,418,000	—
	34,375,000	7,375,000
Headcount		
— Hong Kong and Macau	19	20
— the PRC	51	39
	70	59

During the year ended 31 December 2007, the Group funded its operations through a combination of equity attributable to equity holders of the Company, the secured RMB term loan facility, the unsecured and interest-free loan from a director, issuance of new shares and the amounts due to China Star Entertainment Limited and its subsidiary. Equity attributable to equity holders of the Company at 31 December 2007 amounted to HK$1,046,080,000 (2006: HK$399,636,000).

At 31 December 2007, the cash and cash equivalents of the Group amounted to HK$531,396,000 (2006: HK$63,140,000), of which HK$16,832,000 is pledged to a bank for securing the secured RMB term loan facility. The Group's current ratio was 5.19 (2006: 1.49) at 31 December 2007. The improvements on the Group's cash position and current ratio were attributable to the issue of new shares in the year ended 31 December 2007 as detailed below.

On 4 April 2007, the board of directors proposed that every ten (10) issued and unissued existing ordinary shares of HK$0.01 each in the share capital of the Company be consolidated into one (1) 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.

During the year ended 31 December 2007, the Company issued:

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

(b) 324,000,000 new shares of HK$0.01 each at an exercise price of HK$0.047 per share in May 2007 pursuant to the exercise of share options granted to the Group's employees and consultants;

(c) 155,620,000 new shares of HK$0.10 each at a price of HK$0.55 per share by way of placement in May 2007 raising HK$83,300,000 (net of expenses) for financing possible diversified investments of the Group and general working capital of the Group;

(d) 162,100,000 new shares of HK$0.10 each at a price of HK $0.50 per share in July 2007 by way of placement raising HK$78,900,000 (net of expenses) for the expansion of the Group's property investment business;

(e) 173,000,000 new shares of HK$0.10 each at a price of HK$0.83 per share in August 2007 by way of top-up placing raising HK$139,800,000 (net of expenses) for the expansion of the Group's property investment business, including the property set out in the Company's announcement dated 23 July 2007; and

(f) 650,619,987 new shares of HK$0.10 each at a subscription price of HK$0.30 per share by way of open offer on the basis of one offer share for every two existing shares in December 2007 raising HK$189,000,000 (net of expenses) for the proposed acquisition of a 100% interest in Modern Vision (Asia) Limited as announced by the Company on 23 July 2007 and general working capital of the Group.

At 31 December 2007, the total borrowings of the Group amounted to HK$329,719,000 (2006: HK$358,033,000), comprising the secured RMB term loan facility of HK329,018,000 which is secured by certain of the Group's investment properties and bank deposits of HK$16,832,000, 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 four years; and the amounts due by the Group to China Star Entertainment Limited and its subsidiary of HK$701,000 which are unsecured, interest-free and have no fixed terms of repayment. The Group expresses its gearing ratio as a percentage of total borrowings over equity attributable to equity holders of the Company. At 31 December 2007, the Group's gearing ratio was 31.5% (2006: 89.6%).

The Company has given a guarantee to the bank to secure the secured RMB term loan facility granted to Beijing Jianguo. The outstanding balance of the secured RMB term loan facility at 31 December 2007 was HK$329,018,000 (2006: HK$250,470,000).

On 5 November 2007, the Company obtained an unsecured and interest-free loan of HK$45,000,000 from Ms. Chen Ming Yin, Tiffany, an executive director, to finance its working capital. The loan was repaid by the Company on 27 November 2007.

The Group's investment properties increased from HK$678,000,000 at 31 December 2006 to HK$887,450,000 at 31 December 2007. The increase was mainly attributable to the additions of renovation works for the investment properties of HK$101,347,000, the increase in fair value of investment properties of HK$43,853,000 and the exchange alignments of HK$48,637,000 arising from the appreciation of Renminbi. At 31 December 2007, certain of the Group's investment properties with a fair value of HK$852,081,000 was pledged to the bank to secure the secured RMB term loan facility granted to Beijing Jianguo.

During the year, the Group invested HK$585 in a joint venture company, namely Best Season Holdings Corp. ("Best Season") for the purpose of extending its operations in Macau. Best Season is owned as to 75% by the Group and 25% by Steve Leung Hotel Design and Management Limited ("SLHDML"). Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. In addition, the Group agreed to grant a revolving facility of up to HK$200,000,000 to Best Season for the purpose of its business and working capital requirements. As Best Season has not secured any business, no drawdown on the revolving facility has been made.

At 31 December 2007, the Group had the following material commitments contracted but not provided for in the audited consolidated financial statements:

(a) capital expenditures of HK$28,750,000 in respect of the renovation works of the Group's investment properties;

(b) a commitment of HK$447,000,000 in respect of the proposed acquisition of a 100% interest in Exceptional Gain Profits Limited and a sale loan from China Star Entertainment Limited, a substantial shareholder;

(c) a commitment of HK$4,538,000 (equivalent to RMB4,234,000) in respect of the acquisition of a 3.3% interest in the registered capital of Beijing Jianguo from Beijing Urban Development Group Co. Ltd. (北京城市開發集團有限責任公司) ("Beijing Urban");

(d) a commitment in respect of acquiring the registered capital of 上海昇平文化發展有限公司 from its owners at a price to be determined by the valuers in Mainland China when the laws in Mainland China allow foreign investors to own more than 51% interest in the registered capital of 上海昇平文化發展有限公司; and

(e) a revolving facility of up to HK$200,000,000 granted to Best Season.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

At 31 December 2007, the Group had no material contingent liabilities (2006: HK$3,697,000).

Operations Review

In view of the persisted weak demand for Hong Kong-made movies and rampant piracy, Hong Kong film production companies have adopted a cautious approach in investing films. As the number of films produced by Hong Kong film production companies decreased in 2007, the Group was not able to source quality films at reasonable prices for distribution. Accordingly, no revenue was generated from the Group's film distribution business in the year ended 31 December 2007. However, the Group is actively seeking potential buyers for its film library to realise its value.

The Group's investment properties are currently under renovation and being transformed from an apartment complex into a high-end serviced apartment. Due to linkage of the water system of the Group's investment properties, the completion of the renovation works has to extend for replacing the water system. The Group has appointed Shama, one of the leading providers of boutique-serviced apartments, to manage the Group's investment properties. To reflect its high-quality serviced accommodation and location in the heart of Beijing City, the Group's investment properties are now named as "Shama Luxe Chang An". Upon the completion of the renovation works, Shama Luxe Chang An presents 204 sophisticated residences with one to three bedroom layouts and duplex suites, a vast clubhouse with sports, recreation and children's facilities and a large private garden. It is expected that the operations of Shama Luxe Chang An will be commenced in early June 2008.

Currently, a 3.3% interest in the registered capital of Beijing Jianguo is held by Beijing Urban. The Group is in the process of acquiring the 3.3% interest from Beijing Urban at a cost of HK$90,000 (equivalent to RMB84,000), after deducting an amount of HK$4,448,000 (equivalent to RMB4,150,000) paid to Beijing Urban by Shinhan-Golden in 1997. Despite the fact that Beijing Urban has entered into an agreement for foregoing its entitlement to all of the future profits of Beijing Jianguo, the directors believe that the acquisition of the remaining 3.3% interest provides the Group with a better protection on its interest in Beijing Jianguo and a greater flexibility in managing Shama Luxe Chang An. It is expected that the acquisition will be completed in the second quarter of 2008.

With a view to diversify its revenue sources and capture the continuing growth of Macau's economy, the Group entered into the following transactions in order to extend its operations in Macau:

(a) In May 2007, the Group entered into a joint venture agreement with SLHDML for the purpose of setting up of Best Season. 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. No contribution has been made from Best Season as Best Season has not secured any business during the year.

(b) In July 2007, the Group entered into a conditional sale and purchase agreement in relation to the proposed acquisition of a 100% interest in Modern Vision (Asia) Limited from Ms. Chen Ming Yin, Tiffany, an executive director, 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 located in the Nam Van Lakes Zone, Macau. However, the proposed acquisition was not approved by the independent shareholders on 21 November 2007.

(c) In August 2007, the Group entered into a conditional sale and purchase agreement in relation to the proposed acquisition of a 100% interest in Exceptional Gain Profits Limited and a sale loan from China Star Entertainment Limited at a consideration of HK$447,000,000 satisfied by the issue of a convertible note by the Company. The major asset of Exceptional Gain Profits Limited is its 50% interest in Kingsway Hotel Limited. Kingsway Hotel is currently under renovation to becoming a luxurious boutique hotel and the renovation is expected to be completed in September 2008. The proposed acquisition was approved by the independent shareholders on 31 December 2007. Due to additional time is required for the bank to release and change of security provided in relation to Kingsway Hotel, the completion of the proposed acquisition is expected to take place in the second quarter of 2008.

Future Prospects

As Mainland China's economy continues to expand, foreign investment will continue to flow into Beijing and more multi-national corporations will establish regional offices in Beijing, resulting in an increasing need for expatriate accommodation. With the opening of Shama Luxe Chang An in early June 2008, the Group is now better positioned to take advantage of this growth. The directors believe that Shama Luxe Chang An will provide the Group with a long-term recurrent income, which have a positive impact on the Group's profitability.

Macau has been successfully established itself as a world-class gaming and leisure destination in Asia in recent years. According to the Macau Government Tourism Office, the number of new visitors was up 23% to 27,000,000 in 2007. Most visitors, many of them coming under individual traveler agreements with 44 Mainland cities, need more hotels and related services. Currently, hotels in Macau are mainly five-star and three-star and there are no stylish, comfort and luxury boutique hotels in the market. As the directors believe that there is a demand for stylish, comfort and luxury boutique hotels in Macau from the growing "middle-class" Mainland visitors, the Group is in the process of acquiring Kingsway Hotel Limited. The directors also believe that Kingsway Hotel will capture a plenty of guests after its renovation in September 2008. In addition, the directors believe that the value of Kingsway Hotel will be better reflected in the Group as the acquisition of Kingsway Hotel Limited will enable the Group to build up its own branding in hotel and hospitability sector.

Proposed Acquisition

On 28 February 2008, the Group entered into a conditional sale and purchase agreement with Well Will Investment Limited and Mr. Ng Cheuk Fai relating to the proposed acquisition of a 100% of the issued share capital of Rich Daily Group Limited from Well Will Investment Limited at an initial consideration of HK$504,000,000 (subject to adjustment). Rich Daily Group Limited is a management services provider to the Concierge Department of a gaming promoter. The monthly service fee earned by Rich Daily Group Limited is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoter. The initial consideration will be settled by the Group paying HK$360,000,000 in cash and issuing of convertible bonds in an aggregate principal amount of HK$144,000,000. The proposed acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. Accordingly, the proposed acquisition is subject to shareholders' approval at a special general meeting.

Proposed Capital Reorganisation and Proposed Change of the Company's Name

On 19 March 2008, the board of directors proposed the following changes to the capital of the Company (the "Proposed Capital Reorganisation"):

(a) share consolidation: that every ten (10) issued and unissued existing ordinary shares of HK$0.10 each in the share capital of the Company be consolidated into one (1) ordinary share of HK$1.00 each (the "Consolidated Share") in the share capital of the Company;

(b) capital reduction: that the issued Consolidated Shares be reduced by cancelling from the paid-up capital thereof to the extent of HK$0.99 of each issued Consolidated Share and reducing the nominal value of all the Consolidated Shares comprising the authorised share capital of the Company from HK$1.00 each to HK$0.01 each; and

(c) share premium cancellation: that the entire amount of HK$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 be cancelled and such credit amount arising from the share premium cancellation be applied to the contributed surplus account of the Company where it will be utilised by the board of directors in accordance with bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company of HK$518,374,000 at 31 December 2006 entirely.

The board of directors also proposed to change the board lot size for trading in the Company's shares from 10,000 shares of HK$0.10 each to 5,000 shares of HK$0.01 each upon the Proposed Capital Reorganisation becoming effective.

The Proposed Capital Reorganisation will reduce the overall transaction and handling costs for dealing in the Company's shares and allow the Company to declare dividends to its shareholders at an earlier opportunity than generating profits to offset its accumulated losses.

On 19 March 2008, the board of directors also proposed to change the Company's name from "Riche Multi-Media Holdings Limited" to "China Star Investment Holdings Limited" and upon the name change become effective, the new Chinese name "中國星投資有限公司" will be adopted to replace "豊采多媒體集團有限公司" for identification purposes only. The directors believe that the change of the Company's name would reflect China Star Entertainment Limited is the largest shareholder of the Company and would provide a better reflection of the existing business of the Group as the name "Riche Multi-Media Holdings Limited" has over the years been synonymous with film distribution and multi-media business.

A special general meeting will be held on 30 April 2008 for shareholders to consider and approve the Proposed Capital Reorganisation and the proposed change of the Company's name.

(III) For the year ended 31 December 2006

Financial Review

The Group recorded a turnover of HK$17,476,000 for the year ended 31 December 2006, a 54% decrease from HK$38,339,000 for the previous year. Of the total turnover amount, HK$164,000 or 1% was generated from distribution of films, HK$200,000 or 1% was generated from sub-licensing of film rights, HK$15,229,000 or 87% was generated from sales of financial assets and HK$1,883,000 or 11% was generated from property investment. The loss for the year ended 31 December 2006 was HK$21,294,000, representing a 28% improvement over the corresponding figure of HK$29,664,000 in 2005. 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 increases in administrative expenses and finance costs resulted from the Group's expansion into property investment business.

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 sales of financial assets and HK$271,000 was related to property investment. Cost of sales for distribution of films 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 distribution of films 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 almost 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 sales of financial assets was a profit of HK$7,882,000. At 31 December 2006, the fair value of the Group's financial assets at fair value through profit or loss amounted to HK$28,100,000. The Group will continue to manage its financial assets at fair value through profit or loss in a prudent manner.

As announced by the Company on 17 February 2006, the Group entered into a conditional sale and purchase agreement with Northbay Investments Holdings Limited ("Northbay"), pursuant to which the Group would acquire (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, 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 Jian Guo Real Estate Development Co. Ltd. ("Beijing Jianguo"). Beijing Jianguo is the registered owner of a property (the "Beijing Property") located at No. 9 Gongyuan Xijie, Dongcheng District, Beijing, The People's Republic of China (the "PRC"). The Acquisition was completed on 21 June 2006. During the year ended 31 December 2006, rental income of HK$1,883,000 was generated from the leasing of the ground floor of the Beijing Property. As the Beijing Property is under renovation, no revenue was generated from the apartment units.

Other revenue 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 attributed to an increase in interest income on bank deposits of HK$2,975,000 resulting from the top-up placing of new shares raising HK$131,179,000 in September 2005.

Administrative expenses (net of amortisation and depreciation expenses, and impairment losses) amounted to HK$24,978,000 for the year ended 31 December 2006, a 72% increase from HK$14,552,000 as compared to the correspondence figure for the previous year. The increase was mainly attributed to the Group's expansion into property investment business in June 2006 and the engagements of external consultants for the renovation work of the Beijing Property.

At 31 December 2006, an impairment loss of HK$1,050,000 was recognised for long outstanding trade receivables. The directors were uncertain whether the amount would ultimately be collected and considered that it was prudence to make such an impairment loss.

Finance costs increased from HK$340,000 in the year ended 31 December 2005 to HK$9,615,000 in the year ended 31 December 2006. The substantial increase was attributable to the inclusion of Beijing Jianguo's secured bank loans interest expenses of HK$9,515,000 following the completion of the Acquisition.

Following the completion of the Acquisition on 21 June 2006, the headcount of the Group increased from 28 at 31 December 2005 to 59 at 31 December 2006. Total staff costs (including directors' remuneration) amounted to HK$7,375,000 in the year ended 31 December 2006, a 6% increase from HK$6,956,000 as compared to the correspondence figure for the pervious year. 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. An analysis of headcount and total staff costs of the Group for the years ended 31 December 2006 and 2005 is as follows:

	Year ended 31 December	
	2006	**2005**
Total staff costs in HK$		
— Hong Kong and Macau	6,775,000	6,562,000
— the PRC	600,000	394,000
	7,375,000	6,956,000
Headcount		
— Hong Kong and Macau	20	23
— the PRC	39	5
	59	28

During the year ended 31 December 2006, the Group's operations were funded by cash generated from operations, shareholders' equity and bank borrowings.

At 31 December 2006, cash and cash equivalents of the Group amounted to HK$63,140,000 and the Group's current ratio was 1.49 (2005: 3.43).

During the year ended 31 December 2006, the Company issued 1,330,321,745 new ordinary shares of HK$0.01 each at a price of HK$0.20 per share to Northbay to settle the consideration of HK$266,064,350 in respect of the Acquisition.

In December 2006, Beijing Jianguo obtained a RMB secured term loan facility of up to RMB350,000,000 (or approximately HK$350,000,000) from Hang Seng Bank, of which RMB250,000,000 (or approximately HK$250,000,000) was for the repayment of the principal portion of the RMB secured bank loan granted by China Merchants Bank and RMB100,000,000 (or approximately HK$100,000,000) was for financing the renovation work of the Beijing Property.

At 31 December 2006, 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 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 Group expresses its gearing ratio as a percentage of total borrowings over total equity. At 31 December 2006, the Group's gearing ratio was 89% (2005: 20%).

The Company has given a guarantee to Hang Seng Bank to secure the RMB secured term loan facility granted to Beijing Jianguo. The outstanding balance of the RMB secured term loan facility at 31 December 2006 was HK$250,470,000 (2005: nil).

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 facility granted to Beijing Jianguo.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

At 31 December 2006, the Group had capital expenditure commitments in respect of the renovation work of the Beijing Property amounted to HK$63,739,000, which will be financed by the Group's internal resources and the RMB secured term loan facility.

At 31 December 2006, the Group had contingent liabilities amounted to HK$3,697,000. Please refer to note 35 to the financial statements of the Company's annual report for the year ended 31 December 2006 for details.

Operations review

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. Such difficult operating environment placed strong pressure on the profitability of the Group's film distribution business. As a result, the Group slowed down its film distribution activities during the year. In the year ended 31 December 2006, the revenue for film distribution business was generated from the sales of the Group's old films.

The Beijing Property is currently under renovation and being transformed from an apartment complex into high-end serviced apartments. To create serviced apartments of an international standard that will add value to the Beijing Property and achieve a maximum revenue return for its operations, the Group has recently appointed Shama Group to provide pre-handover and procurement services for the Beijing Property. Our project team is working closely with Shama Group at the pre-handover stage. The Group is currently in the course of negotiations with Shama Group with a view to appointing Shama Group for managing the Beijing Property. The negotiations are in advanced stage and the directors envisage they will be concluded by mid-2007. It is expected that the Beijing Property will commence operation in September 2007.

Future Prospects

As the operating environment for film distribution in the PRC takes some time to improve, the Group will continue to cautiously monitor the environment and strengthen it business foundations by implementing prudent cost control. In addition, the Group will explore non-traditional distribution media for its old films in the PRC and seek opportunities to act as a distributor for Hong Kong film production companies.

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. Upon the completion of the renovation, the Beijing Property is expected to meet the demand. The directors believe that the Acquisition 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.

Proposed share consolidation

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 Share") in the issued and unissued share capital of the Company (the "Share Consolidation"). As the Share Consolidation will reduce the overall transaction and handling costs for dealings in the Company's shares, the directors are of the view that the Share Consolidation is in the interests of the Company and its shareholders as a whole. The implementation of the Share Consolidation is conditional upon (a) the shareholders' approval of the Share Consolidation at a special general meeting; and (b) the granting of the listing approval of the Consolidated Shares by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Listing Committee").

Placing of New Shares

On 30 March 2007, the Company issued 1,296,860,000 new ordinary shares of HK$0.01 each at HK$0.04 per share by way of a vendor placing and top-up subscription raising HK$50,500,000 (net of expenses). The proceeds are intended to be used for financing the possible diversified investments of the Group and the general working capital of the Group.

On 4 April 2007, the Company has 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 (a) the Share Consolidation becoming effective; (b) the shareholders' approval of the Placing at a special general meeting; (c) the granting of the listing approval of the Placing Shares by the Listing Committee; and (d) 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. 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.

ADDITIONAL SEGMENTAL INFORMATION

Set out below is the additional segmental information of the Group for each of the three years ended 31 December 2008. For avoidance of doubt, capitalised terms used therein shall have the meanings as defined in this circular.

(I) For the year ended 31 December 2008

For the year ended 31 December 2008, the segment revenue from distribution, sub-licensing, provision of management services and property investment were HK$nil, HK$2,000,000 and HK$18,215,000 and HK$20,826,000, respectively. For sales of financial assets, the Group recorded a negative segment revenue of HK$962,000 for the year ended 31 December 2008 due to a change in accounting presentation to a net turnover basis.

For the year ended 31 December 2008, the segment profit (before unallocated corporate income and expenses, finance costs and taxation) for distribution, sub-licensing were HK$nil, HK$2,000,000, respectively. The segment loss ((before unallocated corporate income and expenses, finance costs and taxation) for sales of financial assets, provision of management services and property investment were HK$962,000, HK$84,243,000 and HK$100,777,000, respectively.

For the year ended 31 December 2008, the turnover generated from Hong Kong and Macau, and the PRC were HK$19,253,000 and HK$20,826,000, respectively. The segment loss generated from Hong Kong and Macau, and the PRC were HK$83,205,000 and HK$100,777,000, respectively.

At 31 December 2008, the segment assets (before unallocated corporation assets) of distribution, sub-licensing, sales of financial assets, provision of management services and property investment were HK$9,559,000, HK$2,019,000, HK$nil, HK$461,301,000 and HK$1,049,412,000, respectively. The unallocated corporation assets of the Group amounted to HK$1,989,000.

At 31 December 2008, the segment liabilities (before unallocated corporation liabilities) of distribution, sub-licensing, sales of financial assets, provision of management services and property investment were HK$722,000, HK$nil, HK$nil, HK$54,823,000 and HK$427,612,000, respectively. The unallocated corporation liabilities of the Group amounted to HK$146,700,000.

(II) For the year ended 31 December 2007

For the year ended 31 December 2007, the segment revenue from distribution, sub-licensing, sales of financial assets and property investment were HK$nil, HK$nil, HK$35,822,000 and HK$2,917,000, respectively.

For the year ended 31 December 2007, the segment profit (before unallocated corporate income and expenses, finance costs and taxation) for distribution, sub-licensing, sales of financial assets and property investment were HK$nil, HK$nil, HK$7,722,000 and HK$8,084,000, respectively.

For the year ended 31 December 2007, the turnover generated from Hong Kong and Macau, and the PRC were HK$35,822,000 and HK$2,917,000, respectively. The segment profit generated from Hong Kong and Macau, and the PRC were HK$7,722,000 and HK$8,084,000, respectively.

At 31 December 2007, the segment assets (before unallocated corporation assets) of distribution, sub-licensing, sales of financial assets and property investment were HK$738,000, HK$11,264,000, HK$4,509,000 and HK$1,021,270,000, respectively. The unallocated corporation assets of the Group amounted to HK$504,671,000.

At 31 December 2007, the segment liabilities (before unallocated corporation assets) of distribution, sub-licensing, sales of financial assets and property investment were HK$nil, HK$2,669,000, HK$718,000 and HK$55,660,000, respectively. The unallocated corporation liabilities of the Group amounted to HK$433,429,000.

(III) For the year ended 31 December 2006

For the year ended 31 December 2006, the segment revenue from distribution, sub-licensing, sales of financial assets and property investment were HK$164,000, HK$200,000, HK$15,229,000 and HK$1,883,000, respectively.

For the year ended 31 December 2006, the segment profit (before unallocated corporate income and expenses, finance costs and taxation) for distribution, sub-licensing, sales of financial assets and property investment were HK$74,000, HK$23,000, HK$1,768,000 and HK$2,203,000, respectively.

For the year ended 31 December 2006, the turnover generated from Hong Kong and Macau, and the PRC were HK$15,393,000 and HK$2,083,000, respectively. The segment profit generated from Hong Kong and Macau, and the PRC were HK$1,842,000 and HK$2,226,000, respectively.

At 31 December 2006, the segment assets (before unallocated corporation assets) of distribution, sub-licensing, sales of financial assets and property investment were HK$804,000, HK$7,593,000, HK$32,156,000 and HK$815,360,000, respectively. The unallocated corporation assets of the Group amounted to HK$66,315,000.

At 31 December 2006, the segment liabilities (before unallocated corporation assets) of distribution, sub-licensing, sales of financial assets and property investment were HK$nil, HK$3,051,000, HK$367,000 and HK$50,972,000, respectively. The unallocated corporation liabilities of the Group amounted to HK$464,306,000.

AUDITED FINANCIAL INFORMATION OF THE GROUP

Set out below is the audited financial information of the Group as extacted from the annual report of the Company for the year ended 31 December 2008. For avoidance of doubt, capitalised terms used therein shall have the meanings as defined and reference to page numbers (if any) shall refer to those in such annual report.

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Continuing operations			
Turnover	7	19,253	7,722
Cost of sales		(493)	—
Gross profit		18,760	7,722
Other revenue and other income	8	2,427	2,922
Impairment loss recognised in respect of goodwill		(101,965)	—
Administrative expenses		(26,462)	(55,393)
Loss from operations	9	(107,240)	(44,749)
Finance costs	10	(3,350)	—
Loss before taxation		(110,590)	(44,749)
Taxation	13	13,854	—
Loss for the year from continuing operations		(96,736)	(44,749)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	25	(127,772)	70,443
(Loss)/profit for the year		(224,508)	25,694
(Loss)/profit attributable to equity holders of the Company		(224,508)	25,694
(Loss)/earnings per share attributable to equity holders of the Company during the year — basic and diluted			
From continuing operations	14	HK(49.56) cents	HK(43.47) cents
From discontinued operations	14	HK(65.46) cents	HK68.43 cents
From continuing and discontinued operations	14	HK(115.02) cents	HK24.96 cents

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	2,155	6,000
Investment properties	17	—	887,450
Goodwill	18	—	39,456
Intangible assets	19	456,857	—
Club membership		172	172
		459,184	933,078
Current assets			
Inventories	20	—	32,783
Trade receivables	21	6,839	1,245
Deposits, prepayments and other receivables	22	1,627	31,830
Tax prepayments	23	—	12,120
Cash and cash equivalents	24	7,218	531,396
		15,684	609,374
Assets of disposal group classified as held for sale	25	1,049,412	—
		1,065,096	609,374
Total assets		1,524,280	1,542,452
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	26	1,952	195,186
Reserves		892,471	850,894
		894,423	1,046,080
Minority interests		—	3,896
Total equity		894,423	1,049,976

	Notes	2008 HK$'000	2007 HK$'000
LIABILITIES			
Non-current liabilities			
Secured bank loan — due after one year	*28*	—	301,485
Convertible notes	*29*	105,803	—
Deferred taxation	*30*	61,678	73,502
		167,481	374,987
Current liabilities			
Accruals and other payables	*31*	32,956	19,245
Receipts in advance and deposits received	*32*	477	47,041
Amounts due to related companies	*33*	600	701
Secured bank loan — due within one year	*28*	—	27,533
Tax payable		731	22,969
		34,764	117,489
Liabilities of disposal group classified as held for sale	*25*	427,612	—
		462,376	117,489
Total liabilities		629,857	492,476
Total equity and liabilities		1,524,280	1,542,452
Net current assets		602,720	491,885
Total assets less current liabilities		1,061,904	1,424,963

Balance Sheet

At 31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
ASSETS			
Non-current asset			
Interests in subsidiaries	*34*	366,305	4,873
Current assets			
Deposits, prepayments and other receivables	*22*	—	2,250
Cash and cash equivalents	*24*	278	489,538
		278	491,788
Total assets		366,583	496,661
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*26*	1,952	195,186
Reserves	*27*	214,983	262,946
Total equity		216,935	458,132
LIABILITIES			
Non-current liabilities			
Convertible notes	*29*	105,803	—
Deferred taxation	*30*	6,855	—
		112,658	—
Current liabilities			
Accruals and other payables	*31*	1,080	943
Amounts due to subsidiaries	*34*	35,910	37,586
		36,990	38,529
Total liabilities		149,648	38,529
Total equity and liabilities		366,583	496,661
Net current (liabilities)/assets		(36,712)	453,259
Total assets less current liabilities		329,593	458,132

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Contributed surplus	Special reserve	Share-based payment reserve	Convertible notes reserve	Exchange reserve	(Accumulated losses)/ Retained profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000* *(note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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	127,103	416,604	–	–	–	–	–	–	–	543,707	–	543,707
Share-based payment expenses	–	–	–	–	–	32,282	–	–	–	32,282	–	32,282
Exercise of share options	3,240	15,828	–	–	–	(3,840)	–	–	–	15,228	–	15,228
Exchange difference arising from translation of investments in foreign subsidiaries	–	–	–	–	–	–	–	29,533	–	29,533	–	29,533
Net profit for the year	–	–	–	–	–	–	–	–	25,694	25,694	–	25,694
At 31 December 2007 and 1 January 2008	195,186	813,058	19,844	80,103	(19,955)	28,442	–	36,734	(107,332)	1,046,080	3,896	1,049,976
Capital reorganisation *(note 26)*												
– capital reduction	(193,235)	–	–	193,235	–	–	–	–	–	–	–	–
– share premium cancellation	–	(813,058)	–	813,058	–	–	–	–	–	–	–	–
– set-off accumulated losses against contributed surplus	–	–	–	(518,374)	–	–	–	–	518,374	–	–	–
Exercise of share options	1	–	–	–	–	–	–	–	–	1	–	1
Share-based payment expenses	–	–	–	–	–	3,608	–	–	–	3,608	–	3,608
Acquisition of remaining interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(3,896)	(3,896)
Issuance of convertible notes – equity component	–	–	–	–	–	–	41,547	–	–	41,547	–	41,547
Deferred tax recognised	–	–	–	–	–	–	(6,855)	–	–	(6,855)	–	(6,855)
Exchange difference arising from translation of investments in foreign subsidiaries	–	–	–	–	–	–	–	34,550	–	34,550	–	34,550
Net loss for the year	–	–	–	–	–	–	–	–	(224,508)	(224,508)	–	(224,508)
At 31 December 2008	1,952	–	19,844	568,022	(19,955)	32,050	34,692	71,284	186,534	894,423	–	894,423

Notes:

(a) 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 Riche (BVI) Limited (formerly known as Ocean Shores (BVI) Limited) prior to the allotment of 120 shares to Classical Statue Limited and the amount arising from issue of share by a subsidiary.

(b) The contributed surplus account of the Group represents the net amount transferred from the share capital, share premium account and to the retained profits/accumulated losses account pursuant to the special resolution passed at the special general meetings held on 22 August 2003 and 30 April 2008.

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Loss before taxation from continuing operations		(110,590)	(44,749)
(Loss)/profit before taxation from discontinued operations		(149,986)	83,599
(Loss)/profit before taxation		(260,576)	38,850
Adjustments for:			
Interest income		(3,639)	(2,990)
Dividend income		—	(78)
Waiver of secured bank loan interest		—	(106,956)
Fair value changes on investment properties		74,045	(43,853)
Finance costs		28,639	19,494
Depreciation of property, plant and equipment		5,033	1,158
Impairment loss recognised in respect of goodwill		142,347	37,828
Impairment loss recognised in respect of trade receivables		—	9
Loss on disposal of property, plant and equipment		3	3
Share-based payment expenses		3,608	32,282
Operating cash flows before movements in working capital		(10,540)	(24,253)
Decrease in inventories		3,814	12,371
Increase in trade receivables		(5,806)	(318)
Decrease/(increase) in deposits, prepayments and other receivables		20,505	(12,576)
Increase/(decrease) in accruals and other payables		27,672	(963)
Decrease in receipts in advance		(7,094)	(13,857)
(Decrease)/increase in amounts due to related companies		(101)	95
Cash generated from/(used in) operations		28,450	(39,501)
Tax refund/(paid)		3,736	(4,671)
Net cash generated from/(used in) operating activities		32,186	(44,172)

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Interest received		3,639	2,990
Dividend income		—	78
Proceeds from disposal of property, plant and equipment		—	220
Effect from acquisition of interests in subsidiaries		(364,821)	—
Additions of investment properties		(42,202)	(116,960)
Purchase of property, plant and equipment		(22,397)	(4,908)
Net cash used in investing activities		(425,781)	(118,580)
FINANCING ACTIVITIES			
Interest paid		(25,289)	(19,494)
Issuance of new shares and exercise of share options		1	562,775
Repayment of secured bank loan		(28,602)	5,359
New secured bank loan raised		—	65,922
Net cash (used in)/generated from financing activities		(53,890)	614,562
Net (decrease)/increase in cash and cash equivalents		(447,485)	451,810
Effect of foreign exchange rate changes		5,459	16,446
Cash and cash equivalents at beginning of year		531,396	63,140
Cash and cash equivalents at end of year		89,370	531,396
Analysis of the balances of cash and cash equivalents			
Included in cash and cash equivalents per the consolidated balance sheet	*24*	7,218	531,396
Included in assets of disposal group classified as held for sale	*25*	82,152	—
		89,370	531,396

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

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 34 to the consolidated financial statements.

The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the same as the functional currency of the Company.

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

In the current year, the Group has applied, for the first time, a number of new and revised 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 1 January 2008. A summary of the new HKFRSs is set out as below:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 and HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distributions of Non-Cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The adoption of HKAS 1 (Revised) may result in a change in presentation of the primary statements of the consolidated financial statements. The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under historical cost convention except for certain financial assets at fair value through profit or loss and investment properties which are carried at fair value. The preparation of consolidated 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.

Assets of disposal group classified as held for sale are stated at the lower of carrying amounts and fair values less costs to sell. The accounting policy of note 4(y) to the consolidated financial statements has mentioned the amendments and classification.

The Group's books and records are maintained in Hong Kong Dollars ("HK$") as the directors of the Company control and monitor the results and financial position of the Group in HK$.

(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 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 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) Business combination

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

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

(d) 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.

Revenue from sales of financial assets at fair value through profit or loss is 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.

Service fee income is recognised when the services are rendered.

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.

(e) 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 consolidated 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 consolidated income statement in the year in which the reversals are recognised.

(f) 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 reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets 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 consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 has been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

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:

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 consolidated income statement in the year the asset is derecognised.

(h) 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 consolidated income statement in 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 sale proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the investment properties are derecognised.

(i) 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.

(j) 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 consolidated 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 consolidated 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.

(k) Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to consolidated income statement on a straight-line basis over the assets' estimated useful lives from the date when they are available for use.

Both the period and method of amortisation are reviewed annually.

(l) Inventories

Inventories on finished goods are stated at 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, are 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.

(m) 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-evaluates 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 investments. 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 consolidated 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 consolidated income statement as gains or losses from investments in 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 the 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 consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(n) 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 consolidated income statement.

(o) 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 in the consolidated balance sheet.

(p) 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 consolidated income statement over the period of the borrowings using the effective interest method.

(q) 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 consolidated balance sheet as a finance lease obligation. Finance costs are charged to the consolidated 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 consolidated income statement on a straight-line basis over the relevant lease term.

(r) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the consolidated financial statements of the 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.

(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 consolidated 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.

(iii) Group companies

The results and financial positions 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:

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

(b) 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

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

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.

(s) 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 MPF 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 MPF Scheme's vesting scales. Where employees leave the MPF 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 consolidated 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 consolidated income statement, and a corresponding adjustment to equity in the consolidated 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.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(u) 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.

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

(w) 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 consolidated 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.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise income and expenses of the Group which cannot be reasonably allocated to a specific business segment. The interest benefit of the capital of the Group is also included as unallocated income.

(y) Disposal groups classified as held for sale and discontinued operations

(i) Disposal groups classified as held for sale

A disposal group is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the disposal group is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the disposal group, is recognised at the lower of its carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the consolidated income statement. As long as a disposal group is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (as referred to in (i) above), if earlier. It also occurs when the operation is abandoned.

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

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

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

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) Impairment of goodwill and intangible assets

The Group performs annual tests on whether there has been impairment of goodwill and intangible assets in accordance with the accounting policy stated in notes 4(j) and 4(k) to the consolidated financial statements respectively. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations. Information about the assumptions and the risk factors on impairment of goodwill and intangible assets is stated in notes 18 and 19 to the consolidated financial statements respectively.

(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 is called into doubts, specific provisions for impairments 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 receivables to the consolidated 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 property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the assets are 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 17 to the consolidated financial statements, the investment properties were revalued at the balance sheet date on market value basis by reference to an independent professional valuation. 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.

(e) Income taxes

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions, namely distribution, sub-licensing, sales of financial assets, property investment and provision of management services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(i)	Distribution	Distribution of films
(ii)	Sub-licensing	Sub-licensing of film rights
(iii)	Sales of financial assets	Sales of financial assets at fair value through profit or loss
(iv)	Property investment	Leasing of rental properties
(v)	Provision of management services	Provision of management services to concierge department of gaming promoters appointed by Macau casinos

Segment information about these businesses for the years ended 31 December 2008 and 2007 is presented below.

Consolidated income statement for the year ended 31 December 2008

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	—	2,000	(962)	18,215	—	19,253	20,826	40,079
Segment results before impairment loss recognised in respect of goodwill	—	2,000	(962)	17,722	—	18,760	(60,395)	(41,635)
Impairment loss recognised in respect of goodwill	—	—	—	(101,965)	—	(101,965)	(40,382)	(142,347)
Segment results	—	2,000	(962)	(84,243)	—	(83,205)	(100,777)	(183,982)
Unallocated corporate income						2,427	1,257	3,684
Unallocated corporate expenses						(26,462)	(25,177)	(51,639)
Loss from operations						(107,240)	(124,697)	(231,937)
Finance costs						(3,350)	(25,289)	(28,639)
Loss before taxation						(110,590)	(149,986)	(260,576)
Taxation						13,854	22,214	36,068
Loss for the year						(96,736)	(127,772)	(224,508)

Consolidated balance sheet at 31 December 2008

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Segment assets	9,559	2,019	—	461,301	1,989	474,868	1,049,412	1,524,280
Liabilities								
Segment liabilities	(722)	—	—	(54,823)	(146,700)	(202,245)	(427,612)	(629,857)

Other segment information for the year ended 31 December 2008

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditures	864	—	—	—	376	1,240	63,359	64,599
Depreciation	566	—	—	—	125	691	4,342	5,033
Impairment loss recognised	—	—	—	101,965	—	101,965	40,382	142,347

Consolidated income statement for the year ended 31 December 2007 (Restated)

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	—	—	7,722	—	—	7,722	2,917	10,639
Segment results before impairment loss recognised in respect of goodwill	—	—	7,722	—	—	7,722	45,912	53,634
Impairment loss recognised in respect of goodwill	—	—	—	—	—	—	(37,828)	(37,828)
Segment results	—	—	7,722	—	—	7,722	8,084	15,806
Unallocated corporate income						2,922	107,239	110,161
Unallocated corporate expenses						(55,393)	(12,230)	(67,623)
(Loss)/profit from operations						(44,749)	103,093	58,344
Finance costs						—	(19,494)	(19,494)
(Loss)/profit before taxation						(44,749)	83,599	38,850
Taxation						—	(13,156)	(13,156)
(Loss)/profit for the year						(44,749)	70,443	25,694

Consolidated balance sheet at 31 December 2007 (Restated)

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Segment assets	5,185	—	—	—	504,731	509,916	1,032,536	1,542,452
Liabilities								
Segment liabilities	(718)	(2,026)	—	—	(30,909)	(33,653)	(458,823)	(492,476)

Other segment information for the year ended 31 December 2007 (Restated)

	Continuing operations						Discontinued operations	
	Distribution	Sub-licensing	Sales of financial assets	Provision of management services	Unallocated	Total	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditures	5	—	—	—	6	11	121,856	121,867
Depreciation	563	—	—	—	—	563	595	1,158
Impairment loss recognised	—	—	—	—	—	—	37,828	37,828

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 goods and services.

	Turnover		Segment results	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Continuing operations				
Hong Kong	1,038	7,722	1,038	7,722
Macau	18,215	—	(84,243)	—
Discontinued operations				
The PRC	20,826	2,917	(100,777)	8,084
	40,079	10,639	(183,982)	15,806

The following is an analysis of the segment assets, segment liabilities, capital expenditures and depreciation, by geographical area in which the assets and liabilities located:

	Segment assets		Segment liabilities		Capital expenditures		Depreciation	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Continuing operations								
Hong Kong	13,548	509,916	147,422	31,627	1,240	11	691	563
Macau	461,320	—	54,823	2,026	—	—	—	—
Discontinued operations								
The PRC	1,049,412	1,032,536	427,612	458,823	63,359	121,856	4,342	595
	1,524,280	1,542,452	629,857	492,476	64,599	121,867	5,033	1,158

7. TURNOVER

	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Sub-licensing of film rights	2,000	—	—	—	2,000	—
Sales of financial assets at fair value through profit or loss, net *(note)*	(962)	7,722	—	—	(962)	7,722
Rental income	—	—	20,826	2,917	20,826	2,917
Service fee income	18,215	—	—	—	18,215	—
	19,253	7,722	20,826	2,917	40,079	10,639

Note:

The Group's proceeds from the sales of financial assets at fair value through profit or loss and the corresponding carrying amounts together with the transaction costs were separated into "Turnover" and "Cost of sales" respectively, in prior year's consolidated income statement. During the current year, the Group changed its presentation, as in the opinion of the directors of the Company, it is more appropriate to present the gains or losses from the sales of financial assets at fair value through profit or loss in "Turnover" on a net basis.

An analysis of financial assets at fair value through profit or loss is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
		(Restated)
Sales of financial assets at fair value through profit or loss	2,627	35,822
Cost of financial assets at fair value through profit or loss	(3,589)	(28,100)
	(962)	7,722

To conform with the current year's presentation, the carrying amounts of financial assets at fair value through profit or loss disposed of together with the transaction costs for the year ended 31 December 2007 of HK$28,100,000 have been offset against turnover, resulting in the decreases in turnover and cost of sales for that year by the same amount. These changes do not have any impact on the results of the Group in respect of the prior years.

8. OTHER REVENUE AND OTHER INCOME

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)		
Other revenue						
Dividend income from financial assets at fair value through profit or loss	—	78	—	—	—	78
Interest income on bank deposits	2,427	2,836	1,212	154	3,639	2,990
Sundry income	—	8	45	129	45	137
	2,427	2,922	1,257	283	3,684	3,205
Other income						
Waiver of secured bank loan interest	—	—	—	106,956	—	106,956

9. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived after charging:

	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Auditors' remuneration	600	600	—	—	600	600
Depreciation of property, plant and equipment	691	563	4,342	595	5,033	1,158
Impairment loss recognised in respect of trade receivables	—	9	—	—	—	9
Loss on disposal of property, plant and equipment	3	3	—	—	3	3
Share-based payment expenses in respect of consultancy services	985	6,370	—	—	985	6,370
Operating lease rentals in respect of rented premises	1,640	2,186	174	129	1,814	2,315
Staff costs including directors' remuneration						
— Salaries	6,808	6,787	4,615	1,562	11,423	8,349
— Contributions to retirement benefits scheme	143	114	—	—	143	114
— Share-based payment expenses	2,623	25,912	—	—	2,623	25,912
	9,574	32,813	4,615	1,562	14,189	34,375

10. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Interest expense on secured bank loan wholly repayable within five years	—	—	25,289	19,494	25,289	19,494
Imputed interest expense on convertible notes	3,350	—	—	—	3,350	—
	3,350	—	25,289	19,494	28,639	19,494

11. DIRECTORS' EMOLUMENTS

The board of directors of the Company is currently composed of two executive directors and three independent non-executive directors.

The aggregate amount of emoluments payable to the directors of the Company during the year was HK$360,000 (2007: HK$360,000). The remuneration of each director for the years ended 31 December 2008 and 2007 is as below:—

	Fees		Salaries and bonuses		Contributions to retirement benefits scheme		Share-based payment expenses		Total	
Name of director	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*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. Tang Chak Lam, Gilbert	120	120	—	—	—	—	—	—	120	120
Mr. Ho Wai Chi, Paul	120	120	—	—	—	—	—	—	120	120
Mr. Lien Wai Hung	120	120	—	—	—	—	—	—	120	120
	360	360	—	—	—	—	—	—	360	360

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.

12. FIVE HIGHEST PAID INDIVIDUALS

The emoluments paid to the five highest paid individuals of the Group during the year were as follow:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other allowances	4,699	4,773
Contributions to retirement benefits scheme	48	48
Share-based payment expenses	376	7,289
	5,123	12,110

None of the five highest paid individuals of the Group was a director of the Company (2007: nil).

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
Nil – HK$1,000,000	3	—
HK$1,000,001 – HK$1,500,000	1	—
HK$1,500,001 – HK$2,000,000	—	1
HK$2,000,001 – HK$2,500,000	1	3
HK$2,500,001 – HK$3,000,000	—	—
HK$3,000,001 – HK$3,500,000	—	—
HK$3,500,001 – HK$4,000,000	—	1

13. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)		
Current tax credit	(13,854)	—	—	—	(13,854)	—
Deferred taxation *(note 30)*	—	—	(22,214)	13,156	(22,214)	13,156
	(13,854)	—	(22,214)	13,156	(36,068)	13,156

No provision for Hong Kong Profits Tax, the PRC Corporate Income Tax or Macao Complementary Profits Tax has been made for the year ended 31 December 2008 (2007: nil) as the Group either has no estimated assessable profits or its estimated assessable profits are wholly absorbed by the estimated tax losses brought forward.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. Accordingly, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of certain subsidiaries in Hong Kong for the year ended 31 December 2008 (2007: 17.5%).

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. Deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to respective years when the asset is realised or the liability is settled.

An objection was lodged by Ocean Shores Licensing Limited ("OSLL"), a wholly-owned subsidiary of the Company, against the estimated assessments for the years of assessment from 1994/1995 to 2000/2001 in relation to the offshore claims of sub-licensing income. Provision for taxation of HK$22,238,000 had been made in the Company's 2007 audited consolidated financial statements. In February 2008, OSLL reached a compromise settlement on the estimated assessments with the Inland Revenue Department for settling the estimated tax liabilities in an aggregate amount of HK$12,021,000, which included a surcharge of HK$3,637,000. Therefore, a tax credit of HK$13,854,000 was recognised for the year ended 31 December 2008.

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

	Continuing operations				Discontinued operations				Consolidated			
	2008		**2007**		**2008**		**2007**		**2008**		**2007**	
	HK$'000	*%*	*HK$'000* (Restated)	*%*	*HK$'000*	*%*	*HK$'000* (Restated)	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before taxation	(110,590)		(44,749)		(149,986)		83,599		(260,576)		38,850	
Taxation at income tax rate of 16.5% (2007: 17.5%)	(18,246)	16.5	(7,831)	17.5	(24,747)	16.5	14,630	17.5	(42,993)	16.5	6,799	17.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	(819)	0.7	9	(0.1)	(9,294)	6.2	11,935	14.3	(10,113)	3.9	11,944	30.7
Tax effect of income that is not taxable in determining taxable profits	(2,229)	2.0	(187)	0.4	(200)	0.1	(9,622)	(11.5)	(2,429)	0.9	(9,809)	(25.2)
Utilisation of tax losses previously not recognised	—	—	—	—	—	—	(17,700)	(21.2)	—	—	(17,700)	(45.5)
Tax effect of expenses that are not deductible in determining taxable profits	17,684	(16.0)	5,996	(13.3)	7,379	(4.9)	624	0.7	25,063	(9.7)	6,620	17.0
Tax losses not yet recognised	3,610	(3.2)	2,013	(4.5)	26,862	(17.9)	133	0.2	30,472	(11.7)	2,146	5.5
Tax refund	(13,854)	12.5	—	—	—	—	—	—	(13,854)	5.3	—	—
Deferred tax (credit)/charge	—	—	—	—	(22,214)	14.8	13,156	15.7	(22,214)	8.6	13,156	33.9
Taxation (credit)/charge for the year	(13,854)	12.5	—	—	(22,214)	14.8	13,156	15.7	(36,068)	13.8	13,156	33.9

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company for the years ended 31 December 2008 and 2007 and the weighted average number of ordinary shares in issue during these years.

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

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
(Loss)/profit for the year attributable to equity holders of the Company		
From continuing operations	(96,736)	(44,749)
From discontinued operations	(127,772)	70,443
From continuing and discontinued operations	(224,508)	25,694

	2008	2007
	'000	*'000*
		(Restated)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	195,187	102,941

The weighted average number of ordinary shares in issue for the purposes of basic and diluted (loss)/ earnings per share has been adjusted to take into the effect of the share consolidations that became effective on 21 May 2007 and 2 May 2008. Details of the share consolidations are set out in note 26 to the consolidated financial statements.

Diluted (loss)/earnings per share for the years ended 31 December 2008 and 2007 were the same as the basic (loss)/earnings per share. The Company's outstanding share options and convertible notes were not included in the calculation of diluted (loss)/earnings per share because the effects of the conversion of the Company's outstanding share options and convertible notes were anti-dilutive.

15. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: nil).

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements	Office equipment	Motor vehicles	Furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2007	2,381	761	1,633	1,098	5,873
Additions	—	4,907	—	—	4,907
Disposals	—	(562)	(376)	—	(938)
Exchange alignments	—	8	—	—	8
At 31 December 2007 and 1 January 2008	2,381	5,114	1,257	1,098	9,850
Additions	1,074	20,510	813	—	22,397
Disposals	—	(2)	—	(5)	(7)
Exchange alignments	—	290	—	—	290
Transfer to assets of disposal group classified as held for sale *(note 25)*	(709)	(25,752)	—	—	(26,461)
At 31 December 2008	2,746	160	2,070	1,093	6,069
Accumulated depreciation					
At 1 January 2007	1,307	477	956	665	3,405
Charged for the year	358	608	127	65	1,158
Elimination on disposals	—	(423)	(292)	—	(715)
Exchange alignments	—	2	—	—	2
At 31 December 2007 and 1 January 2008	1,665	664	791	730	3,850
Charged for the year	439	4,283	256	55	5,033
Elimination on disposals	—	(1)	—	(3)	(4)
Exchange alignments	—	75	—	—	75
Transfer to assets of disposal group classified as held for sale *(note 25)*	(79)	(4,961)	—	—	(5,040)
At 31 December 2008	2,025	60	1,047	782	3,914
Net book value					
At 31 December 2008	721	100	1,023	311	2,155
At 31 December 2007	716	4,450	466	368	6,000

17. INVESTMENT PROPERTIES

The Group

	2008	**2007**
	HK$'000	*HK$'000*
At 1 January	887,450	678,000
Additions	36,495	101,347
Transfer from inventories	5,707	15,613
Fair value changes recognised in the consolidated income statement	(74,045)	43,853
Exchange alignment	51,353	48,637
Transfer to assets of disposal group classified as held for sale *(note 25)*	(906,960)	—
At 31 December	—	887,450

The fair values of the Group's investment properties as at 31 December 2008 and 2007 have been arrived at on the basis of the valuations carried out on these dates by Grant Sherman Appraisal Limited and DTZ Debenham Tie Leung Limited respectively. Grant Sherman Appraisal Limited and DTZ Debenham Tie Leung Limited, both are independent firms of professional valuers not connected with the Group, are members of the Hong Kong Institute of Valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair value of investment properties shown above comprise:

The Group

	2008	**2007**
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Long-term leases	—	887,450

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.

At 31 December 2008, the investment properties of the Group were located in the PRC and re-classified as assets of disposal group classified as held for sale. Certain of investment properties with a fair value of approximately HK$853,835,000 have been pledged to secure banking facilities granted to the Group (2007: HK$ 852,081,000).

18. GOODWILL

	The Group
	HK$'000
Cost	
At 1 January 2007, 31 December 2007 and 1 January 2008	117,412
Acquisition of subsidiaries *(notes a and b)*	102,891
At 31 December 2008	220,303
Accumulated impairment	
At 1 January 2007	40,128
Impairment loss recognised	37,828
At 31 December 2007 and 1 January 2008	77,956
Impairment loss recognised	142,347
At 31 December 2008	220,303
Carrying amounts	
At 31 December 2008	—
At 31 December 2007	39,456

Notes:

(a) On 29 May 2008, the Group further acquired 3.3% of the registered capital of 北京莎瑪房地產開發有限公司 ("Beijing Shama"). The total cash consideration of the acquisition was approximately HK$4,824,000. As a result, a goodwill of approximately HK$926,000 was arisen from this acquisition.

(b) On 29 August 2008, the Group acquired a 100% of the issued share capital of Rich Daily Group Limited ("Rich Daily"). The total consideration of the acquisition at fair value was approximately HK$504,000,000, which was settled by cash and issuance of convertible notes (note 35). As a result, a goodwill of approximately HK$101,965,000 was arisen from the acquisition of Rich Daily.

(c) Goodwill arising from the acquisitions of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and its subsidiaries and Rich Daily has been allocated to the business segments of property investment and provision of management services respectively, which are the cash-generating units ("CGUs").

(d) The recoverable amounts of the CGUs are determined from value-in-use calculations. One of the key assumptions for the value-in-use calculations is the discount rates. Discount rates of 16.03% per annum (2007: 15.43% per annum) for property investment and 17.68% per annum (2007: N/A) for provision of management services were applied in the value-in-use models which use cash flow projections based on the financial forecasts approved by the directors of the Company. The valuers estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the CGUs.

Impairment of goodwill

During the years ended 31 December 2008 and 2007, the directors of the Company reassessed the recoverable amounts of the CGUs with reference to the valuations performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers, and determined that the impairment losses in respect of goodwill of approximately HK$142,347,000 and HK$37,828,000 were recognised respectively.

19. INTANGIBLE ASSETS

	The Group
	HK$'000
Cost	
At 1 January 2007, 31 December 2007 and 1 January 2008	—
Acquisition of a subsidiary *(note 35)*	456,857
At 31 December 2008	456,857
Accumulated amortisation	
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	—
Carrying amounts	
At 31 December 2008	456,857
At 31 December 2007	—

The intangible assets represent the carrying amounts of services agreements held by Rich Daily. The intangible assets have indefinite useful lives and no amortisation been made.

The directors of the Company reassessed the recoverable amounts of the services agreements with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers, and determined that no impairment loss is recognised.

The recoverable amounts of the services agreements were assessed by reference to value-in-use calculation. A discount rate of 17.68% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company covering a ten-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the forecast. Key assumptions include gross margin and growth rate which are determined by the management of the Group based on its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the industry.

20. INVENTORIES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Properties held for sale	—	32,783

All inventories were carried at cost during the years.

Properties held for sale solely comprised of certain units of apartments held by Beijing Shama of which sale and purchase agreements were entered into and full considerations have been received by Beijing Shama in respect of these units of apartments (note 32). However, the transfers of legal titles of these units of apartments have not yet been completed at the date of approval of the financial statements.

At 31 December 2008, properties held for sale of the Group were re-classified as assets of disposal group classified as held for sale (note 25).

21. TRADE RECEIVABLES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
0-30 days	4,443	215
31-60 days	—	429
61-90 days	—	107
Over 90 days	2,396	503
	6,839	1,254
Less: Impairment loss recognised in respect of trade receivables	—	(9)
	6,839	1,245

Notes:

(a) The following is an aged analysis of the trade receivables net of impairment loss at the balance sheet dates:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
0-30 days	4,443	213
31-60 days	—	424
61-90 days	—	106
Over 90 days	2,396	502
	6,839	1,245

The Group allows an average credit period of 90 days to its customers.

(b) Aging of trade receivables which are past due but not impaired are as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
0-30 days	—	—
31-60 days	—	—
61-90 days	—	—
Over 90 days	2,396	502
	2,396	502

At 31 December 2008, trade receivables of approximately HK$2,396,000 (2007: HK$502,000) were past due but not impaired. The Group is in negotiation with those customers for settlement of these debts. The directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there had not been a significant change in credit quality on these balances.

(c) Aging of impaired trade receivables:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
0-30 days	—	2
31-60 days	—	5
61-90 days	—	1
Over 90 days	—	1
	—	9

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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	827	2,529	—	1,350
Prepayments	15	25,207	—	550
Other receivables	785	4,094	—	350
	1,627	31,830	—	2,250

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

23. TAX PREPAYMENTS

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Tax reserve certificates	—	3,055
Tax paid in advance	—	9,065
	—	12,120

Tax reserve certificates borne interest rates ranged from 2.33% to 2.68% per annum for the year ended 31 December 2007.

24. CASH AND CASH EQUIVALENTS

(a) Balance sheet

	The Group		The Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits with banks and other financial institutions	—	463,391	—	463,391
Cash and bank balances	7,218	68,005	278	26,147
Cash and cash equivalents	7,218	531,396	278	489,538

The effective interest rates of deposits with banks and other financial institutions for the year ended 31 December 2008 ranged from 0.5% to 3.5% per annum (2007: 2.2% to 4.3% per annum).

(b) Cash and cash equivalents at the end of the financial years as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

	The Group		The Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents				
Included in cash and cash equivalents as per consolidated balance sheet	7,218	531,396	278	489,538
Included in assets of disposal group classified as held for sale *(note 25)*	82,152	—	—	—
	89,370	531,396	278	489,538

(c) The carrying amounts of cash and bank balances are denominated in the following currencies:

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	82,136	39,119	—	—
United States of America Dollars	36	36	—	—
Hong Kong Dollars	7,198	492,241	278	489,538
	89,370	531,396	278	489,538

The conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

25. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

On 26 November 2008, Riche (BVI) Limited ("Riche"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement") with Mega Shell Services Limited ("Mega Shell"), a wholly-owned subsidiary of Golife Concepts Holdings Limited ("Golife"), relating to the sale of the entire issued share capital of Shinhan-Golden and World East Investments Limited, both of them are wholly-owned subsidiaries of the Company, to Mega Shell at a consideration of HK$211,466,310 (subject to adjustment). Pursuant to the Agreement, the consideration would be settled by Mega Shell in the following manner: (a) HK$5,581,713 (subject to adjustment) to be paid in cash; (b) HK$5,884,597 by procuring Golife to allot and issue 11,769,194 new shares in Golife (adjusted for the capital reorganisation of Golife as completed on 6 April 2009) credited as fully paid at an issue price of HK$0.50 per share; (c) HK$100,000,000 by procuring Golife to issue a convertible bond; and (d) HK$100,000,000 by procuring Golife to issue a promissory note.

The Agreement was approved by the shareholders at the special general meeting of the Company held on 12 February 2009 and completed on 8 April 2009.

Assets of disposal group classified as held for sale

	2008	**2007**
	HK$'000	*HK$'000*
Property, plant and equipment	21,421	—
Investment properties	906,960	—
Inventories	28,969	—
Trade receivables	212	—
Deposits, prepayments and other receivables	9,698	—
Cash and cash equivalents	82,152	—
	1,049,412	—

Liabilities of disposal group classified as held for sale

	2008	2007
	HK$'000	*HK$'000*
Accruals and other payables	13,961	—
Receipts in advance	39,470	—
Secured bank loan	319,418	—
Deferred taxation	54,763	—
	427,612	—

Analysis of the results of discontinued operations

	2008	2007
	HK$'000	*HK$'000*
Turnover	20,826	2,917
Cost of sales	(7,176)	(858)
Gross profit	13,650	2,059
Other revenue	1,257	283
Other income	—	106,956
Fair value changes on investment properties	(74,045)	43,853
Impairment loss recognised in respect of goodwill	(40,382)	(37,828)
Administrative expenses	(25,177)	(12,230)
(Loss)/profit from discontinued operations	(124,697)	103,093
Finance costs	(25,289)	(19,494)
(Loss)/profit before taxation from discontinued operations	(149,986)	83,599
Taxation	22,214	(13,156)
(Loss)/profit for the year from discontinued operations	(127,772)	70,443

Analysis of the cash flows from discontinued operations

	2008	2007
	HK$'000	*HK$'000*
Operating cash flows	160,660	218,036
Investing cash flows	(63,073)	(121,857)
Financing cash flows	(53,891)	51,787
	43,696	147,966

26. SHARE CAPITAL

Movements in the share capital of the Company during the years were as follows:

	Number of shares		Share capital	
	2008	**2007**	**2008**	**2007**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.01 each (2007: HK$0.10 each)				
Authorised:				
At 1 January	6,000,000	20,000,000	600,000	200,000
Share consolidation *(note a)*	—	(18,000,000)	—	—
Increase in authorised share capital *(note b)*	—	4,000,000	—	400,000
Capital reorganisation				
— share consolidation *(note c (i))*	(5,400,000)	—	—	—
— capital reduction *(note c (ii))*	—	—	(594,000)	—
Increase in authorised share capital *(note d)*	1,400,000	—	14,000	—
At 31 December	2,000,000	6,000,000	20,000	600,000
Issued and fully paid:				
At 1 January	1,951,860	6,484,340	195,186	64,843
Share consolidation *(note a)*	—	(7,294,680)	—	—
Capital reorganisation				
— share consolidation *(note c (i))*	(1,756,683)	—	—	—
— capital reduction *(note c (ii))*	—	—	(193,235)	—
Issuance of new shares *(note e)*	—	1,296,860	—	12,969
Exercise of share options *(note f)*	—	324,000	—	3,240
Issuance of new shares *(note g)*	—	155,620	—	15,562
Issuance of new shares *(note h)*	—	162,100	—	16,210
Issuance of new shares *(note i)*	—	173,000	—	17,300
Issuance of new shares *(note j)*	—	650,620	—	65,062
Exercise of share options *(note k)*	10	—	1	—
At 31 December	195,187	1,951,860	1,952	195,186

Notes:

(a) On 18 May 2007, the shareholders approved the share consolidation on the basis of every ten shares of HK$0.01 each in the issued and unissued share capital of the Company into one share of HK$0.10 each in the issued and unissued share capital of the Company. The share consolidation became effective on 21 May 2007.

(b) On 11 December 2007, the shareholders approved the increase in the authorised share capital of the Company from HK$200,000,000, divided into 2,000,000,000 shares of HK$0.10 each, to HK$600,000,000, divided into 6,000,000,000 shares of HK$0.10 each, by the creation of an additional 4,000,000,000 new shares of HK$0.10 each.

(c) On 30 April 2008, the shareholders approved the following changes to the capital of the Company (the "Capital Reorganisation"):

(i) the share consolidation on the basis of every ten issued and unissued shares of HK$0.10 each in the share capital of the Company into one share of HK$1.00 each in the share capital of the Company;

(ii) immediate after completion of the share consolidation in (i) above, the reduction of the nominal value of all issued and unissued shares of HK$1.00 each in the share capital of the Company from HK$1.00 each to HK$0.01 each; and

(iii) the cancellation of the entire amount of HK$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 by transferring such credit amount to the contributed surplus account of the Company and the application of HK$518,374,000 in the contributed surplus account to set off against the accumulated losses of the Company of HK$518,374,000 at 31 December 2006 entirely.

The Capital Reorganisation became effective on 2 May 2008.

(d) On 19 December 2008, the shareholders approved the increase in the authorised share capital of the Company from HK$6,000,000, divided into 600,000,000 shares of HK$0.01 each, to HK$20,000,000, divided into 2,000,000,000 shares of HK$0.01 each, by the creation of an additional 1,400,000,000 new shares of HK$0.01 each.

(e) On 30 March 2007, 1,296,860,000 new shares of HK$0.01 each were allotted and issued to Classical Statute Limited ("CSL"), 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 investment of the Group and general working capital of the Group.

(f) 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.

(g) On 31 May 2007, 155,620,000 new shares of HK$0.10 each were allotted and issued at a price of HK$0.55 per share. The net proceeds of approximately HK$83,300,000 were intended to be used for investment in other relevant business opportunities that may arise in the future and for general working capital of the Group.

(h) On 11 July 2007, 162,100,000 new shares of HK$0.10 each were allotted and issued at a price of HK$0.50 per share by way of placing of new shares under general mandate. The net proceeds of approximately HK$78,900,000 were intended to be used for expansion of the Group's property investment business.

(i) On 7 August 2007, 173,000,000 new share of HK$0.10 each were allotted and issued at a price of HK$0.83 per share by way of top-up placing. The net proceeds of approximately HK$139,800,000 were intended to be used for expansion of the Group's property investment business.

(j) On 18 December 2007, 650,619,987 new shares of HK$0.10 were issued at a price of HK$0.30 per share by way of open offer to the qualifying shareholders on the basis of one offer share for every two existing shares. The net proceeds of approximately HK$189,000,000 were intended to be used for the proposed acquisition of a 100% equity interest in Modern Vision (Asia) Limited as disclosed in the Company's announcement dated 23 July 2007 and circular dated 5 November 2007 and general working capital of the Group.

(k) On 8 April 2008, the Company allotted and issued 10,009 new shares of HK$0.10 each pursuant to the exercise of share options granted to an employee of the Group. The exercise price was HK$0.1146 per share.

27. RESERVES

The Company

	Share premium	Contributed surplus	Share-based payment reserve	Convertible notes reserve	Accumulated losses	Total
	HK$'000	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	380,626	163,456	—	—	(518,374)	25,708
Issuance of new shares	416,604	—	—	—	—	416,604
Share-based payment expenses	—	—	32,282	—	—	32,282
Exercise of share options	15,828	—	(3,840)	—	—	11,988
Net loss for the year	—	—	—	—	(223,636)	(223,636)
At 31 December 2007 and 1 January 2008	813,058	163,456	28,442	—	(742,010)	262,946
Capital reorganisation *(note 26)*						
— capital reduction	—	193,235	—	—	—	193,235
— share premium cancellation	(813,058)	813,058	—	—	—	—
— set-off accumulated losses against contributed surplus	—	(518,374)	—	—	518,374	—
Share-based payment expenses	—	—	3,608	—	—	3,608
Issuance of convertible notes — equity component	—	—	—	41,547	—	41,547
Deferred tax recognised	—	—	—	(6,855)	—	(6,855)
Net loss for the year	—	—	—	—	(279,498)	(279,498)
At 31 December 2008	—	651,375	32,050	34,692	(503,134)	214,983

Note:

The contributed surplus account 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 capital, share premium account and to accumulated losses account pursuant to a special resolution passed at the special general meetings held on 22 August 2003 and 30 April 2008.

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.

28. SECURED BANK LOAN

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Secured bank loan	—	329,018
The maturity of the secured bank loan is as follows:		
Within one year	—	27,533
Between one and two years	—	64,308
Between two and five years	—	237,177
Over five years	—	—
	—	329,018
Less: Amount due within one year shown under current liabilities	—	(27,533)
	—	301,485

The secured bank loan is denominated in Renminbi.

The secured bank loan bears interest at rates ranging from 6.53% to 8.14% per annum for the year ended 31 December 2008 (2007: 6.16% to 7.35% per annum). The secured bank loan is secured by certain of the Group's investment properties in the PRC with fair value of approximately HK853,835,000 (2007: HK$852,081,000) and the Group's bank deposits of approximately HK$23,470,000 (2007: HK$16,832,000). The carrying amount of the secured bank loan approximates to its fair value, which has been re-classified as liabilities of disposal group classified as held for sale as referred to note 25 to the consolidated financial statements.

29. CONVERTIBLE NOTES

On 29 August 2008, the Company issued two convertible notes with a principal amount of HK$72,000,000 each to Well Will Investment Limited. Each of the convertible notes bears interest at a rate of 5% per annum and carries a right to convert the principal amount into shares of HK$0.01 each in the share capital of the Company at an initial conversion price of HK$1.60 per share (subject to adjustment). The effective interest rate of the liability component of each of the convertible notes is 9.75% per annum.

The movement of the liability component of the convertible notes during the year ended 31 December 2008 is as follows:

	The Group and the Company	
	2008	**2007**
	HK$'000	*HK$'000*
At 1 January	—	—
Proceeds of issue	144,000	—
Equity component	(41,547)	—
Liability component at the date of issue	102,453	—
Imputed interest expense for the year	3,350	—
At 31 December	105,803	—

30. DEFERRED TAXATION

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

The Group

	Accelerated tax depreciation	**Estimated tax losses**	**Revaluation of investment properties**	**Convertible notes**	**Intangible assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	254	(254)	56,317	—	—	56,317
Exchange alignment	—	—	4,029	—	—	4,029
Charged to consolidated income statement	—	—	13,156	—	—	13,156
At 31 December 2007 and 1 January 2007	254	(254)	73,502	—	—	73,502
Acquisition of a subsidiary *(note 35)*	—	—	—	—	54,823	54,823
Issuance of convertible notes	—	—	—	6,855	—	6,855
Exchange alignment	—	—	3,475	—	—	3,475
Credit to consolidated income statement	—	—	(22,214)	—	—	(22,214)
Transfer to liabilities of disposal group classified as held for sale *(note 25)*	—	—	(54,763)	—	—	(54,763)
At 31 December 2008	254	(254)	—	6,855	54,823	61,678

The Company

	Convertible notes
	HK$'000
At 1 January 2007, 31 December 2007 and 1 January 2008	—
Issuance of convertible notes	6,855
At 31 December 2008	6,855

The Group

At 31 December 2008, the Group had unused estimated tax losses of approximately HK$205,791,000 (2007: HK$21,112,000) available for offsetting against future taxable profits. A deferred tax asset of approximately HK$254,000 (2007: HK$254,000) has been recognised. No deferred tax asset has been recognised in respect of the remaining balance of approximately HK$37,557,000 (2007: HK$6,778,000) due to the unpredictability of future profit streams.

31. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	6,571	5,646	1,080	943
Other payables	26,385	6,769	—	—
Tax payables	—	6,830	—	—
	32,956	19,245	1,080	943

The tax payables represented the provision for land appreciation tax on certain units of apartments sold by Beijing Shama prior to 2003 (note 20). According to the PRC Tax law and regulation, 30% of land appreciation tax was accrued in the consolidated financial statements.

At 31 December 2008, tax payables have been re-classified as liabilities of disposal group classified as held for sale as referred to note 25 to the consolidated financial statements.

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

32. RECEIPTS IN ADVANCE AND DEPOSITS RECEIVED

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Receipts in advance	—	46,557
Trade deposits received	477	484
	477	47,041

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 20 to the consolidated financial statements. Since the transfer of legal titles of these units of apartments have not yet been completed at the date of the approval of the financial statements, no revenue could be recognised for the year and the total amount was recorded as receipts in advance, which has been re-classified as liabilities of disposal group classified as held for sale as referred to note 25 to the consolidated financial statements.

33. AMOUNTS DUE TO RELATED COMPANIES

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
China Star Entertainment Limited ("China Star") and its subsidiaries (the "China Star Group")	600	701

The amounts due to the China Star Group are unsecured, non-interest bearing and have no fixed terms of repayment.

34. INTERESTS IN SUBSIDIARIES

	The Company	
	2008	**2007**
	HK$'000	*HK$'000*
Unlisted shares, at cost	83,553	83,553
Impairment losses recognised	(83,553)	(83,553)
	—	—
Amounts due from subsidiaries	1,339,161	709,207
Impairment losses recognised	(972,856)	(704,334)
	366,305	4,873

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 at 31 December 2008 approximate to their fair values.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, the carrying amounts of the amounts due from subsidiaries at 31 December 2008 approximate to their fair values.

Details of the Company's subsidiaries at 31 December 2008 are set out as follows:

Name of subsidiary	Country/place of incorporation	Particulars of issued share capital/ registered capital	Principal activities
Beijing Jianguo Real Estate Development Co., Limited	British Virgin Islands	1 ordinary share of US$1	Dormant
Best Season Holdings Corp.	British Virgin Islands	100 ordinary shares of US$1 each	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	Holding of film rights
Legend Rich Limited	British Virgin Islands	1 ordinary share of US$1	Investment holding
Ocean Shores Licensing Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	Holding of film rights outside Hong Kong
Rich Joy Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	Dormant
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

Name of subsidiary	Country/place of incorporation	Particulars of issued share capital/ registered capital	Principal activities
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
Rich Daily Group Limited	British Virgin Islands	100 ordinary share of US$1 each	Provision of management services
Shinhan-Golden Faith International Development Limited	British Virgin Islands	10,000,000 ordinary shares of US$1 each	Investment holding in the PRC
Stable Income Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	Travel business
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
北京莎瑪房地產開發有限公司 (formerly known as "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 Riche Video Limited 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 Best Season Holdings Corp. which was 75% owned by the Group.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

35. ACQUISITION OF A SUBSIDIARY

On 29 August 2008, the Group acquired the entire issued share capital of Rich Daily at an initial consideration of HK$504,000,000, which was satisfied by the Group by paying HK$360,000,000 in cash and issuance of convertible notes in an aggregate principal amount of HK$144,000,000. The amount of goodwill arising from the acquisition was approximately HK$101,965,000.

Rich Daily entered into three services agreements with three gaming promoters in Macau for the provision of management services to their concierge departments. The service fee income is calculated at 0.03% of the rolling turnover generated by the gaming promoters.

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Intangible assets *(note)*	—	456,857	456,857
Cash and bank balances	1	—	1
Deferred taxation	—	(54,823)	(54,823)
Net assets acquired	1	402,034	402,035
Goodwill			101,965
			504,000
Fair value of purchase consideration settled by:			
Cash			360,000
Issuance of convertible notes *(note)*			144,000
			504,000
Net cash flow from acquisition of a subsidiary:			
Cash paid			(360,000)
Cash and bank balances acquired			1
			(359,999)

Note:

The fair values of the intangible assets and the convertible notes were determined based on the valuations performed by Grant Sherman Appraisal Limited, an independent firm of professional valuers and not connected with the Group, as at the date of acquisition.

Details of the acquisition were disclosed in the Company's circular dated 30 May 2008.

During the year ended 31 December 2008, Rich Daily contributed a profit of approximately HK$18,215,000 to the Group since the date of acquisition. If the acquisition had been completed on 1 January 2008, turnover for the year ended 31 December 2008 would have been HK$18,215,000 and profit for the year ended 31 December 2008 would have been HK$18,215,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

36. COMMITMENTS

(a) Lease commitments

As lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year	845	1,856
In the second to fifth year inclusive	473	341
	1,318	2,197

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 the balance sheet date, 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	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year	4,492	—

(b) Other commitments

(i) At the balance sheet date, the Group had capital commitments contracted but not provided for in the consolidated financial statements:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Acquisition of a 100% interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan	—	447,000
Acquisition of a 3.3% interest in the registered capital of Beijing Shama	—	4,538
Renovation works in respect of the investment properties	10,408	28,750

(ii) Pursuant to the undertaking letters issued by the owners of 上海昇平文化發展有限公司 during the year ended 31 December 2003, they will transfer their ownership in the registered capital of 上海昇平文化發展有限公司 to the Group at a price to be determined by the valuers in the PRC when the laws in the PRC allow foreign investors to own more than 51% in the registered capital of 上海昇平文化發展有限公司.

(iii) Pursuant to 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. ("Best Season"), a 75% owned subsidiary of the Group, Rich Joy Investments Limited has agreed to grant Best Season a revolving facility of up to HK$200,000,000 for the purpose of its business and working capital requirements. At the balance sheet date, Best Season had not drawn down the facility.

37. CONTINGENCIES

At 31 December 2008, the Group has neither material contingent assets nor liabilities.

38. BANKING FACILITIES

The Group's secured bank loan of approximately HK$319,418,000 (2007: HK$329,018,000) at 31 December 2008 were secured by:

(a) a legal charge over certain of the Group's investment properties with the fair value of approximately HK$853,835,000 (2007: HK$852,081,000);

(b) a legal charge over the Group's bank deposits with balance of approximately HK$23,470,000 (2007: HK$16,832,000); and

(c) a corporate guarantee provided by the Company.

39. LITIGATIONS

At 31 December 2008 and up to the date of approval of these consolidated financial statements, the Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the directors of the Company to be pending or threatened against any member of the Group.

40. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Option Scheme"), was adopted on 21 January 2002 to replace the share option scheme adopted on 19 January 2000, and will expire on 20 January 2012. The purpose of the Option Scheme is to enable the board of directors of the Company to grant share options to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Group.

Under the Option Scheme, the board of directors of the Company may grant share options to the following eligible persons:

(a) any director or proposed director, employee or proposed employee 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.

(b) any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

(c) any business or joint venture partner, contractor, agent or representative of,

  (i) any person of entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to;

  (ii) any supplier, producer or licensor of films, television programmes, video features, goods or services to;

  (iii) any customer, licensee (including any sub-licensee) or distributor of films, television programmes, video features, goods or services of; or

  (iv) any landlord or tenant (including any subtenant) of, any member of the Group or any controlling shareholder or a company controlled by a controlling shareholder.

The maximum number of shares which may be issued upon exercise of all share options to be granted by the Company under the Option Scheme and any other share option schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the Option Scheme. Such limit may be refreshed by shareholders in general meeting from time to time. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Options Scheme and any other share option schemes of the Company must not exceed 30% of the Company's shares in issue from time to time.

The maximum number of shares issued or to be issued upon exercise of share options granted under the Option Scheme and any share option schemes of the Company to any eligible person in any 12 months period shall not exceed 1% of the Company's shares in issue. Any further grant in excess of such limit must be separately approved by shareholders with such eligible person and his associates abstaining from voting.

Any grant of share options to a director, chief executive or substantial shareholder of the Company (or any of their associates) must be approved by independent non-executive directors. In addition, any grant of share options to a substantial shareholder or an independent non-executive directors of the Company (or any of their associates) in excess of 0.1% of the Company's shares in issue and having an aggregate value in excess of HK$5,000,000 in any 12 months period, is required to be approved by shareholders in general meeting in accordance with the Listing Rules.

An offer of the grant of share options must be accepted within 30 days inclusive of the day on which such offer is made, with a payment of HK$1 by the grantee to the Company. The exercise period of the share options granted is determinable by the board of directors, but in any event shall not exceed ten years from the date of grant.

The exercise price of share options is determined by the board of directors provided that it shall be at least the highest of:

(a) the Stock Exchange closing price of the Company's share on the date of grant, which must be a business day; and

(b) the average Stock Exchange closing price of the Company's share for the five business days immediately preceding the date of grant, provided that the exercise price per share shall in no event be less than the nominal value of the Company's share.

The following table discloses movements of the Company's share options during the year:

Category of participants	Date of grant	Exercise period *(note a)*	Exercise price per share before completion of the Capital Reorganisation	Exercise price per share after completion of the Capital Reorganisation *(note b)*	Outstanding at 1.1.2008	Granted during 2008	Exercised during 2008	Adjustment for the Capital Reorganisation *(note c)*	Outstanding at 31.12.2008 *(note b)*
Employees	8.3.2002	8.3.2002 — 7.3.2012	HK$2.615	HK$26.150	18,893,258	—	—	(17,003,932)	1,889,326
Employees	13.12.2004	13.12.2004 — 12.12.2014	HK$1.951	HK$19.510	27,415,112	—	—	(24,673,601)	2,741,511
Employees and consultants	22.3.2007	22.3.2007 — 21.3.2017	HK$0.473	HK$4.730	15,035,056	—	—	(13,531,550)	1,503,506
Employees and consultants	31.5.2007	31.5.2007 — 30.5.2017	HK$0.704	HK$7.040	78,684,455	—	—	(70,816,009)	7,868,446
Employees and consultants	11.7.2007	11.7.2007 — 10.7.2009	HK$0.634	HK$6.340	97,983,415	—	—	(88,185,073)	9,798,342
Employees and consultants	20.3.2008	20.3.2008 — 19.3.2010	HK$0.115	HK$1.146	—	127,440,000	(10,009)	(114,686,992)	12,742,999
					238,011,296	127,440,000	(10,009)	(328,897,157)	36,544,130
Exercisable at the end of the year									36,544,130

Notes:

(a) The exercise period commenced on the date of grant.

(b) The exercise prices per share and the number of share options have been adjusted for the Capital Reorganisation that became effective on 2 May 2008 (note 26).

(c) The closing price of the Company's share on 2 April 2008, the date on which the share options were exercised, was HK$1.06 (adjusted for the Capital Reorganisation). The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK$1.044 (adjusted for the Capital Recrgantsation).

The fair values of the share options granted during the years ended 31 December 2008 and 2007 were HK$3,608,000 and HK$32,282,000 respectively which had been expensed as share-based payment expenses during the years.

The fair value of the share options granted on 20 March 2008 was measured, using a binominal option pricing model, by Grant Sherman Appraisals Limited, an independent firm of professional valuers. The following table lists the inputs to the model used:

	20 March 2008
Option life	2 years
Grant date share price	HK$1.00
Exercise price	HK$1.146
Expected volatility (%)	95.35%
Expected lives of share options	2 years
Dividend yield (%)	0%
Risk-free interest rate	5.752%

The expected lives of share options are based on the historical data over the past five years and are not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

At 31 December 2008, the Company had 36,544,130 share options outstanding under the Option Scheme (2007: 238,011,296), representing 18.72% (2007: 12.19%) of the existing issued share capital of the Company.

41. 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 a 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.

42. MATERIAL RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions during the years ended 31 December 2008 and 2007:

(i) During the year, the Group entered into the following transactions with the China Star Group:

	Name of company	Nature of transaction	2008	2007
			HK$'000	*HK$'000*
Paid or payable to:				
1.	China Star	Salaries	(1,260)	(1,300)
2.	China Star	Amount due by the Group	(600)	(700)
3.	China Star Laser Disc Company Limited	Amount due by the Group	—	(1)

(ii) On 1 August 2007, the Group entered into a conditional sale and purchase agreement with China Star pursuant to which the Group would acquire a 100% interest in the issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of China Star, and a sale loan at a consideration of HK$447,000,000. The consideration would be satisfied by the issue of a convertible note by the Company. The major asset of Exceptional Gain Profits is its 50% interest in Kingsway Hotel Limited. The consideration was determined after arm's length commercial negotiations and with reference to an independent property valuation conducted by DTZ Debenham Tie Leung Limited on an open market basis valuing Kingsway Hotel at approximately HK$894,000,000 at 31 July 2007. The transaction was approved by the independent shareholders at the special general meeting of the Company held on 31 December 2007.

(iii) On 31 December 2007, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 31 December 2007 to 28 February 2008.

(iv) On 28 February 2008, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 28 February 2008 to 31 March 2008.

(v) On 31 March 2008, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 31 March 2008 to 30 May 2008.

(vi) On 29 May 2008, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 30 May 2008 to 31 July 2008.

(vii) On 31 July 2008, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 31 July 2008 to 31 October 2008.

(viii) On 31 October 2008, the Group and China Star entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long-stop date in the conditional sale and purchase agreement dated 1 August 2007 from 31 October 2008 to 31 January 2009.

(ix) On 23 December 2008, the Group entered into a deed of termination with China Star to terminate the conditional sale and purchase agreement dated 1 August 2007.

(b) Save as disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions with Ms. Chen Ming Yin, Tiffany, a director of the Company, during the year ended 31 December 2007:

(i) On 19 July 2007, the Group entered into a conditional sale and purchase agreement with Ms. Chen Ming Yin, Tiffany pursuant to which the Group would acquire a 100% interest in the issued share capital of Modern Vision (Asia) 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 located in the Nam Van Lakes Zone, Macau. The consideration was determined between the Group and Ms. Chen Ming Yin, Tiffany on a "willing buyer — willing seller" basis. The transaction was not approved by the independent shareholders at the special general meeting of the Company held on 21 November 2007.

(ii) On 5 November 2007, Ms. Chen Ming Yin, Tiffany granted an unsecured and interest-free loan of HK$45,000,000 to the Company. The Company repaid the loan on 27 November 2007.

(c) Compensation for key management personnel

Remuneration for key management personnel, including amount paid to the directors of the Company and certain of the highest paid employees, as disclosed in notes 11 and 12 to the consolidated financial statements, is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Salaries	4,080	3,875
Contributions to retirement benefits scheme	24	24
Share-based payment expenses	349	4,345
	4,453	8,244

43. PLEDGE OF ASSETS

At 31 December 2008, the Group has pledged certain of its investment properties with fair value of HK$853,835,000 (2007: HK$852,081,000) and its bank deposits of approximately HK$23,470,000 (2007: HK$16,832,000) which were held by Beijing Shama to secure the bank secured bank loan amounted to HK$319,418,000 (2007: HK$329,018,000).

44. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk — foreign currency risk, credit risk, liquidity risk and cash flow and fair value 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.

(i) Market risk — Foreign currency risk

The Group operates in Hong Kong, the PRC and Macau and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to Renminbi. The Group does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual results.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Company's profit/(loss) before taxation (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in Renminbi rate	**Increase/ (decrease) in profit/ (loss) before taxation**
	%	*HK$'000*
2008		
If Renminbi weakens against Hong Kong Dollar	5	4,107
If Renminbi strengthens against Hong Kong Dollar	(5)	(4,107)
2007		
If Renminbi weakens against Hong Kong Dollar	5	1,957
If Renminbi strengthens against Hong Kong Dollar	(5)	(1,957)

(ii) 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.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the each financial asset, including trade and other receivables, as reported in the consolidated balance sheet.

(iii) 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.

The Group closely monitors its exposure to liquidity risk by reviewing the cash position report monthly. It analyses efficiency of fund management appropriately on the drawdown of bank loans and appoint dedicated personnel to ensure loans are serviced on a timely and accurate basis.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Continuing operations						
Accruals and other payables	32,956	—	—	—	—	32,956
Receipts in advance	477	—	—	—	—	477
Discontinued operations						
Accruals and other payables	13,961	—	—	—	—	13,961
Receipts in advance	39,470	—	—	—	—	39,470
Secured bank loan	—	17,526	17,006	284,886	—	319,418
	86,864	17,526	17,006	284,886	—	406,282

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007						
Accruals and other payables	19,245	—	—	—	—	19,245
Receipts in advance	47,041	—	—	—	—	47,041
Secured bank loan	738	10,718	16,077	301,485	—	329,018
	67,024	10,718	16,077	301,485	—	395,304

(iv) 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.

Sensitivity analysis

The sensitivity analysis below presents the effects on the Group's post-tax profit or loss for the year (as a result of change in interest expense on floating rate borrowings). For floating-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. The sensitivity to interest rate used is considered reasonable given the market forecasts available at the balance sheet date and under the economic environments in which the Group operates, with all other variables held constant.

	2008	**2007**
	HK$'000	*HK$'000*
Hong Kong dollars		
If interest rate was 2% (2007: 2%) higher		
Post-tax profit or loss for the year	(492)	(527)
If interest rate was 2% (2007: 2%) lower		
Post-tax profit or loss for the year	492	527

(b) Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade receivables, deposits, prepayments and other receivables, and financial liabilities, including accruals, other payables 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 values of financial liabilities for disclosure purposes are 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 instruments that are not traded in an active market 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.

The carrying values of the current financial assets and current financial liabilities approximate to their fair values.

(c) Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintains a strong credit rating and healthy ratios in order to support its business and enhance shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during the years 2008 and 2007.

The Company monitors capital using gearing ratio, which is the Group' total borrowings over equity attributable to equity holders of the Company. The gearing ratios as at 31 December 2008 and 2007 were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Amounts due to related companies	600	701
Convertible notes	105,803	—
Secured bank loan	—	329,018
Total borrowings	106,403	329,719
Equity attributable to equity holders of the Company	894,423	1,046,080
Gearing ratio	11.9%	31.5%

45. SUBSEQUENT EVENTS

(a) On 4 November 2008, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"). Pursuant to which, the Company had conditionally agreed to place through Kingston, on a best effort basis, a maximum of 500,000,000 new shares of HK$0.01 each in the share capital of the Company by a maximum of 5 tranches to independent investors at a placing price, which must not be lower than 85% or more of the average closing prices of the shares quoted on the Stock Exchange in the last 30 consecutive trading days up to and including the date on which the placing price is fixed for such tranche and should not be less than HK$0.05 per new share. The placing agreement was approved by the shareholders on 19 December 2008. The first tranche of placing of 200,000,000 new shares at a placing price of HK$0.102 per new share was completed on 11 February 2009 and the second tranche of placing of 300,000,000 new shares at a placing price of HK$0.091 per new share was completed on 2 March 2009. The net proceeds raised from the placing of 500,000,000 new shares amounted to HK$46,720,000.

(b) On 29 December 2008, the Company, CSL and Kingston entered into top-up placing agreement. Pursuant to the top-up placing agreement, CSL had agreed to place, through Kingston on a fully underwritten basis, an aggregate of 39,000,000 existing shares of HK$0.01 each in the share capital of the Company to not less than six placees at a price of HK$0.102 per share and had conditionally agreed to subscribe for an aggregate of 39,000,000 new shares at a subscription price of HK$0.102 per new share. The top-up placing was completed on 9 January 2009 and the net proceeds from the top-up placing amounted to HK$3,820,000.

(c) On 16 February 2009, the Company and Kingston entered into the underwriting agreement in relation to a proposed open offer of not less than 217,093,498 new shares of HK$0.01 each in the share capital of the Company and not more than 367,093,498 new shares at a subscription price of HK$0.10 per new share on the basis of one new share for every two existing shares held by qualifying shareholders on 9 March 2009. The open offer was completed on 30 March 2009 and the net proceeds from the open offer amounted to HK$34,339,000.

(d) On 20 February 2009, the directors of the Company proposed to reorganise the capital of the Company (the "Proposed Capital Reorganisation") in the following manner:

(i) share consolidation — that every ten existing issued shares of HK$0.01 each be consolidated into one consolidated issued share of HK$0.10 (the "Consolidated Shares"); and

(ii) capital reduction — that (i) the total number of the Consolidated Shares in the issued share capital of the Company be rounded down to a whole number by cancelling the fractional Consolidated Shares arising from the share consolidation; (ii) the paid-up capital of each Consolidated Share be reduced from HK$0.10 to HK$0.01 by cancelling HK$0.09 so as to form a new share of HK$0.01; and (iii) the amount of credit arising from the capital reduction be credited to the contributed surplus account of the Company.

The directors also proposed to change the board lot size for trading in the Company's shares from 5,000 shares to 2,000 shares upon the Proposed Capital Reorganisation becoming effective.

The Proposed Capital Reorganisation was approved by the shareholders at a special general meeting of the Company held on 22 April 2009 and became effective on 23 April 2009.

(e) On 11 March 2009, the Company entered into the loan agreement with China Star. Pursuant to the loan agreement, the Company has conditionally agreed to make a loan facility of up to HK$200,000,000 to China Star. Each of the advances made to China Star under the loan facility carries an interest to be accrued at the prime rate per annum as quoted by HSBC. The drawdown of each advance is subject the conditions, among others, that the Company has sufficient fund available to make the advance. Please refer to the Company's circular dated 30 March 2009 for further details of the loan agreement.

The loan agreement was approved by the independent shareholders at another special general meeting of the Company held on 22 April 2009.

(f) On 18 March 2009, Rich Joy Investments Limited and Best Season entered into a deed of termination to terminate the revolving facility of up to HK$200,000,000 granted to Best Season.

(g) On 8 April 2009, the conditional sale and purchase agreement dated 26 November 2008 relating to the disposal of Shinhan-Golden and World East by Riche to Mega Shell was completed. Upon completion of the conditional sale and purchase agreement, the Group holds 20.36% interest in the issued share capital of Golife.

(h) On 23 April 2009, Riche gave an irrevocable undertaking in favour of Golife and Kingston relating to the subscription of 94,153,552 offer shares at a subscription price of HK$0.10 per offer share pursuant to an open offer of Golife on basis of eight offer shares for every one existing share held on the record date. The total subscription price for the offer shares is HK$9,415,355, which will be financed by the internal resources of the Group.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2009.

Five-Year Financial Summary

	For the years ended 31 December				
	2008	**2007**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Turnover	19,253	7,722	9,375	17,965	42,144
Loss from operations	(107,240)	(44,749)	(11,484)	(29,324)	(267,730)
Finance costs	(3,350)	—	(9,615)	(340)	(340)
Loss before taxation	(110,590)	(44,749)	(21,099)	(29,664)	(268,070)
Taxation credit/(charge)	13,854	—	(195)	—	(277)
Loss for the year from continuing operation	(96,736)	(44,749)	—	—	—
(Loss)/profit for the year from discontinued operation	(127,772)	70,443	—	—	—
Net (loss)/profit for the year	(224,508)	25,694	(21,294)	(29,664)	(268,347)
Dividends	—	—	—	—	—

Assets and liabilities

	At 31 December				
	2008	**2007**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,524,280	1,542,452	922,228	235,227	132,881
Total liabilities	(629,857)	(492,476)	(518,696)	(67,617)	(64,310)
Shareholders' funds	894,423	1,049,976	403,532	167,610	68,571

STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business of 31 July 2009, being the latest practicable date for the purpose of the statement of indebtedness, the Enlarged Group had outstanding borrowings of approximately HK$72,500,000 which comprised of (i) the unsecured convertible bond with the principle amount of HK$72,000,000; and (ii) amount due to CSE of HK$500,000, which is unsecured, interest-free and has no fixed terms of repayment.

Contingent liabilities

As at 31 July 2009, the Company had provided a corporate guarantee for securing the loan facility for a total principal amount of RMB350,000,000 granted by a bank to 北京莎瑪房地產開發有限公司, a subsidiary of Golife Concepts Holdings Limited. Golife Concepts Holdings Limited is an associate of the Company.

Disclaimer

Saved 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 July 2009.

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, save for the impairment loss to be recognised in respect of the intangible assets for the six months ended 30 June 2009 and the non-achievement of the services fee guarantee in respect of the services agreements held by Rich Daily Group Limited, a wholly-owned subsidiary of the Company, for the 12 months ended 30 June 2009 as disclosed in the Company's profit warning announcement dated 20 August 2009, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2008, being the date to which the latest audited consolidated accounts of the Group were made up.

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

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

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

28 August 2009

The Directors
China Star Investment Holdings Limited
Unit 3408, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Investment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 119 to 133 under the headings of "Unaudited Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the Company's circular dated 28 August 2009 (the "Circular") in connection with the Company's proposed subscription (the "CB Subscription") of convertible bonds issued by China Star Entertainment Limited (the "Convertible Bond") and the conversion of the Convertible Bond (collectively referred to as the "Enlarged Group"). 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 CB Subscription and the conversion of the Convertible Bond might have affected the relevant financial information of the Group presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction thereto.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

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

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

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

— the financial position of the Enlarged Group as at 31 December 2008 or any future date, or

— the results and cash flows of the Enlarged Group for the year ended 31 December 2008 or any future periods.

OPINION

In our opinion:

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

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

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

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

(A) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET ON THE ENLARGED GROUP (EFFECT ON THE CB SUBSCRIPTION)

Unless otherwise defined, capitalised terms used in the following text shall have the same meaning of those used in the Circular.

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group (effect on the CB Subscription) assuming that the CB Subscription had been completed on 31 December 2008. The unaudited pro forma consolidated balance sheet of the Enlarged Group (effect on the CB Subscription) is based on the audited consolidated balance sheet of the Group as at 31 December 2008 as set out in Appendix II to the Circular, which extracted from the annual report of the Group for the year ended 31 December 2008 and after marking pro forma adjustments relating to the CB Subscription, as if the CB Subscription had been completed on 31 December 2008.

The unaudited pro forma consolidated balance sheet of the Enlarged Group (effect on the CB Subscription) has been prepared for illustrative purpose only, 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 Enlarged Group (effect on the CB Subscription) as at 31 December 2008 and any future date.

	The Group as at 31 December 2008	**Pro Forma adjustment**	**The Group (after the CB Subscription) as at 31 December 2008**
		Note 1	
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	2,155		2,155
Intangible assets	456,857		456,857
Club membership	172		172
Convertible bonds receivable	—	122,127	122,127
Conversion option embedded in convertible bonds receivable	—	51,308	51,308
Loan advance to a related company	—	(200,000)	(200,000)
	459,184		432,619
Current assets			
Trade receivables	6,839		6,839
Deposits, prepayments and other receivables	1,627		1,627
Cash and cash equivalents	7,218		7,218
	15,684		15,684
Assets of disposal group classified as held for sale	1,049,412		1,049,412
	1,065,096		1,065,096
Total assets	1,524,280		1,497,715

	The Group as at 31 December 2008	Pro Forma adjustment	The Group (after the CB Subscription) as at 31 December 2008
		Note 1	
	HK$'000	*HK$'000*	*HK$'000*
Capital and reserves attributable to equity holders of the Company			
Share capital	1,952		1,952
Reserves	892,471	(26,565)	865,906
	894,423		867,858
Minority interests	—		—
Total equity	894,423		867,858
Non-current liabilities			
Convertible notes	105,803		105,803
Deferred taxation	61,678		61,678
	167,481		167,481
Current liabilities			
Accruals and other payables	32,956		32,956
Receipts in advance and deposits received	477		477
Amounts due to related companies	600		600
Tax payable	731		731
	34,764		34,764
Liabilities of disposal group classified as held for sale	427,612		427,612
	462,376		462,376
Total liabilities	629,857		629,857
Total equity and liabilities	1,524,280		1,497,715
Net current assets	602,720		602,720
Total assets less current liabilities	1,061,904		1,035,339

Notes to the unaudited pro forma consolidated balance sheet (effect on the CB Subscription)

(1) The pro forma adjustments represent:

— the initial measurement of the estimated fair value of the debt element and the conversion option element of the Convertible Bond on 31 December 2008, assuming the CB Subscription had been completed on 31 December 2008, were approximately HK$122,127,000 and HK$51,308,000 respectively, based on a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified professional valuer;

— the subscription price of the Convertible Bond shall be satisfied by setting off the Loan Advance which incurred subsequent to 31 December 2008. The details of the Loan Advance were set out in the Company's circular dated 30 March 2009; and

— the difference between the sum of the estimated fair value of the debt element and conversion option element and the principal value of the Convertible Bond at the subscription date of approximately HK$26,565,000, which should be debited to income statement.

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT ON THE ENLARGED GROUP (EFFECT ON THE CB SUBSCRIPTION)

The following is the unaudited pro forma consolidated income statement of the Enlarged Group (effect on the CB Subscription) assuming that the CB Subscription had been completed on 1 January 2008. The audited pro forma consolidated income statement of the Group (after the CB Subscription) is based on the audited financial statements of the Group for the year ended 31 December 2008 as set out in Appendix II to the Circular, which extracted from the annual report of the Group for the year ended 31 December 2008 and after making pro forma adjustments relating to the CB Subscription, as if the CB Subscription had been completed on 1 January 2008.

The unaudited pro forma consolidated income statement of the Enlarged Group (effect on the CB Subscription) has been prepared for illustrative purposes only 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 results of the Group (after the CB Subscription) as the date to which it is made up to of for any future date.

	The Group for the year ended 31 December 2008	Pro Forma adjustment	Pro Forma adjustment	The Group (after the CB Subscription) for the year ended 31 December 2008
		Note 2	*Note 3*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Turnover	19,253			19,253
Cost of sales	(493)			(493)
Gross profit	18,760			18,760
Other revenue and other income	2,427	11,344		13,771
Impairment loss recognised in respect of goodwill	(101,965)			(101,965)
Conversion option embedded in administrative expenses	(26,462)			(26,462)
Changes in fair value in respect of conversion option embedded in convertible bonds receivable	—		14,603	14,603
Loss from operations	(107,240)			(81,293)
Finance costs	(3,350)			(3,350)
Loss before taxation	(110,590)			(84,643)
Taxation	13,854			13,854
Loss for the year from continuing operations	(96,736)			(70,789)
Discontinuing operations				
Loss for the year from discontinued operations	(127,772)			(127,772)
Loss for the year	(224,508)			(198,561)

Notes to the unaudited pro forma consolidated income statement (effect on the CB Subscription)

(2) The pro forma adjustment of approximately HK$11,344,000 represented the imputed interest income on the debt element of the Convertible Bond for the year ended 31 December 2008, assuming the CB Subscription had been completed on 1 January 2008. The adjustment has continuing financial effect.

(3) The pro forma adjustment of approximately HK$14,603,000 represented the fair value changes on the conversion option element of the Convertible Bond from the subscription date to 31 December 2008, assuming the CB Subscription had been completed on 1 January 2008. The adjustment has continuing financial effect.

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT ON THE ENLARGED GROUP (EFFECT ON THE CB SUBSCRIPTION)

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group (effect on the CB Subscription) assuming that the CB Subscription had been completed on 1 January 2008. The audited pro forma consolidated cash flow statement of the Enlarged Group (effect on the CB subscription) is based on the audited consolidated cash flow statements of the Group for the year ended 31 December 2008 as set out in Appendix II to the Circular, which extracted from annual report of the Group for the year ended 31 December 2008 and after making pro forma adjustments relating to the CB Subscription, as if the CB Subscription had been completed on 1 January 2008.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group (effect on the CB Subscription) has been prepared for illustrative purposes only, 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 cash flows of the Group (after the CB Subscription) as the date to which it is made up to of for any future date.

	The Group for the year ended 31 December 2008	Pro Forma adjustment	Pro Forma adjustment	The Group (after the CB Subscription) for the year ended 31 December 2008
		Note 4	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES				
Loss before taxation from continuing operations	(110,590)	25,947		(84,643)
Loss before taxation from discontinued operations	(149,986)			(149,986)
Loss before taxation	(260,576)			(234,629)
Adjustments for:				
Interest income	(3,639)	(11,344)		(14,983)
Fair value changes on investment properties	74,045			74,045
Finance costs	28,639			28,639
Depreciation of property, plant and equipment	5,033			5,033
Impairment loss recognised in respect of goodwill	142,347			142,347
Loss on disposal of property, plant and equipment	3			3
Change in fair value in respect of conversion options	—	(14,603)		(14,603)
Share-based payment expenses	3,608			3,608
Operating cash flows before movements in working capital	(10,540)			(10,540)
Decrease in inventories	3,814			3,814
Increase in trade receivables	(5,806)			(5,806)
Decrease in deposits, prepayments and other receivables	20,505			20,505
Increase in accruals and other payables	27,672			27,672
Decrease in receipts in advance	(7,094)			(7,094)
Decrease in amounts due to related companies	(101)			(101)
Cash generated from operations	28,450			28,450
Tax refund	3,736			3,736
Net cash generated from operating activities	32,186			32,186

	The Group for the year ended 31 December 2008	Pro Forma adjustment	Pro Forma adjustment	The Group (after the CB Subscription) for the year ended 31 December 2008
		Note 4	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES				
Interest received	3,639	10,000		13,639
Effect from acquisition of interests in subsidiaries	(364,821)			(364,821)
Additions of investment properties	(42,202)			(42,202)
Purchase of property, plant and equipment	(22,397)			(22,397)
Consideration for the CB Subscription	—		(200,000)	(200,000)
Net cash used in investing activities	(425,781)			(615,781)
FINANCING ACTIVITIES				
Interest paid	(25,289)			(25,289)
Issuance of new shares and exercise of share options	1			1
Repayment of secured bank loan	(28,602)			(28,602)
Net cash used in financing activities	(53,890)			(53,890)
Net decrease in cash and cash equivalents	(447,485)			(637,485)
Effect of foreign exchange rate changes	5,459			5,459
Cash and cash equivalents at beginning of year	531,396			531,396
Cash and cash equivalents at end of year	89,370			(100,630)

Notes to the unaudited pro forma consolidated cash flow statement (effect on the CB Subscription)

(4) The pro forma adjustments represent the imputed interest income, the fair value changes on the conversion option element of the Convertible Bonds and the actual interest income which calculated based on the prime rate (assuming 5%) for the year ended 31 December 2008, were approximately HK$11,344,000, HK$14,603,000 and HK$10,000,000 respectively, assuming the CB Subscription had been completed on 1 January 2008. The adjustment has continuing financial effect.

(5) The pro forma adjustment of HK$200,000,000 represents the consideration for the CB Subscription which shall be set off by the Loan Advance. The adjustment does not have continuing financial effect.

(D) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET ON THE ENLARGED GROUP (EFFECT ON THE PARTIAL CONVERSION)

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group assuming that the conversion of the Convertible Bond had been completed on 31 December 2008. Since the conversion of the Convertible Bond is subject to the provision that such conversion (i) will not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the Company and its respective concerted parties which exercised the conversion right; (ii) will not cause the public float of CSE unable to meet the requirement under the Listing Rule, it is assuming that conversion of the Convertible Bond will be up to the extent that the Company and the parties acting in concert with it are interested in no more than 30%, assumed to be 25.87% for the Group of the then issued share capital of CSE (the "Partial Conversion").

Following the Partial Conversion of the Convertible Bond into the Conversion Shares and the converted Conversion Shares representing less than 30% of the issued share capital of CSE as enlarged by the converted Conversion Shares. CSE shall be treated as an associate of the Company and the investment in the converted Conversion Shares will be accounted for in the Group's consolidated financial statements using the equity method in accordance with Hong Kong Accounting Standard 28 – Investments in Associates.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is based on the unaudited consolidated balance sheet of the Enlarged Group (effect on the CB Subscription) as at 31 December 2008 as set out in part A of Appendix III, and after marking pro forma adjustments relating to the Partial Conversion, as if the Partial Conversion had been completed on 31 December 2008.

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only, 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 Enlarged Group as at 31 December 2008 and any future date.

	The Group (after the CB Subscription) as at 31 December 2008	**Pro Forma adjustment**	**Pro Forma adjustment**	**The Enlarged Group as at 31 December 2008**
		Note 6	*Note 7*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	2,155			2,155
Intangible assets	456,857			456,857
Club membership	172			172
Interest in an associate	—	1,762	365,259	367,021
Convertible bonds receivable	122,127	(1,241)		120,886
Conversion option embedded in convertible bonds receivable	51,308	(521)		50,787
Loan advance to a related company	(200,000)			(200,000)
	432,619			797,878
Current assets				
Trade receivables	6,839			6,839
Deposits, prepayments and other receivables	1,627			1,627
Tax prepayments	—			—
Cash and cash equivalents	7,218			7,218
	15,684			15,684
Assets of disposal group classified as held for sale	1,049,412			1,049,412
	1,065,096			1,065,096
Total assets	1,497,715			1,862,974
Capital and reserves attributable to equity holders of the Company				
Share capital	1,952			1,952
Reserves	865,906		365,259	1,231,165
	867,858			1,233,117
Minority interests	—			—
Total equity	867,858			1,233,117

	The Group (after the CB Subscription) as at 31 December 2008	Pro Forma adjustment	Pro Forma adjustment	The Enlarged Group as at 31 December 2008
		Note 6	*Note 7*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Convertible notes	105,803			105,803
Deferred taxation	61,678			61,678
	167,481			167,481
Current liabilities				
Accruals and other payables	32,956			32,956
Receipts in advance and deposits received	477			477
Amounts due to related companies	600			600
Tax payable	731			731
	34,764			34,764
Liabilities of disposal group classified as held for sale	427,612			427,612
	462,376			462,376
Total liabilities	629,857			629,857
Total equity and liabilities	1,497,715			1,862,974
Net current assets	602,720			602,720
Total assets less current liabilities	1,035,339			1,400,598

Notes to the unaudited pro forma consolidated balance sheet (effect on the Partial Conversion)

(6) Pursuant to the annual report of the CSE Group for the year ended 31 December 2008, CSE had 29,112,152 outstanding ordinary shares as at 31 December 2008 after taken up the adjustment of the share consolidation for which every 20 shares consolidated into 1 share on 4 May 2009. Accordingly, the maximum number of CSE shares that the Group can convert under the Convertible Bond to the extent that the Company and the parties acting in concern with it is interested in not more than 30%, assumed to be 25.87% for the Group of the then issued share capital of CSE is 10,159,603. The pro forma adjustment represent the recognition of the interest in an associate – the CSE Group of approximately HK$1,762,000, de-recognition of the debt element and the conversion option element of the Convertible Bond of approximately HK$1,241,000 and HK$521,000 respectively, assuming the Partial Conversion had been completed on 31 December 2008.

(7) The pro forma adjustment of approximately HK$365,259,000 represented the discount on acquisition of an associate which directly credit to income statement assuming the Partial Conversion had been completed on 31 December 2008. The adjustments do not have continuing financial effect.

(E) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT ON THE ENLARGED GROUP (EFFECT ON THE PARTIAL CONVERSION)

The following is the unaudited pro forma consolidated income statement of the Enlarged Group assuming that the Partial Conversion had been completed on 1 January 2008. The unaudited pro forma consolidated income statement is based on the unaudited pro forma consolidated income statement after the CB Subscription for the year ended 31 December 2008 as set out in part B of Appendix III and after making pro forma adjustments relating to the Partial Conversion, as if the Partial Conversion had been completed on 1 January 2008.

The unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purposes only 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 results of the Enlarged Group as the date to which it is made up to or for any future date.

	The Group (after the CB Subscription) for the year ended 31 December 2008	Pro Forma adjustment	The Enlarged Group for the year ended 31 December 2008
		Note 8	
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	19,253		19,253
Cost of sales	(493)		(493)
Gross profit	18,760		18,760
Other revenue and other income	13,771		13,771
Discount on acquisition of an associate	—	302,917	302,917
Impairment loss recognised in respect of goodwill	(101,965)		(101,965)
Conversion option embedded in administrative expenses	(26,462)		(26,462)
Share of results of associate	—	16,968	16,968
Changes in fair value in respect of conversion option embedded in convertible bonds receivable	14,603		14,603
(Loss)/profit from operations	(81,293)		238,592
Finance costs	(3,350)		(3,350)
(Loss)/profit before taxation	(84,643)		235,242
Taxation	13,854		13,854
(Loss)/profit for the year from continuing operations	(70,789)		249,096
Discontinuing operations			
Loss for the year from discontinued operations	(127,772)		(127,772)
(Loss)/profit for the year	(198,561)		121,324

Notes to the unaudited pro forma consolidated income statement (effect on the Partial Conversion)

(8) The pro forma adjustment represented the share of profit of the CSE Group of approximately HK$16,968,000 and discount on acquisition of an associate of approximately HK$302,917,000 based on net profit attributable to equity holder of CSE Group, assuming the Partial Conversion had been completed on 1 January 2008. The adjustments had continuing financial effect.

(F) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT ON THE ENLARGED GROUP (EFFECT ON THE PARTIAL CONVERSION)

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group assuming that the Partial Conversion had been completed on 1 January 2008. The unaudited pro forma consolidated cash flow statement of the Enlarged Group is based on the unaudited pro forma consolidated cash flow statements of the Group (after the CB Subscription) for the year ended 31 December 2008 as set out in part C of Appendix III, and after making pro forma adjustments relating to the Partial Conversion, as if the Partial Conversion had been completed on 1 January 2008.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purposes only, 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 results of the Enlarged Group as the date to which it is made up to or for any future date.

	The Group (after the CB Subscription) for the year ended 31 December 2008	Pro Forma adjustment	The Enlarged Group for the year ended 31 December 2008
		Note 8	
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss)/profit before taxation from continuing operations	(84,643)	319,885	235,242
Loss before taxation from discontinued operations	(149,986)		(149,986)
(Loss)/profit before taxation	(234,629)		85,256
Adjustments for:			
Interest income	(14,983)		(14,983)
Fair value changes on investment properties	74,045		74,045
Finance costs	28,639		28,639
Depreciation of property, plant and equipment	5,033		5,033
Impairment loss recognised in respect of goodwill	142,347		142,347
Loss on disposal of property, plant and equipment	3		3
Change in fair value in respect of conversion options	(14,603)		(14,603)
Share of results of associates	—	(16,968)	(16,968)
Discount on acquisition of an associate	—	(302,917)	(302,917)
Share-based payment expenses	3,608		3,608
Operating cash flows before movements in working capital	(10,540)		(10,540)
Decrease in inventories	3,814		3,814
Increase in trade receivables	(5,806)		(5,806)
Decrease in deposits, prepayments and other receivables	20,505		20,505
Increase in accruals and other payables	27,672		27,672
Decrease in receipts in advance	(7,094)		(7,094)
Decrease in amounts due to related companies	(101)		(101)
Cash generated from operations	28,450		28,450
Tax refund	3,736		3,736
Net cash generated from operating activities	32,186		32,186

	The Group (after the CB Subscription) for the year ended 31 December 2008	Pro Forma adjustment	The Enlarged Group for the year ended 31 December 2008
		Note 8	
	HK$'000	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES			
Interest received	13,639		13,639
Effect from acquisition of interests in subsidiaries	(364,821)		(364,821)
Additions of investment properties	(42,202)		(42,202)
Purchase of property, plant and equipment	(22,397)		(22,397)
Consideration for the CB Subscription	(200,000)		(200,000)
Net cash used in investing activities	(615,781)		(615,781)
FINANCING ACTIVITIES			
Interest paid	(25,289)		(25,289)
Issuance of new shares and exercise of share options	1		1
Repayment of secured bank loan	(28,602)		(28,602)
Net cash used in financing activities	(53,890)		(53,890)
Net decrease in cash and cash equivalents	(637,485)		(637,485)
Effect of foreign exchange rate changes	5,459		5,459
Cash and cash equivalents at beginning of year	531,396		531,396
Cash and cash equivalents at end of year	(100,630)		(100,630)

The followings are certain information as extracted from the circular dated 23 January 2009 issued by the Company. For avoidance of doubt, capitalised terms need therein shall have the meanings as defined and reference to page numbers (if any) shall refer to those in such circular.

UNAUDITED PRO FORMA INFORMATION OF THE REMAINING GROUP

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

23 January 2009

The Directors
China Star Investment Holdings Limited
Room 3408, Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Investment Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out on pages 196 to 206 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV of the Company's circular dated 23 January 2009 (the "Circular") in connection with the proposed disposal of the entire issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and World East Investments Limited ("World East"), two wholly owned subsidiaries of the Company (the "Disposal"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Disposal might have affected the relevant financial information presented, for inclusion in Appendix IV of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 196 to this Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

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

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

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

— the financial position of the Remaining Group as at 30 September 2008 or any future date, or

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

OPINION

In our opinion:

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

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

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

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

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

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

The following is the unaudited pro forma financial information of the Remaining Group as if the Disposal had taken place on 30 September 2008 for the unaudited pro forma consolidated balance sheet and on 1 January 2007 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

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

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

(i) Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group, assuming that the Disposal has been completed on 30 September 2008. The unaudited pro forma consolidated balance sheet is based on the consolidated financial statement of the Group as at 30 September 2008 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated balance sheet of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Remaining Group as at the date to which it is made up to or at any future date.

	The Group as at 30 September 2008	**Pro forma adjustment (Shinhan-Golden) #1**	**Pro forma adjustment (World East) #2**	**Pro forma adjustment #3**	**The Remaining Group as at 30 September 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	22,743	(20,406)	(9)		2,328
Investment properties	905,393	(905,393)			—
Available for sale investment	—		(3,896)	3,896	—
Convertible note receivable	—			45,103	45,103
Conversion option embedded in convertible note receivable	—			35,644	35,644
Promissory note	—			64,253	64,253
Interest in associate	—			23,185	23,185
Intangible assets	456,857				456,857
Club memberships	172				172
	1,385,165				627,542
Current assets					
Inventories	34,771	(34,771)			—
Trade receivables	7,357	(219)			7,138
Deposits, prepayments and other receivables	23,012	(14,777)	(6,631)		1,604
Amount due from the Disposal Group	—	433,433	(10,948)	(46,678)	375,807
Cash and cash equivalents	104,553	(100,674)		5,082	8,961
	169,693				393,510
Total assets	1,554,858				1,021,052

	The Group as at 30 September 2008	Pro forma adjustment (Shinhan-Golden) #1	Pro forma adjustment (World East) #2	Pro forma adjustment #3	The Remaining Group as at 30 September 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY					
Capital and reserve attributable to the company's equity holders					
Share capital	1,952				1,952
Reserves	909,174	(201,323)	(19,949)	126,589	814,491
	911,126				816,443
Minority interest	—	(3,896)		3,896	—
Total equity	911,126				816,443
LIABILITIES					
Current liabilities					
Accruals and other payables	50,854	(11,518)	(1,535)		37,801
Receipts in advance	49,151	(48,666)			485
Amount due to a related company	660				660
Secured bank loan					
— due within one year	23,246	(23,246)			—
Tax payables	1,300				1,300
	125,211				40,246
Non-current liabilities					
Secured bank loans					
— after one year	297,033	(297,033)			—
Deferred taxation	118,803	(57,125)			61,678
Convertible notes	102,685				102,685
	518,521				164,363
Total equity and liabilities	1,554,858				1,021,052
Net current assets	44,482				353,264
Total assets less current liabilities	1,429,697				980,806

Note to the Unaudited Pro Forma Consolidated Balance Sheet

1. The adjustment reflects the effect of the disposal of Shinhan-Golden, which represents a decrease in the net assets of HK$205,219,000 on the Group's consolidated balance sheet as at 30 September 2008, taking into account of:

   (a) Investment properties of HK$905,393,000;
   (b) Property, plant and equipment of HK$20,406,000;
   (c) Inventories of HK$34,771,000;
   (d) Trade receivables of HK$219,000;
   (e) Deposits, prepayments and other receivables of HK$14,777,000;
   (f) Cash and cash equivalents of HK$100,674,000;
   (g) Accruals and other payables of HK$11,518,000;
   (h) Receipts in advance of HK$48,666,000;
   (i) Amount due from the Disposal Group of HK$433,433,000;
   (j) Secured bank loan due within one year of HK$23,246,000;
   (k) Secured bank loan due after one year of HK$297,033,000;
   (l) Deferred taxation of HK$57,125,000; and
   (m) Minority interest of HK$3,896,000.

   This adjustment is not expected to have a continuing effect on the Remaining Group.

2. The adjustment reflects the effect of the disposal of World East, which represents a decrease in the net assets of HK$19,949,000 on the Group's consolidated balance sheet as at 30 September 2008, taking into account of:

   (a) Property, plant and equipment of HK$9,000;
   (b) Available for sale investment of HK$3,896,000;
   (c) Deposits, prepayments and other receivables of HK$6,631,000;
   (d) Accruals and other payables of HK$1,535,000; and
   (e) Amount due to the Disposal Group of HK$10,948,000;

   This adjustment is not expected to have a continuing effect on the Remaining Group.

3. The pro forma adjustment reflects:

   (a) the consideration of HK$173,767,000 which included (i) the consideration for the sale of the entire equity interest in Shinhan-Golden and the loans due to Riche (BVI) Limited ("Riche"); and (ii) the consideration for entire equity interest in World East and the loans due to Riche, after taking consideration of the estimated expenses to be incurred in connection to the Disposals of approximately HK$500,000.

   (b) the effect of the Disposal results in changing the reserves of HK$126,589,000 which represents the elimination of the consideration of the Disposals of HK$173,767,000 (note 4) less the estimated expenses to be incurred in connection to the Disposal of approximately HK$500,000 and the shareholders' loan of HK$46,678,000. This adjustment is not expected to have a continuing effect on the Remaining Group.

4. In accordance with the sale and purchase agreement, the aggregate consideration of the Disposal is HK$211,466,310 satisfied as to: (i) HK$5,581,713 in cash; (ii) HK$5,884,597 by procuring Golife Concepts Holdings Limited ("Golife") to allot and issue 117,691,940 shares of Golife; (iii) HK$100,000,000 by procuring Golife to issue the convertible bond to Riche; and (iv) HK$100,000,000 by procuring Golife to issue promissory note to Riche.

An analysis of the fair value of the total consideration of the Disposal is set out as follows:

	HK$'000
Fair value of Shares *(note a)*	23,185
Fair value of Promissory Note *(note b)*	64,253
Fair value of Convertible Note *(note c)*	80,747
Cash	5,582
	173,767

(a) The value of consideration shares for the Disposal was based on 117,691,940 shares of Golife at HK$0.197 per share as if the Disposal completed on 30 September 2008. However, the fair value of the Consideration Shares issued as consideration for the Disposal so arrived at as aforesaid and used for the purpose of the unaudited pro forma financial information set out above may be substantially different from their fair value at the date of completion. Accordingly, the actual loss on disposal of subsidiaries may be different from that shown on note (3) above.

(b) The Promissory Note with the principal value of HK$100,000,000 is to be issued by Golife as consideration for the Disposal. The Promissory Note is repayable at any time within five years from the date of issue of the Promissory Note at no interest. The promissory note receivable is classified as a financial asset and should be initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method. The fair value of the Promissory Note is determined at HK$64,253,000 at the date of issue using the interest rate of 9.25% per annum, over the entire term of the Promissory Note, i.e. 5 years. The shortfall of HK$35,747,000 of the fair value of HK$64,253,000 below the principal value of HK$100,000,000 will be recognised as an interest income of the Group over a term of 5 years using the effective interest rate method.

(c) The Convertible Note with an aggregate principal amount of HK$100,000,000 to be receivable by the Company as consideration for the Disposal. The convertible note receivable is classified as financial asset at fair value through profit or loss and should be initially measured at fair value, and subsequently measured at fair value. The initial measurement of the estimated fair value of the debt element and the conversion option element of the Convertible Note on 30 September 2008, assuming the Disposal had been completed on 30 September 2008, were approximately HK$45,103,000 and HK$35,644,000 respectively, based on a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified professional valuer.

(ii) Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

The following is the unaudited pro forma consolidated income statement of the Remaining Group, assuming that the Disposal had been completed on 1 January 2007. The unaudited pro forma consolidated income statement is based on the audited financial statements of the Group for the year ended 31 December 2007 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated income statement of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Remaining Group after completion of the Disposal for the period ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2007	Pro forma adjustment (Shinhan-Golden) #1	Pro forma adjustment (World East) #2	Pro forma adjustment #3	The Remaining Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	10,639	(2,917)			7,722
Cost of sales	(858)	858			—
Gross profit	9,781				7,722
Other revenue	3,205	(172)	(111)	10,611	13,533
Other income	106,956	(106,956)			—
Fair value changes of investment properties	43,853	(43,853)			—
Increase in fair value of conversion option embedded in convertible note receivables	—			60,636	60,636
Share of result of associates	—			(18,780)	(18,780)
Impairment loss recognised in respect of goodwill	(37,828)				(37,828)
Gain on disposal of subsidiaries	—			21,719	21,719
Administrative expenses	(67,623)	11,925	305		(55,393)
Profit/(loss) from operation	58,344				(8,391)
Finance costs	(19,494)	19,494			—
Profit/(loss) before taxation	38,850				(8,391)
Taxation	(13,156)	13,156			—
Profit/(loss) for the year	25,694				(8,391)

(iii) Unaudited Pro Forma Consolidated Cash Flow Statement of the Remaining Group

The following is the unaudited pro forma consolidated cash flow statement of the Remaining Group, assuming that the Disposal had been completed on 1 January 2007. The unaudited pro forma consolidated cash flow statement is based on the audited financial statements of the Group for the year ended 31 December 2007 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated cash flow statement of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow of the Remaining Group after completion of the Disposal for the period ended to which it is made up to or for any future period.

	The Group for the year ended 31 December 2007	Pro forma adjustment (Shinhan-Golden) #4	Pro forma adjustment (World East) #5	Pro forma adjustment #6	The Remaining Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Profit/(loss) before taxation	38,850	(121,621)	194	74,186	(8,391)
Adjustments for:					
Interest income	(2,990)	139	15	(10,611)	(13,447)
Dividend income	(78)				(78)
Wavier of secured bank loan interest	(106,956)				(106,956)
Increase in fair value of investment properties	(43,853)	43,853			—
Finance costs	19,494	(19,494)			—
Depreciation of property, plant and equipment	1,158	(595)	(1)		562
Impairment loss recognised in respect of goodwill	37,828				37,828
Impairment loss recognised in respect of trade receivables	9				9
Increase in fair value of conversion option embedded in convertible note receivable	—			(60,636)	(60,636)
Share of result of associates	—			18,780	18,780
Loss on disposal of property, plant and equipment	3				3
Gain on disposal of subsidiaries	—			(21,719)	(21,719)
Share-based payment expenses	32,282				32,282
Operating cash flows before movements in working capital	(24,253)				(121,763)

	The Group for the year ended 31 December 2007	Pro forma adjustment (Shinhan-Golden) #4	Pro forma adjustment (World East) #5	Pro forma adjustment #6	The Remaining Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Decrease in inventories	12,371	(12,371)			—
Increase in trade receivables	(318)	849	(543)		(12)
Increase in deposits, prepayments and other receivables	(12,576)	8,312	4,251		(13)
Decrease in accruals and other payables	(963)	3,092	(184)		1,945
Increase in amount due to a related company	95				95
Decrease in amount due from the Disposal Group	—	(145,593)	7,957		(137,636)
Decrease in receipts in advance	(13,857)	13,857			—
Cash used in operations	(39,501)				(257,384)
Tax paid	(4,671)				(4,671)
Net cash used in operating activities	(44,172)				(262,055)
INVESTING ACTIVITIES					
Interest received	2,990	(139)	(15)		2,836
Dividend income	78				78
Proceeds from deposals of property, plant and equipment	220				220
Additions of investment property	(116,960)	116,960			—
Net cashflows from disposal of subsidiaries	—			(500)	(500)
Purchase of property, plant and equipment	(4,908)	4,890	7		(11)
Net cash used in investing activities	(118,580)				2,623

	The Group for the year ended 31 December 2007	Pro forma adjustment (Shinhan-Golden) #4	Pro forma adjustment (World East) #5	Pro forma adjustment #6	The Remaining Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES					
Interest paid	(19,494)	19,494			—
Issuance of new shares	562,775				562,775
Repayment of secured bank loans	5,359	28,409			33,768
New secured bank loans raised	65,922				65,922
Net cash generated from financing activities	614,562				662,465
Net cash increase in cash and cash equivalents	451,810				403,033
Effect of foreign exchange rate	16,446	26,622	(11,681)		31,387
Cash and cash equivalents at the beginning of the year	63,140	(5,799)			57,341
Cash and cash equivalents at the end of the year	531,396				419,761
Analysis of the balances of cash and cash equivalents:					
Cash and bank balances	531,396	(39,135)		(500)	419,761

Note to the Unaudited Pro Forma Consolidated Income Statement and Unaudited Pro Forma Consolidated Cash Flow Statements

1. The adjustment reflects the net effect of the disposal of Shinhan-Golden, which represents the elimination of the net profit of HK$108,465,000 of Shinhan-Golden for the year ended 31 December 2007, assuming that if the disposal has been completed on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

2. The adjustment reflects the net effect of the disposal of World East, which represents the elimination of the net loss of HK$194,000 of World East for the year ended 31 December 2007, assuming that if the disposal has been completed on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

3. The pro forma adjustments represented:

   — the gain on the Disposals HK$21,719,000 attributable to the Remaining Group which is calculated based on the consideration of HK$140,483,000 (note 7) less (1) the estimated expenses to be incurred in connection to the Disposals of approximately HK$500,000; (2) the shareholders' loan from the Remaining Group of HK$3,979,000; and (3) the net assets/(liabilities) of HK$124,210,000 and HK$(9,925,000) attributable to the Disposal Group as at 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

   — The other revenue represents the effective interest income of the Promissory Note and the imputed interest income on the debt element of the Convertible notes for the year ended 31 December 2007. The adjustment had continuing financial effect.

   — The fair value changes on the conversion option element of the Convertible Note at the Disposal date and during the year ended 31 December 2007, assuming the Disposal had been completed on 1 January 2007. The adjustment had continuing financial effect.

   — The share of results of an associate – The CG Group, for the year ended 31 December 2007 assuming the Disposal had been completed on 1 January 2007. The adjustment had continuing financial effect.

   — The reversal of the impairment loss of goodwill for the year ended 31 December 2007, assuming that if the Disposal has been completed on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

4. The adjustment reflects the exclusion of cash flow of the Shinhan-Golden for the year ended 31 December 2007, assuming that if the disposal of Shinhan-Golden has been completed on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

5. The adjustment reflects the exclusion of cash flow of the World East for the year ended 31 December 2007, assuming that if the disposal of World East has been completed on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

6. The adjustment reflects the cash consideration net of estimated expenses directly attributable to the Disposals of HK$500,000 assuming the Disposals had been taken place on 1 January 2007. This adjustment is not expected to have a continuing effect on the Remaining Group.

7. An analysis of the fair value of the total consideration of the Disposal is set out as follows:

	HK$'000
Fair value of Shares *(note a)*	27,658
Fair value of Promissory Note *(note b)*	57,380
Fair value of Convertible Note *(note c)*	55,445
Cash *(note d)*	—
	140,483

(a) The value of Consideration Shares for the Disposal was based on 117,691,940 shares of Golife at HK$0.235 per share as if the Disposal completed on 1 January 2007. However, the fair value of the Consideration Shares issued as consideration for the Disposal so arrived at as aforesaid and used for the purpose of the unaudited pro forma financial information set out above may be substantially different from their fair value at the date of completion. Accordingly, the actual gain on disposal of subsidiaries may be different from that shown on note(3) above.

(b) The Promissory Note with the principal value of HK$100,000,000 is to be issued by Golife as consideration for the Disposal. The Promissory Note is repayable at any time within five years from the date of issue of the Promissory Note at no interest. The Promissory Note is classified as held to maturity financial asset and should be initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method. The fair value of the Promissory Note is determined at HK$57,380,000 at the date of issue using the interest rate of 11.75% per annum, over the entire term of the Promissory Note, i.e. 5 years. The shortfall of HK$42,620,000 of the fair value of HK$57,380,000 below the principal value of HK$100,000,000 will be recognised as an interest income of the Group over a term of 5 years using the effective interest rate method. The effective interest income of the Promissory Note amounts to HK$6,742,000 based on the applicable principal amount of HK$57,380,000 and interest rate of 11.75% per annum.

(c) The initial measurement of the estimated fair value of the debt element and the conversion option element of the Convertible Note on 1 January 2007, assuming the Disposal had been completed on 1 January 2007, were approximately HK$32,925,000 and HK$22,520,000 respectively, based on a valuation report issued by Grant Sherman Appraisal Limited, an independent qualified professional valuer.

(d) The amount of cash consideration is subject to adjustment pursuant to the sale and purchase agreement. In the event that the total outstanding balances of the Sales Loans as at the date of the Disposal is less than HK$46,678,498, the cash consideration shall be reduced by the corresponding difference. At the date of Disposal, the outstanding balance of the Sales Loans is HK$3,974,000 and the cash consideration shall be reduced to zero.

FINANCIAL INFORMATION OF THE GC GROUP

1. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the year ended 31 December 2007. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for the year ended 31 December 2007

Independent Auditor's Report

Cheung & Siu **Certified Public Accountants *(Practising)***
張、蕭會計師事務所

Room A,15th Floor
Fortis Bank Tower
77-79 Gloucester Road
Wanchai
Hong Kong

To the members of
GOLIFE CONCEPTS HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Golife Concepts Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 99, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheung & Siu
Certified Public Accountants (Practising)

Hong Kong, 20 March 2008

Consolidated Income Statement
Year ended 31 December 2007

	Notes	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
TURNOVER	7		
Continuing operations		60,536	18,342
Discontinued operation		62	543
		60,598	18,885
Cost of sales		(22,830)	(7,385)
Gross profit		37,768	11,500
Other revenues and gains	7	6,212	5,357
Selling and distribution costs		(3,600)	(994)
Administrative expenses		(55,264)	(12,240)
Finance costs	8	(1,800)	(1,799)
Share of loss of jointly controlled entities		(4)	—
Impairment of goodwill		(75,552)	—
PROFIT/(LOSS) BEFORE TAX	9		
Continuing operations		(92,580)	486
Discontinued operation	13	340	1,338
		(92,240)	1,824
Tax	11		
Continuing operations		—	(676)
Discontinued operation		—	—
		—	(676)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS			
Continuing operations		(92,580)	(190)
Discontinued operation	13	340	1,338
		(92,240)	1,148
Earnings/(loss) per share	15		
From continuing and discontinued operations			
— basic (cents)		(8.69)	0.32
— diluted (cents)		N/A	N/A
From continuing operation			
— basic (cents)		(8.72)	(0.05)
— diluted (cents)		N/A	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	6,712	2,955
Goodwill	17		75,552
Intangible assets	18	—	4,720
Investments in jointly controlled entities	20	—	—
Investment in an associate	21	—	—
Total non-current assets		6,712	83,227
CURRENT ASSETS			
Inventories	22	8,992	2,643
Trade receivables	23	4,195	2,209
Deposits, prepayments and other receivables		13,914	4,598
Financial assets at fair value through profit or loss	24	966	6,190
Derivative financial instruments	25	840	92
Amounts due from jointly controlled entities	20	562	—
Pledged deposits		5,949	—
Cash and bank balances		3,587	3,426
Total current assets		39,005	19,158
CURRENT LIABILITIES			
Trade and bills payables	26	2,593	3,116
Other payables and accruals		15,114	3,212
Derivative financial instruments	25	459	—
Interest-bearing bank and other borrowings	27	13,563	12,460
Amount due to a jointly controlled entity	20	675	—
Tax payable		755	1,076
Total current liabilities		33,159	19,864
Net current assets/(liabilities)		5,846	(706)
Total assets less current liabilities		12,558	82,521
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	805	2,785
Convertible notes	29	—	48,188
Total non-current liabilities		805	50,973
Net assets		11,753	31,548
EQUITY			
Issued capital	31	12,470	5,268
Equity component of convertible notes	29	—	11,316
Reserves		(717)	14,964
Total equity		11,753	31,548

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

	Issued capital HK$'000	Share premium HK$'000	Equity component of convertible notes HK$'000	Exchange reserve HK$'000	Share-based payments reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2006	65,850	34,698	—	(15)	—	(106,359)	(5,826)
Capital reorganisation	(64,533)	—	—	—	—	64,533	—
Issue of shares on open offer	3,951	21,730	—	—	—	—	25,681
Share issuance costs	—	(786)	—	—	—	—	(786)
Issue of convertible notes	—	—	11,999	—	—	—	11,999
Redemption of convertible notes	—	—	(683)	—	—	—	(683)
Reserve realized upon disposal of subsidiaries	—	—	—	15	—	—	15
Net profit for the period	—	—	—	—	—	1,148	1,148
At 31 December 2006 and 1 January 2007	5,268	55,642	11,316	—	—	(40,678)	31,548
Redemption of convertible notes — *note 29*	—	—	(195)	—	—	—	(195)
Conversion of convertible notes — *note 29*	5,702	53,546	(11,121)	—	—	—	48,127
Placing of new shares — *note 31*	1,500	23,250	—	—	—	—	24,750
Cost of placing of new shares	—	(335)	—	—	—	—	(335)
Recognition of equity-settled share-based payments — *note 32*	—	—	—	—	98	—	98
Net loss for the year	—	—	—	—	—	(92,240)	(92,240)
At 31 December 2007	12,470	132,103	—	—	98	(132,918)	11,753

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Year ended 31/12/2007 *HK$'000*	Period from 1/4/2006 to 31/12/2006 *HK$'000*
OPERATING ACTIVITIES		
Profit/(loss) before tax:		
Continuing operations	(92,580)	486
Discontinued operation	340	1,338
Adjustments for:		
Finance costs	1,800	1,799
Interest income	(247)	(9)
Depreciation	2,991	732
Impairment of investment in an associate	—	4
Impairment of goodwill	75,552	—
Impairment of intangible assets	4,047	—
Impairment of trade receivables	490	—
Amortisation of intangible assets	673	280
Equity-settled share option expenses	98	—
Share of loss of jointly controlled entities	4	—
Loss on disposal of property, plant and equipment	501	—
Gain on disposal of subsidiaries	(385)	(1,698)
Waiver of other loan	—	(1,000)
Fair value gain on financial assets at fair value through profit or loss	(4)	(2,014)
Fair value gain on derivative financial instruments	(381)	(92)
Reversal of impairment of trade receivables	—	(3)
Operating cash flow before movements in working capital	(7,101)	(177)
Decrease/(increase) in inventories	(6,349)	2,837
Increase in trade receivables	(2,476)	(409)
Decrease/(increase) in deposits, prepayments and other receivables	(9,316)	5,677
Decrease/(increase) in financial assets at fair value through profit or loss	5,228	(4,176)
Decrease in derivative financial instruments	92	—
Increase/(decrease) in trade and bills payables	(523)	1,342
Increase/(decrease) in other payables and accruals	12,237	(400)
Increase in amount due to a jointly controlled entity	675	—
Cash generated from/(used in) operations	(7,533)	4,694
Interest received	247	9
Hong Kong profits tax paid	(321)	(2,718)
Overseas tax paid	—	(47)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(7,607)	1,938

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Year ended 31/12/2007 *HK$'000*	Period from 1/4/2006 to 31/12/2006 *HK$'000*
INVESTING ACTIVITIES		
Acquisition of a subsidiary	—	(21,362)
Disposal of subsidiaries	50	—
Purchases of shareholding in jointly controlled entities	(4)	—
Advances to jointly controlled entities	(562)	—
Purchases of items of property, plant and equipment	(7,249)	(125)
Increase in pledged time deposits	(5,949)	—
NET CASH USED IN INVESTING ACTIVITIES	(13,714)	(21,487)
FINANCING ACTIVITIES		
Interest paid	(1,056)	(315)
Proceeds from issue of shares	24,415	24,895
Redemption of convertible notes	(1,000)	(3,500)
Repayment of other loan	—	(3,775)
New bank loans	3,807	7,300
Repayment of bank loans	(7,202)	(873)
Increase/(decrease) in trust receipt loans	4,577	(3,157)
Repayments of capital element of finance leases	(395)	(183)
NET CASH FROM FINANCING ACTIVITIES	23,146	20,392
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,825	843
Cash and cash equivalents at beginning of year/period	955	112
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	2,780	955
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,587	3,426
Bank overdrafts	(807)	(2,471)
	2,780	955

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	1	81,180
Total non-current assets		1	81,180
CURRENT ASSETS			
Deposits, prepayments and other receivables		7,098	—
Amounts due from subsidiaries	19	13,353	—
Cash and bank balances		1	1
Total current assets		20,452	1
CURRENT LIABILITIES			
Other payables and accruals		5,654	685
Amounts due to subsidiaries	19	3,107	3,915
Total current liabilities		8,761	4,600
Net current assets/(liabilities)		11,691	(4,599)
Total assets less current liabilities		11,692	76,581
NON-CURRENT LIABILITIES			
Convertible notes	29	—	48,188
Net assets		11,692	28,393
EQUITY			
Issued capital	31	12,470	5,268
Equity components of convertible notes	29	—	11,316
Reserves	34	(778)	11,809
Total equity		11,692	28,393

Notes to the Financial Statements

31 December 2007

1. General Information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite A, 15 Floor, Wyndham Place, 40-44 Wyndham Street, Central, Hong Kong, respectively.

The Company's principal activity has not changed during the year and consisted of investment holding. The principal activity of its subsidiaries is distribution of high-end apparel and accessories. The Group was also engaged in design, development and sales of location-based technology devices and application, which were discontinued upon the disposal of subsidiaries in current year, further details of which are set out in note 13 to the financial statements.

2. Basis of Preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. Impact of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The adoption of the new HKFRSs has given rise to additional disclosures as follows:

HKAS 1 (Amendment) — Capital Disclosures

In accordance with the HKAS 1 (Amendment) — Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 42.

HKFRS 7 — Financial Instruments: Disclosures

HKFRS 7 — Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's consolidated financial statements now feature:

— a sensitive analysis explained the Group's market risk exposure in regard to its financial instruments, and

— a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

3.1 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
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]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

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
4 Effective for annual periods beginning on or after 1 July 2008

4. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the period has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Company and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Company and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realized upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS39, if the Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the income statement and reserves, respectively. The Group's interests in associates are stated in the balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups or units. Each unit or group of units to which the goodwill is so allocated:

— represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

— is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largerly independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/ losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Furniture and equipment	20% – 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Franchise rights

Franchise rights are stated at cost less any impairment losses, and are amortised on the straightline basis over their estimated useful lives of 4 to 10 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, its transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

— the rights to receive cash flows from the asset have expired;

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

— the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability components is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes on fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as:

— fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

— cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follow:

Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining terms to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised on profit or loss.

The Company discontinues fair value hedge accounting of the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Company's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profits or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost if a non-financial asset or liability, the accounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, except:

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 carryforward of unused tax credits and unused tax losses can be utilised except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Equity-settled share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group (“market conditions”), if applicable.

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognized in profit or loss.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group’s functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the period. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

5. Significant Accounting Judgements And Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was nil (2006: approximately HK$75,552,000). More details are given in note 17.

Impairment for trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

For management purposes, the Group is organized into two operating divisions — design, development and sales of location-based technology devices and applications, and distribution of high-end apparel and accessories. These divisions are the basis on which the Group reports its primary segment information. In September 2007, the Group ceased the business of design, development and sales of location-based technology devices and application.

Segment information about these businesses is presented below.

	Continuing operation		**Discontinued operation**			
	Distribution of high-end apparel and accessories		**Design, development and sales of location-based technology devices and applications**		**Consolidated**	
	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/12/2007**	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/12/2007**	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:						
External turnover	60,536	18,342	62	543	60,598	18,885
Results:						
Segment results	(91,264)	363	340	1,338	(90,924)	1,701
Unallocated revenue					5,014	3,412
Unallocated expenses					(4,530)	(1,490)
Finance costs					(1,800)	(1,799)
Profit/(loss) before tax					(92,240)	1,824
Tax					—	(676)
Profit/(loss) for the year/period					(92,240)	1,148

	Continuing operation		Discontinued operation			
	Distribution of high-end apparel and accessories		Design, development and sales of location-based technology devices and applications		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets:						
Segment assets	35,262	94,395	—	1	35,262	94,396
Unallocated corporate assets					10,455	7,989
Total assets					45,717	102,385
Liabilities:						
Segment liabilities	27,456	21,547	—	417	27,456	21,964
Unallocated corporate liabilities					6,508	48,873
Total liabilities					33,964	70,837

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:						
Capital expenditure	7,249	1,741	—	—	7,249	1,741
Depreciation	2,991	732	—	—	2,991	732
Amortisation	673	280	—	—	673	280
Impairment loss	80,089	—	—	4	80,089	4

(ii) ***Geographical segments***

The following tables present revenue, assets and capital expenditures for the Group's geographical segments for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

	Hong Kong		Taiwan		Consolidated	
	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/12/2007**	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/12/2007**	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:						
Continuing operations	47,108	13,255	13,428	5,087	60,536	18,342
Discontinued operation	62	543	—	—	62	543
External turnover	47,170	13,798	13,428	5,087	60,598	18,885
Assets:						
Segment assets	38,407	19,392	7,310	2,721	45,717	22,113
Unallocated corporate assets					—	80,272
Total assets					45,717	102,385
Other segment information:						
Capital expenditure	4,475	1,741	2,774	—	7,249	1,741

7. Turnover, Other Revenues and Gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's turnover, other revenues and gains is as follows:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
TURNOVER		
CONTINUING OPERATIONS		
Distribution of high-end apparel and accessories	60,536	18,342
DISCONTINUED OPERATION		
Design, development and sales of location-based technology devices and applications	62	543
	60,598	18,885
OTHER REVENUES AND GAINS		
Bank interest income	247	9
Consultancy fee income	—	72
Fair value gain on financial assets at fair value through profit or loss	4	2,014
Fair value gain on derivative financial instruments	381	92
Gain on disposal of subsidiaries	385	1,698
Gain on disposal of financial assets at fair value through profit or loss	4,813	398
Management services income	340	—
Reversal of impairment of trade receivables	—	3
Sundry income	42	71
Waiver of other loan	—	1,000
	6,212	5,357

8. Finance Costs

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Interest on convertible notes	744	1,484
Interest on bank loans and overdrafts wholly repayable within five years	1,004	289
Interest on finance leases	52	26
	1,800	1,799

9. Profit/(Loss) before Tax

Profit/(loss) before tax is arrived at after charging:

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
Cost of inventories sold	22,830	7,323
Cost of services rendered	—	62
Auditor's remuneration	360	295
Amortisation of intangible assets	673	280
Depreciation of property, plant and equipment	2,991	732
Loss on disposal of property, plant and equipment	501	—
Exchange losses, net	378	76
Minimum lease payments under operating leases on land and buildings	15,202	3,962
Impairment of investment in an associate	—	4
Impairment of trade receivables	490	—
Impairment of intangible assets	4,047	—
Staff costs (excluding directors' remuneration — *note 10*)		
Salaries and allowances	11,778	3,119
Equity-settled share option expenses	32	—
Pension scheme contributions	364	128
	12,174	3,247

10. Directors' Remuneration and Five Highest Paid Employees

The remuneration of each director for the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006 are set out below:

Year ended 31 December 2007:

	Fees	**Salaries and allowances**	**Retirement scheme contribution**	**Share option benefit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lo Mun Lam, Raymond	380	—	—	—	380
Gouw San Bo, Elizabeth *(note 1)*	—	1,227	6	—	1,233
Richard Yen *(note 2)*	500	944	33	631	
Leung Tak Wah *(note 3)*	—	246	7	—	253
Non-executive directors					
Duncan Chiu	—	—	—	33	33
Yu Wai Yin, Vicky *(note 4)*	33	—	—	—	33
Independent non-executive directors					
Lum Pak Sum	221	—	—	—	221
Sum Chun Ho, Sam	60	—	—	—	60
Wan Kwok Pan	49	—	—	—	49
Total	1,243	1,567	17	66	2,893

Period from 1 April 2006 to 31 December 2006

	Fees	Salaries and allowances	Retirement scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Lo Mun Lam, Raymond	200	—	—	—	200
Leung Tak Wah	—	190	9	—	199
Yu Wai Yin, Vicky *(note 4)*	40	—	—	—	40
Non-executive directors					
Duncan Chiu *(note 5)*	—	—	—	—	—
Richard Yen *(note 2)*	—	—	—	—	—
Independent non-executive directors					
Lum Pak Sum	—	—	—	—	—
Sum Chun Ho, Sam	19	—	—	—	19
Wan Kwok Pan	14	—	—	—	14
Total	273	190	9	—	472

Notes:

1. Ms. Gouw San Bo, Elizabeth was appointed as an executive director on 11 July 2007.

2. Mr. Richard Yen was appointed as a non-executive director and redesignated as an executive director on 27 September 2006 and 28 August 2007, respectively.

3. Mr. Leung Tak Wah resigned as an executive director on 11 July 2007.

4. Ms. Yu Wai Yin Vicky, was redesignated as a non-executive director on 3 April 2007.

5. Mr. Duncan Chiu was appointed as a non-executive director on 27 September 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year/period.

Of the five highest paid individuals, three (period ended 31 December 2006: two) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above and the disclosure below. Details of the emoluments of the remaining two (period ended 31 December 2006: three) non-directors, highest paid employees of the Group for the year/period are as follows:

	Year ended 31/12/2007 *HK$'000*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*
Basic salaries, allowances and other benefits in kind	3,868	600
Share option benefit	32	—
Retirement benefits scheme contributions	18	30
	3,918	630

Included in the above, the remuneration of Ms. Gouw San Bo, Elizabeth, an executive director, who was one of the five highest paid individuals for the period from 1 April 2006 to 31 December 2006 before appointed as an executive director in current year is as follows:

	Year ended 31/12/2007 *HK$'000*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*
Basic salaries, allowances and other benefits in kind	953	460
Share option benefit	—	—
Retirement benefits scheme contributions	6	4
	959	464

The number of non-director, highest paid individuals whose remuneration fell within the following bands (excluding Ms. Gouw San Bo), is as follows:

	Year ended 31/12/2007 *HK$'000*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*
Nil to HK$1,000,000	1	3
HK$2,000,001 to HK$2,500,000	1	—
	2	3

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (period ended 31 December 2006: nil).

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

11. Tax

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In prior year, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year/period at the rates of tax prevailing in the countries in which the Group operates.

	Year ended 31/12/2007	**Period from 1/4/2006 to 31/12/2006**
	HK$'000	*HK$'000*
Current provision:		
— Hong Kong	—	575
— Overseas	—	101
	—	676
Attributable to:		
Continuing operations	—	676
Discontinued operation *(note 13)*	—	—
	—	676

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	Year ended 31/12/2007 *HK$'000*	*%*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*	*%*
Profit/(loss) before tax	(92,240)		1,824	
Tax at the domestic income tax rate	(16,142)	(17.5)	319	17.5
Effect of different tax rates in other jurisdictions	(74)	(0.1)	(24)	(1.3)
Income not subject to tax	(70)	(0.1)	(471)	(25.8)
Expenses not deductible for tax	15,708	17.0	336	18.4
Deductible temporary differences not recognized	30	0.1	—	—
Tax losses not recognized	548	0.6	516	28.3
Tax charge at effective rate	—	—	676	37.1

12. Net Loss Attributable to Shareholders

The net loss attributable to shareholders for the year ended 31 December 2007 dealt with in the financial statements of the Company is approximately HK$89,146,000 (period ended 31 December 2006: loss of approximately HK$7,511,000).

13. Discontinued Operation

On 20 September 2007, the Group decided to cease its business of design, development and sales of location-based technology devices and application. On 27 September 2007, the Company disposed of Satellite Devices (BVI) Limited, which held a subsidiary called Satellite Devices Limited. Satellite Devices (BVI) Limited engaged in investment holding and Satellite Devices Limited engaged in design, development and sales of location-based technology devices and application and was a separate business segment that was part of Hong Kong operations.

The operating result associated with the business of design, development and sales of location-based technology devices and application for the year/period and gain on disposal of subsidiaries related to the discontinued operation are presented below:

	Notes	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
Turnover	7	62	543
Cost of sales		—	(62)
Other revenues and gains		—	74
Selling and distribution costs		—	(5)
Administrative expenses		(107)	(910)
Loss before tax and gain on disposal of subsidiaries		(45)	(360)
Gain on disposal of subsidiaries	35	385	1,698
Profit before tax from the discontinued operation		340	1,338
Tax	11	—	—
Profit attributable to shareholders from the discontinued operation		340	1,338

The net cash flows incurred by the disposed group are as follows:

	Year ended 31/12/2007 HK$'000	Period from 1/4/2006 to 31/12/2006 HK$'000
Operating activities	(1)	(89)
Investing activities	50	—
Financing activities	—	—
Net cash inflow/(outflow)	49	(89)

14. Dividend

The directors of the Company do not recommend the payment of a dividend for the year (period ended 31 December 2006: nil).

15. Earnings/(Loss) Per Share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year/period.

	Year ended 31/12/2007	Period from 1/4/2006 to 31/12/2006
	HK$'000	*HK$'000*
For continuing and discontinued operations Profit/(loss) attributable to shareholders	(92,240)	1,148
For continuing operations Loss attributable to shareholders	(92,580)	(190)
	Number of shares	
Weighted average number of ordinary shares in issue during the year/period	1,061,242,585	361,577,386

Diluted earnings/(loss) per share is not presented as the convertible notes and share options had anti-dilutive effects on the basic earnings/(loss) per share.

16. Property, Plant and Equipment

Group

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 April 2006	—	—	—	—
Acquired on acquisition of a subsidiary	3,805	544	—	4,349
Additions	52	73	1,616	1,741
At 31 December 2006 and 1 January 2007	3,857	617	1,616	6,090
Additions	6,298	951	—	7,249
Disposals	(1,493)	—	—	(1,493)
At 31 December 2007	8,662	1,568	1,616	11,846
Accumulated depreciation:				
At 1 April 2006	—	—	—	—
Acquired on acquisition of a subsidiary	2,050	353	—	2,403
Charge for the period	347	62	323	732
At 31 December 2006 and 1 January 2007	2,397	415	323	3,135
Charge for the year	2,469	198	324	2,991
Disposals	(992)	—	—	(992)
At 31 December 2007	3,874	613	647	5,134
Net book value:				
At 31 December 2007	4,788	955	969	6,712
At 31 December 2006	1,460	202	1,293	2,955

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2007, approximately amounted to HK$969,000 (2006: HK$1,293,000).

17. Goodwill

Group

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	HK$'000
At 1 April 2006	—
Arising from acquisition of a subsidiary	75,552
Impairment during the period	—
At 31 December 2006 and 1 January 2007	75,552
Impairment during the year	(75,552)
At 31 December 2007	—

Impairment test for cash-generating units containing goodwill and intangible assets (note 18).

Goodwill acquired has been allocated to the cash generating unit ("CGU") of Golife (Hong Kong) Limited, a wholly owned subsidiary of the Company.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	2007
Gross profit margin	61.5%
Growth rate	5.0%
Discount rate	10.8%

Management determined the budgeted gross profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant the CGU.

The recoverable amounts of the CGU are lower than their carrying amounts based on value-in-use calculations.

Accordingly, the goodwill was fully impaired during the year. Impairment loss of approximately HK$75,552,000 (period ended 31 December 2006: nil) is recognised in the consolidated income statement.

18. Intangible Assets

Group

	Franchise rights *HK$'000*
Cost:	
At 1 April 2006	—
Arising from acquisition of a subsidiary	5,000
At 31 December 2006, 1 January 2007 and 31 December 2007	5,000
Accumulated amortisation and impairment:	
At 1 April 2006	—
Amortised for the period	280
At 31 December 2006 and 1 January 2007	280
Amortised for the year	673
Impairment for the year	4,047
At 31 December 2007	5,000
Net book value:	
At 31 December 2007	—
At 31 December 2006	4,720

Intangible assets acquired has been allocated to the cash generating unit ("CGU") of Golife (Hong Kong) Limited, a wholly owned subsidiary of the Company. The Group tests intangible assets annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Accordingly, the intangible assets were fully impaired during the year. Impairment less of approximately HK$4,047,000 (period ended 31 December 2006: nil) is recognised in the consolidated income statement. Further details of the impairment test are also set out in note 17.

19. Interests in Subsidiaries

	Company	
	2007 *HK$'000*	**2006** *HK$'000*
Unlisted shares, at cost	81,181	81,180
Impairment in value	(81,180)	—
	1	81,180
Amounts due from subsidiaries	17,853	102,193
Amounts due to subsidiaries	(3,107)	(3,915)
Impairment in value	(4,500)	(102,193)
	10,246	(3,915)
	10,247	77,265

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid up capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Golife (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Distribution of high-end apparel and accessories
Golife (Trading) Limited	Hong Kong	HK$300,000	—	100%	Distribution of high-end jewellery and accessories
Golife (Management) Limited (Formerly known as On Winner Enterprises Limited)	Hong Kong	HK$10,000	—	100%	Dormant
GOL (International) Limited	British Virgin Islands	US$1	—	100%	Dormant
Peak Choice Limited	British Virgin Islands	US$1	100%	—	Investment in securities
Sunfame Limited	British Virgin Islands	US$100	100%	—	Dormant
Profit First Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Better Point Limited	British Virgin Islands	US$1	100%	—	Investment holding
CR Hong Kong (Trading) Limited	Hong Kong	HK$1	—	100%	Dormant

20. Interests in Jointly Controlled Entities

	Group 2007	Group 2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	4	—
Share of post acquisition loss	(4)	—
	—	—
Amounts due from jointly controlled entities	562	—
Amount due to a jointly controlled entity	(675)	—
	(113)	—

The share of post acquisition loss is limited to the cost of investments. The unrecognized share of post acquisition loss for the year is amounted to approximately HK$725,000.

The amounts due from/(to) the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) the jointly controlled entities approximate to their fair value.

Particulars of the jointly controlled entities as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
LOC Limited	British Virgin Islands	50	50	50	Investment holding
Life of Circle Limited	Hong Kong	50	50	50	Wholesales of high-end jewellery and accessories
CR Hong Kong Limited	Hong Kong	50	50	50	Dormant

All of the above investments in jointly controlled entities are indirectly held by the Company.

The following table illustrates the summarized financial information of the Group's jointly controlled entities:

	2007	2006
	HK$'000	*HK$'000*
The jointly controlled entities' assets and liabilities:		
Current assets	1,400	—
Non-current assets	12	—
Current liabilities	(2,862)	—
Non-current liabilities	—	—
Net liabilities	(1,450)	—
Group's share of net assets of jointly controlled entities	—	—
The jointly controlled entities' results:		
Turnover	3,606	—
Cost of sales	(2,511)	—
Gross profit	1,095	—
Total expenses	(2,553)	—
Tax	—	—
Loss after tax	(1,458)	—
Group's share of loss of jointly controlled entities for the year	(4)	—
Unrecognized and accumulated unrecognized share of loss of jointly controlled entities	(725)	—

21. Investment in an Associate

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets	—	4
Impairment	—	(4)
	—	—

The investment in an associate was disposed during the year.

22. Inventories

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Merchandise	8,992	2,643

At 31 December 2007, no inventories were carried at net realisable value (2006: Nil).

23. Trade Receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 — 30 days	2,430	1,710
31 — 60 days	1,503	499
61 — 90 days	24	—
Over 90 days	728	—
	4,685	2,209
Less: impairment	(490)	—
	4,195	2,209

24. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Equity investments listed in Hong Kong, at fair value	238	1,493
Derivative financial assets, at fair value	728	4,697
	966	6,190

At 31 December 2007, the carrying amount of the Group's financial assets at fair value through profit or loss amounted to approximately HK$728,000 was pledged as security for the Group's bank loans amounted to approximately HK$787,000 (2006: nil), as further detailed in note 27 to the financial statements.

The above equity investments were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

25. Derivative Financial Instruments

	Group			
	2007		**2006**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Foreign currency contracts	840	459	92	—

The carrying amount of forward currency contracts are the same as their fair values.

The Group has eight forward currency contracts outstanding at 31 December 2007 (2006: two) to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to approximately HK$381,000 was credited to the income statement during the year (period ended 31 December 2006: approximately HK$92,000).

26. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 — 30 days	1,707	2,433
31 — 60 days	178	367
61 — 90 days	13	16
Over 90 days	695	300
	2,593	3,116

27. Interest-bearing Bank and Other Borrowings

	Group					
		2007			**2006**	
	Effective interest rate *(%)*	**Maturity or interest reprice date, whichever is earlier**	*HK$'000*	**Effective interest rate** *(%)*	**Maturity or interest reprice date, whichever is earlier**	*HK$'000*
Current						
Finance lease payables — *note 28*	3.35%	2008	395	3.35%	2007	395
Bank overdrafts — secured	best lending rate	on demand	807	best lending rate + 1%	on demand	2,471
Bank loans — secured	5.81% or prime rate +2%	2008	5,021	prime rate +2%	2007	6,831
Trust receipt loans — secured	best lending rate	2008	7,340	best lending rate	2007	2,763
			13,563			12,460
Non-current						
Finance lease payables — *note 28*	3.35%	2009 – 2011	643	3.25%	2008 – 2011	1,038
Bank loans — secured	prime rate +2%	2009 – 2010	162	prime rate + 2%	2008 – 2009	1,747
			805			2,785
			14,368			15,245

	Group 2007	2006
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	13,168	12,065
In the second year	162	1,584
In the third to fifth years, inclusive	—	163
	13,330	13,812
Other borrowings payable:		
Within one year or on demand	395	395
In the second year	395	395
In the third to fifth years, inclusive	248	643
	1,038	1,433
	14,368	15,245

The Group's banking facilities are secured by:

(i) the pledge of certain of the Group's fixed deposits amounted to approximately HK$5,949,000;

(ii) the pledge of certain of the Group's financial assets at fair value through profit or loss with carrying amount of approximately HK$728,000;

(iii) corporate guarantee provided by the Company; and

(iv) personal guarantees provided by directors of a subsidiary of the Group.

28. Finance Lease Payables

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms ranging from three to four years.

At the balance sheet date, the total future minimum lease payments under finance lease and the present value, were as follows:

	Group			
	Minimum lease payments 2007	**Minimum lease payments 2006**	**Present value of minimum lease payments 2007**	**Present value of minimum lease payments 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable:				
Within one year	447	447	395	395
In the second year	447	447	395	395
In the third year to fifth years, inclusive	280	727	248	643
Total minimum finance lease payments	1,174	1,621	1,038	1,433
Future finance charges	(136)	(188)		
Total net finance lease payables	1,038	1,433		
Portion classified as current liabilities — *note 27*	(395)	(395)		
Long term portion — *note 27*	643	1,038		

29. Convertible Notes

On 31 July 2006, the Company issued interest-free convertible notes with a nominal value of HK$61.52 million to an independent noteholder. The noteholder has the right to convert the whole or any part of the principal amount of the convertible note into shares at any time and from time to time after six months from the date of issue of the convertible notes up to the date immediately prior to the maturity date.

The fair value of the liability component and the equity conversion component were determined at issurance of the convertible notes. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

The convertible notes recognized in the balance sheets of the Group and the Company are calculated as follows:

	Group and Company
	HK$'000
Nominal value of convertible notes issued on 31 July 2006	61,520
Equity component	(11,999)
Liability component at the issuance date	49,521
Redemption during the period	(2,817)
Interest expenses	1,484
Liability component at 31 December 2006 and 1 January 2007	48,188
Redemption during the year	(805)
Conversion during the year	(48,127)
Interest expenses	744
Liability component at 31 December 2007	—
Equity component at the issuance date	11,999
Redemption during the period	(683)
Equity component at 31 December 2006 and 1 January 2007	11,316
Redemption during the year	(195)
Conversion during the year	(11,121)
Equity component at 31 December 2007	—

During the year, the convertible notes of the Company were redeemed and converted into ordinary shares.

30. Deferred Tax

Group

The movements in deferred tax liabilities and assets during the year/period are as follows:

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2006	(7)	7	—
Charged/(credited) to consolidated income statement	1	(1)	—
At 31 December 2006 and 1 January 2007	(6)	6	—
Charged/(credited) to consolidated income statement	(15)	15	—
At 31 December 2007	(21)	21	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 December 2007, the Group had estimated unused tax losses of approximately HK$1,937,000 (2006: approximately HK$97,340,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset was recognized during the year (2006: nil) due to the unpredictability of future profit streams. The unrecognized tax losses may be carried forward indefinitely.

31. Share Capital

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	100,000	100,000
Issued and fully paid:		
1,247,001,488 (2006: 526,801,488) ordinary share of HK$0.01 each	12,470	5,268

A summary of the movements of the Company's issued capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Shares premium HK$'000	Total HK$'000
At 1 April 2006, ordinary shares of HK$0.1 each		658,501,863	65,850	34,698	100,548
Capital reorganisation	*(i)*	(526,801,491)	(64,533)	—	(64,533)
Open offer, net	*(ii)*	395,101,116	3,951	20,944	24,895
At 1 January 2007, ordinary shares of HK$0.01 each		526,801,488	5,268	55,642	60,910
Conversion of convertible notes	*(iii)*	570,200,000	5,702	53,546	59,248
Placing, net	*(iv)*	150,000,000	1,500	22,915	24,415
At 31 December 2007, ordinary shares of HK$0.01 each		1,247,001,488	12,470	132,103	144,573

Notes:

(i) Pursuant to the capital reorganization completed on 22 June 2006, 658,501,863 issued shares were consolidated into 131,700,372 shares on the basis of every 5 shares consolidated into 1 share. The nominal value of each issued consolidated share was then reduced from HK$0.1 each to HK$0.01 each by way of a reduction of capital. Accordingly, an amount of HK$64,533,183 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

(ii) 395,101,116 new ordinary shares of the Company were issued under the Open Offer on 25 July 2006, proceed of approximately HK$23.05 million was being raised as working capital.

(iii) During the year, convertible notes with principal amount of HK$57,020,000 were converted into 570,200,000 ordinary shares at a conversion price of HK$0.10 per share.

(iv) 150,000,000 new ordinary shares of the Company had been issued at a placing price of HK$0.165 per share on 18 June 2007, proceed of approximately HK$24,415,000 was being raised as working capital.

32. Share Option Scheme

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

On 3 July 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1.00 for each lot of share option to subscribe for an aggregate of 2,970,000 shares under the Scheme at an exercise price of HK$0.219 per share.

(a) Details of share options granted during the year and remain outstanding as at year end

Name and categories of grantees	Date of grant	Exercise period	Exercise price per share	Number of options	
				2007	2006
			HK$		
Non-executive directors					
Duncan Chiu	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Richard Yen	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Sub-total				1,980,000	—
Employee					
In aggregate	3/7/2007	3/7/2007-5/3/2012	0.219	990,000	—
Total				2,970,000	—

(b) The fair value of options granted under the Scheme measured at the date of grant on 3 July 2007 was approximately HK$98,000. The following significant assumptions were used to derive the fair values using the Binomial Option Pricing Model:

Date of grant	3 July 2007
Time to maturity *(year)*	4.7
Expected volatility *(%)*	35.0
Risk-free interest rate *(%)*	4.5
Up movement probability *(%)*	49.9
Sub-optimal factor	1.5

Taken into consideration of early exercise behavior of the option holders, sub-optimal factor of 1.5 was used. Due to the recent business transformation of the Company, the historical volatility of the Company cannot fully reflect the stock price movement of new business of the Company. The calculation of expected volatility used the historical volatility of two comparable companies with similar business.

33. Employee Award Plan

The Company's employee award plan (the "Plan") was adopted by the Board of Directors on 24 July 2007 for the primary purpose of recruiting and motivating employees and directors to achieve superior performance. The Plan is valid and effective for 10 years commencing 24 July 2007. Under the Plan, the Remuneration Committee of the Company may conditionally grant an award to any directors or employee of the Company and its subsidiaries. Upon vesting of the award, the grantee shall be entitled to cash payment under the award if the vesting price exceeds award price, subject to an overall limit as stated in the award letter.

The amount of award payment shall be determined in accordance with the following formula:

(Vesting Price — Award price) x Award Number

Vesting price means the average closing price of the Company's shares as stated in the daily quotation sheets issued by the stock exchange for five business days immediately preceding the vesting date.

The following tables set out the movement in the Plan:

Year ended 31 December 2007

Name and categories of grantees	Date of grant	Date of expiry	Award number	Award Price	Overall limit of cash payment	Award granted during the year
				HK$	*HK$'000*	*HK$*
Director						
Gouw San Bo, Elizabeth	25 July 2007	31 December 2007	30,000,000	0.236	3,000	—
Lo Mun Lam, Raymond	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Richard Yen	25 July 2007	31 December 2007	5,000,000	0.236	500	—
Sub-total			40,000,000		4,000	—
Employee						
In aggregate	25 July 2007	31 December 2007	85,000,000	0.236	8,500	—
Total			125,000,000		12,500	—

No grantee was entitled to any payment under the award during the year.

34. Reserves

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

Company

	Share premium	Share-based payments reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	34,698	—	(100,855)	(66,157)
Capital reorganization	—	—	64,533	64,533
Issue of shares on open offer	21,730	—	—	21,730
Share issuance costs	(786)	—	—	(786)
Net loss for the period	—	—	(7,511)	(7,511)
At 31 December 2006 and 1 January 2007	55,642	—	(43,833)	11,809
Conversion of convertible notes	53,546	—	—	53,546
Placing of new shares — *note 31*	23,250	—	—	23,250
Cost of placing of new shares	(335)	—	—	(335)
Recognition of equity-settled share-based payments — *note 32*	—	98	—	98
Net loss for the year	—	—	(89,146)	(89,146)
At 31 December 2007	132,103	98	(132,979)	(778)

Note: The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business.

At 31 December 2007, in the opinion of the directors, there is no Company's reserves available for distributions to shareholders (2006: HK$11,809,000).

35. Disposal of Subsidiaries

	Year ended 31/12/2007 *HK$'000*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*
Net liabilities disposal of:		
Amounts due to group companies	(100,521)	(3,193)
Accrued liabilities	(335)	—
	(100,856)	(3,193)
Realisation of reserves	—	15
Gain on disposal of subsidiaries	385	1,698
A mounts waived by group companies	100,521	1,480
	50	—
Satisfied by:		
Cash	50	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	Year ended 31/12/2007 *HK$'000*	**Period from 1/4/2006 to 31/12/2006** *HK$'000*
Cash consideration	50	—
Cash and bank balances disposed of	—	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	50	—

36. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following material transactions with related parties during the year/period:

		Group	
			Period from
		Year ended	**1/4/2006 to**
		31/12/2007	**31/12/2006**
	Notes	*HK$'000*	*HK$'000*
Management fee charged by a related company	*(i)*	984	495
Sales to a jointly controlled entity	*(ii)*	11	—
Purchases from a jointly controlled entity	*(iii)*	3,446	—
Management fee income charged to a jointly controlled entity	*(iv)*	340	—
Subsidy received from a jointly controlled entity and deducted the cost of leasehold improvements	*(v)*	100	—
		Company	
Management fee income charged to subsidiaries	*(vi)*	780	—

Notes:

(i) Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests, by reference to sharing of office premises and supplies, and manpower in provision of administrative services to the Group.

(ii) Sales to a jointly controlled entity were carried out at cost.

(iii) Purchases from a jointly controlled entity were carried out in accordance with the negotiated prices with reference to market price.

(iv) Management fee income was charged at a rate mutually agreed between the Group and a jointly controlled entity and based on the cost of the administrative services provided by the Group.

(v) Subsidy received from a jointly controlled entity was based on a pre-agreed fixed amount.

(vi) Management fee income was charged by the Company based on the cost of manpower in provision of human resource services to the subsidiaries.

(b) On 15 August 2007, Better Point Limited ("Better Point"), a wholly-owned subsidiary of the Company, entered into an agreement with Austen Limited ("Austen") in which Mr. Richard Yen, a director of the Company, has interest, to establish CR Hong Kong Limited ("CR Hong Kong") which will principally engage in the holding of licensing rights including without limitation the investment in design, manufacturing and distribution of fashion and life style product of the brand called Cynthia Rowley.

(c) The Group's related company has guaranteed the trust receipt loans and bank overdrafts made to the Group's subsidiary up to HK$4,000,000 and HK$1,000,000 respectively at nil consideration. At the balance sheet date, such guarantee has been released by the related company.

37. Contingent Liabilities

At the balance sheet date, the Company has given unlimited corporate guarantees (2006: unlimited) to banks to secure the banking facilities granted to its subsidiaries. Facilities amounting to HK$12,490,038 (2006: HK$5,429,000) were utilized at the balance sheet date.

38. Operating Lease Arrangements

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	14,783	6,301
In the second to fifth years, inclusive	13,581	4,618
	28,364	10,919

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rents have not been included above and only the minimum lease commitments have been included in the above table.

The operating lease rentals of certain retail shops in Taiwan are based solely on the sales of the outlets. In the opinion of the directors of the Group, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitments have not been included above table.

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group and the Company had the following commitments at the balance sheet date:

(a) Commitments under license agreements in respect of several brand name products:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Minimum purchases:		
Within one year	26,451	19,072
In the second to fifth years, inclusive	92,017	86,151
Beyond five years	—	6,649
	118,468	111,872

(b) Capital commitments

	Company	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of a subsidiary *(note i)*	89,086	—
Legal and professional fee related to the acquisition	981	—
	90,067	—

Note (i): On 8 November 2007, the Company entered into an acquisition agreement in relation to the acquisition of 96.57% of the issued shares in Financière Solola and EUR1,400,000 convertible bonds issued by Financière Solola for an initial consideration of EUR7,717,766 and an Earn Out payment with a maximum amount of EUR2,894,162 which is subject to the audited consolidated EBITDA of the Financière Solola Group for the year ending 31 December 2008 based on the French GAAP. The above amount only represents the initial consideration of EUR7,717,766, which is equivalent to approximately HK$89,086,000.

In addition, the Company agreed that if the acquisition is not completed on or before a final cut-off date which defined in the acquisition agreement, the Company shall pay to the sellers, a break-up fee of EUR1,000,000 on or before 7 May 2008 or, the date falling 5 days after final cut-off date, provided that no such break up fee shall be payable in the event of fraud, negligence or willful default on the part of the sellers or where the sellers fail to comply with any of their material obligations with the acquisition agreement.

The transaction is yet to be approved by the shareholders.

(c) Pursuant to a shareholders agreement dated 21 February 2007 and a supplemental agreement dated 23 February 2007 entered into between Profit First Investments Limited ("Profit First"), a wholly owned subsidiary of the Company, and Zion Worldwide Limited ("Zion Worldwide"), a venturer of jointly controlled entity namely LOC Limited ("LOC"), Profit First has agreed to pay an earn-out payment to Zion Worldwide. The earn-out payment is based on the consolidated and audited net profit of LOC during the period from 1 March 2007 to 31 December 2010 with a minimum payment of HK$3,000,000 but in any event not exceeding HK$7,500,000. At 31 December 2007, the commitment on the earn-out payment is with minimum of HK$2,348,000.

(d) Pursuant to a shareholders agreement dated 15 August 2007 entered into between Better Point Limited ("Better Point"), a wholly owned subsidiary of the Company, and Austen Limited ("Austen"), a venturer of jointly controlled entity namely CR Hong Kong Limited ("CR Hong Kong"), Better Point and Austen have agreed to inject capital by equity and by way of shareholders' loans to CR Hong Kong in equal share in the total sum of HK$12,000,000. The proportion of the equity and shareholders' loans shall be agreed between Better Point and Austen. At 31 December 2007, Better Point has the outstanding commitment of HK$5,532,000 for the capital inject into CR Hong Kong.

40. Post Balance Sheet Events

The following events have occurred subsequent to 31 December 2007:

(a) On 4 February 2008, the Board announced that the Company proposes to raise funds ranging from approximately HK$56.86 million to approximately HK$57.00 million, before expenses, by way of the Rights Issue of not less than 997,601,190 Rights Shares and not more than 999,977,190 Rights Shares at the Subscription Price of HK$0.057 per Rights Share. The basis of the Rights Issue is four Rights Shares for every five existing ordinary shares of the Company held on 12 March 2008. Further details of the transaction are also set out in a prospectus, circular and an announcement of the Company dated 14 March 2008, 25 February 2008 and 4 February 2008, respectively.

(b) On 18 February 2008, Better Point Limited ("Better Point"), a directly wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Austen Limited to purchase its entire interests in CR Hong Kong Limited ("CR Hong Kong") which is a jointly controlled entity of Better Point. Upon the completion of the acquisition, CR Hong Kong becomes an indirectly wholly owned subsidiary of the Company.

(c) On 18 February 2008, the Company entered into a subscription agreement (as amended by a supplemental agreement dated 7 March 2008) with Chung Chiu Limited ("Chung Chiu") whereby Chung Chiu agreed to subscribe for the convertible bonds in the principal amount of HK$40,000,000 to be issued by the Company for a term of 3 years with a coupon rate of 2% per annum. Further details of the transaction are also set out in a circular and an announcement of the Company dated 12 March 2008 and 20 February 2008, respectively.

41. Financial Risk Management Objectives and Policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans, finance leases, and trade and bill payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as deposits, prepayments and other receivables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of the risks which are summarized below. The Group's accounting policies in relation to derivatives are set out in note 4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
		HK$'000	*HK$'000*
2007			
Hong Kong dollar	50	67	(67)
Hong Kong dollar	(50)	(67)	67
2006			
Hong Kong dollar	50	69	(69)
Hong Kong dollar	(50)	(69)	69

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currency. Approximately 87% (period ended 31 December 2006: 100%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units. The Group manages the foreign exchange exposure arising from its normal course of business activities through forward currency contracts. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at the balance sheet date, all balances in foreign currencies other than the functional currency of the operating units have been substantially hedged by foreign exchange forward contracts. Thus, no sensitivity analysis on the foreign currency risk is presented.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2007					
Interest-bearing loans and borrowings	806	9,361	3,396	805	14,368
Trade and bills payables	—	2,593	—	—	2,593
Other payables and accruals	—	15,114	—	—	15,114
	806	27,068	3,396	805	32,075

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006					
Interest-bearing loans and borrowings	2,471	4,867	5,122	2,785	15,245
Trade and bills payables	—	3,116	—	—	3,116
Other payables and accruals	—	3,212	—	—	3,212
	2,471	11,195	5,122	2,785	21,573

Credit risk

The Group has no significant concentration of credit risk. The Group deals mainly with retail customers who pay with cash and credit cards. The Group's trade receivables mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping malls that collected sales proceeds in Taiwan on behalf of the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

42. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue net shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the year ended 31 December 2007 and the period from 1 April 2006 to 31 December 2006.

The Group monitors capital using a gearing ratio, which is borrowings divided by the total of borrowings and equity. Borrowings includes interest-bearing borrowings and convertible notes. Equity includes total equity less equity components of convertible notes. The gearing ratios as at the balance sheet dates were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Borrowings:		
Interest-bearing bank and other borrowings	14,368	15,245
Convertible notes — equity and liability components	—	59,504
	14,368	74,749
Equity:		
Total equity	11,753	31,548
Convertible notes — equity components	—	(11,316)
	11,753	20,232
Borrowings and equity	26,121	94,981
Gearing ratio	55%	79%

43. Comparative

The comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the period from 1 April 2006 to 31 December 2006 and therefore may not be comparable with amounts shown for the current year.

Certain comparatives are reclassified during the year to conform current year's presentation.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2008.

2. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the period from 1 April 2006 to 31 December 2006. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for period from 1 April 2006 to 31 December 2006.

Independent Auditor's Report

Cheung & Siu **Certified Public Accountants** ***(Practising)***
張、蕭會計師事務所

Room A,15th Floor
Fortis Bank Tower
77-79 Gloucester Road
Wanchai
Hong Kong

To the members of
GOLIFE CONCEPTS HOLDINGS LIMITED
(formerly known as "Satellite Devices Corporation")
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Golife Concepts Holdings Limited (the "Company") set out on pages 26 to 77, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1 April 2006 to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the period from 1 April 2006 to 31 December 2006 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheung & Siu
Certified Public Accountants (Practising)
Hong Kong, 28 March 2007

Consolidated Income Statement

Period from 1 April 2006 to 31 December 2006

	Notes	Period from 1/4/2006 to 31/12/2006 HK$'000	Year ended 31/3/2006 HK$'000
Turnover	7	18,885	1,359
Cost of sales		(7,385)	(520)
Gross profit		11,500	839
Other revenue and gains	7	5,357	3,130
Selling and distribution costs		(994)	—
Administrative expenses		(12,240)	(21,695)
Finance costs	8	(1,799)	—
PROFIT/(LOSS) BEFORE TAX	9	1,824	(17,726)
Tax	11	(676)	—
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	12	1,148	(17,726)
Dividend	13	—	—
Earnings/(loss) per share	14		
— basic *(cents)*		0.32	(14.49)
— diluted *(cents)*		N/A	N/A

Consolidated Balance Sheet

31 December 2006

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,955	—
Goodwill	16	75,552	—
Intangible assets	17	4,720	—
Investments in associates	19	—	4
Total non-current assets		83,227	4
CURRENT ASSETS			
Inventories	20	2,643	—
Trade receivables	21	2,209	328
Deposits, prepayments and other receivables		4,598	10
Financial assets at fair value through profit or loss	22	6,190	—
Derivative financial instruments	23	92	—
Cash and bank balances		3,426	112
Total current assets		19,158	450
CURRENT LIABILITIES			
Trade and bills payables	24	3,116	—
Other payables and accruals		3,212	1,505
Interest-bearing bank and other borrowings	25	12,460	—
Tax payable		1,076	—
Total current liabilities		19,864	1,505
Net current liabilities		(706)	(1,055)
Total assets less current liabilities		82,521	(1,051)

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	2,785	4,775
Convertible notes	27	48,188	—
Total non-current liabilities		50,973	4,775
Net assets/(liabilities)		31,548	(5,826)
EQUITY			
Issued capital	29	5,268	65,850
Equity component of convertible notes	27	11,316	—
Reserves		14,964	(71,676)
Total equity		31,548	(5,826)

Consolidated Statement of Changes in Equity

Period from 1 April 2006 to 31 December 2006

	Issued capital	Share premium	Equity component of convertible notes	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	59,092	34,698	—	(15)	(88,633)	5,142
Issue of shares upon loan capitalisation	6,758	—	—	—	—	6,758
Net loss for the year	—	—	—	—	(17,726)	(17,726)
At 31 March 2006 and 1 April 2006	65,850	34,698	—	(15)	(106,359)	(5,826)
Capital reorganisation — *note 29*	(64,533)	—	—	—	64,533	—
Issue of shares on open offer	3,951	21,730	—	—	—	25,681
Share issuance costs	—	(786)	—	—	—	(786)
Issue of convertible notes — *note 27*	—	—	11,999	—	—	11,999
Redemption of convertible notes	—	—	(683)	—	—	(683)
Reserve realized upon disposal of subsidiaries	—	—	—	15	—	15
Net profit for the period	—	—	—	—	1,148	1,148
At 31 December 2006	5,268	55,642	11,316	—	(40,678)	31,548

Consolidated Cash Flow Statement

Period from 1 April 2006 to 31 December 2006

	Period from 1/4/2006 to 31/12/2006 *HK$'000*	Year ended 31/3/2006 *HK$'000*
OPERATING ACTIVITIES		
Profit/(loss) before tax	1,824	(17,726)
Adjustments for:		
Finance costs	1,799	—
Interest income	(9)	—
Depreciation	732	11,194
Provision for impairment on investment in an associate	4	—
Amortisation of intangible assets	280	—
Gain on disposal of subsidiaries	(1,698)	—
Waiver of other loan	(1,000)	—
Fair value gain on financial assets at fair value through profit or loss	(2,014)	—
Fair value gain on derivative financial instruments	(92)	—
Write-off of property, plant and equipment	—	5,827
Reversal of write-down of inventories	—	(176)
Reversal of provision for doubtful debts	(3)	(2,537)
Operating cash flow before movements in working capital	(177)	(3,418)
Decrease in inventories	2,837	512
Decrease/(increase) in trade receivables	(409)	2,380
Decrease in deposits, prepayments and other receivables	5,677	177
Increase in financial assets at fair value through profit or loss	(4,176)	—
Increase in trade and bill payables	1,342	—
Decrease in other payables and accruals	(400)	(961)
Increase in amount due to a fellow subsidiary	—	667
Increase in amount due to a director	—	650
Cash generated from operations	4,694	7
Interest received	9	—
Hong Kong profits tax paid	(2,718)	—
Overseas tax paid	(47)	—
NET CASH FROM OPERATING ACTIVITIES	1,938	7

	Period from 1/4/2006 to 31/12/2006 *HK$'000*	Year ended 31/3/2006 *HK$'000*
INVESTING ACTIVITIES		
Acquisition of a subsidiary	(21,362)	—
Purchases of items of property, plant and equipment	(125)	(9)
NET CASH USED IN INVESTING ACTIVITIES	(21,487)	(9)
FINANCING ACTIVITIES		
Interest paid	(315)	—
Proceeds from open offer	24,895	—
Redemption of convertible notes	(3,500)	—
Repayment of other loan	(3,775)	—
New bank loans	7,300	—
Repayment of bank loans	(873)	—
Decrease in trust receipt loans	(3,157)	—
Repayments of capital element of finance leases	(183)	(8)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	20,392	(8)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	843	(10)
Cash and cash equivalents at beginning of period/year	112	122
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	955	112
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,426	112
Bank overdrafts	(2,471)	—
	955	112

Balance Sheet

31 December 2006

	Notes	31/12/2006 HK$'000	31/3/2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	81,180	—
CURRENT ASSETS			
Cash and bank balances		1	22
CURRENT LIABILITIES			
Other payables and accruals		685	329
Due to a subsidiary	18	3,915	—
Total current liabilities		4,600	329
Net current liabilities		(4,599)	(307)
Total assets less current liabilities		76,581	(307)
NON-CURRENT LIABILITIES			
Convertible notes	27	48,188	—
Net assets/(liabilities)		28,393	(307)
EQUITY			
Issued capital	29	5,268	65,850
Equity components of convertible notes	27	11,316	—
Reserves	31	11,809	(66,157)
Total equity		28,393	(307)

Notes to the Financial Statements

31 December 2006

1. General information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite 14A, 14 Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong, respectively.

The Company's principal activity has not changed during the period and consisted of investment holding. The principal activities of its subsidiaries are design, development and sales of location-based technology devices and application, and distribution of high-end apparel and accessories.

2. Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

3. Impact of new Hong Kong Financial Reporting Standards and changes in accounting policies

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3.1 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HK(IFRIC)-Int 8	Scope of HKFRS 2[2]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[4]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[5]
HK(IFRIC)-Int 12	Service Concession Arrangements[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 May 2006
3 Effective for annual periods beginning on or after 1 June 2006
4 Effective for annual periods beginning on or after 1 November 2006
5 Effective for annual periods beginning on or after 1 March 2007
6 Effective for annual periods beginning on or after 1 January 2008

4. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared on a going concern basis notwithstanding the Group had net current liabilities as at 31 December 2006, the validity of which is dependent upon the success of the Group's future operations and its ability to generate adequate cash flows in order to meet its obligations as and when they fall due such that the Group can meet its future working capital. Subsequent the balance sheet date, the Group's operation has generated sufficient cash flows to meet its obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

The Group changed its financial year end date from 31 March to 31 December. The financial statements for the current period cover 9 months from 1 April 2006 to 31 December 2006. The comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the year ended 31 March 2006 and therefore, are not with a comparable time period.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 April 2006 to 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the period has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the income statement and reserves, respectively. The Group's interests in associates are stated in the balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups or units. Each unit or group of units to which the goodwill is so allocated:

— represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

— is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largerly independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment, and computer equipment	20% — 33.3%
Motor vehicles	20 — 25%
Moulds	50%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Franchise rights

Franchise rights are stated at cost less any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, its transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

— the rights to receive cash flows from the asset have expired;

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

— the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cashsettled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability components is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and components when the instruments are first recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 recongised for all taxable temporary differences, except:

— where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 carryforward of unused tax credits and unused tax losses can be utilised except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group ("market conditions"), if applicable.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the period. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

5. Significant accounting judgements and

Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

6. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the period from 1 April 2006 to 31 December 2006 and the year ended 31 March 2006.

For management purposes, the Group is currently organized into two operating divisions — design, development and sales of location-based technology devices and applications, and distribution of high-end apparel and accessories. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Design, development and sales of location-based technology devices and applications		**Distribution of high-end apparel and accessories**		**Consolidated**	
	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/3/2006**	**Period from 1/4/2006 to 31/12/2006**	**Year ended 31/3/2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External turnover	543	1,359	18,342	—	18,885	1,359
RESULTS						
Segment results	(360)	(16,879)	363	—	3	(16,879)
Unallocated revenue					5,110	204
Unallocated expenses					(1,490)	(1,051)
Finance costs					(1,799)	—
Profit/(loss) before tax					1,824	(17,726)
Tax					(676)	—
Profit/(loss) for the period/year					1,148	(17,726)

	Design, development and sales of location-based technology devices and applications		Distribution of high-end apparel and accessories		Consolidated	
	31/12/2006	**31/3/2006**	**31/12/2006**	**31/3/2006**	**31/12/2006**	**31/3/2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets:						
Segment assets	1	428	94,395	—	94,396	428
Investment in an associate	—	4	—	—	—	4
Unallocated corporate assets					7,989	22
Total assets					102,385	454
Liabilities:						
Segment liabilities	417	5,950	21,547	—	21,964	5,950
Unallocated corporate liabilities					48,873	330
Total liabilities					70,837	6,280

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:						
Capital expenditure	—	9 1,741	—	1,741	9	
Depreciation	—	11,194	732	—	732	11,194
Amortisation	—	—	280	—	280	—
Impairment loss	4	—	—	—	4	—

(ii) ***Geographical segments***

During the period, the Group's turnover was derived from operations carried out in Hong Kong and Taiwan. Over 90% of the Group's assets, liabilities and capital expenditures are derived from operations carried out in Hong Kong. Accordingly, no further geographical segment information is presented in the financial statements except the followings.

	Hong Kong		Taiwan		Other		Consolidated	
	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER								
External turnover	13,798	1,359	5,087	—	–	—	18,885	1,359
RESULTS								
Segment results	1,759	(16,614)	433	—	(368)	(1,112)	1,824	(17,726)
Tax							(676)	—
Profit/(loss) for the period/year							1,148	(17,726)

7. Turnover, other revenue and gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
TURNOVER		
Design, development and sales of location-based technology devices and applications	543	1,359
Distribution of high-end apparel and accessories	18,342	—
	18,885	1,359
OTHER REVENUE AND GAINS		
Bank interest income	9	—
Consultancy fee income	72	—
Fair value gain on financial assets at fair value through profit or loss	2,014	—
Fair value gain on derivative financial instruments	92	—
Gain on disposal of financial assets at fair value through profit or loss	398	—
Gain on disposal of subsidiaries	1,698	—
Reversal of provision for doubtful debts	3	2,498
Reversal of write-down of inventories	—	176
Waiver of other loan	1,000	—
Write-off of long outstanding other payables and accruals	—	252
Sundry income	71	204
	5,357	3,130

8. Finance costs

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Interest on convertible notes	1,484	—
Interest on bank loans and overdrafts wholly repayable within five years	289	—
Interest on finance leases	26	—
	1,799	—

9. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging:

	Period from 1/4/2006 to 31/12/2006 *HK$'000*	Year ended 31/3/2006 *HK$'000*
Cost of inventories sold	7,323	—
Cost of services rendered	62	520
Auditors' remuneration	295	250
Amortisation of intangible assets	280	—
Depreciation of property, plant and equipment	732	11,194
Exchange losses, net	76	10
Minimum lease payments under operating leases on land and buildings	3,962	310
Provision for impairment on investment in an associate	4	—
Write-off of property, plant and equipment	—	5,827
Staff costs (excluding directors' remuneration — *note 10*)		
Salaries and allowances	3,119	1,687
Pension scheme contributions	128	(16)
	3,247	1,671

10. Directors' remuneration and five highest paid employees

The remuneration of each director for the period from 1 April 2006 to 31 December 2006 and the year ended 31 March 2006 are set out below:

Period from 1 April 2006 to 31 December 2006:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement scheme contribution *HK$'000*	Total *HK$'000*
Executive directors				
Leung Tak Wah	—	190	9	199
Lo Mun Lam, Raymond	200	—	—	200
Yu Wai Yin, Vicky	40	—	—	40
Independent non-executive directors				
Lum Pak Sam	—	—	—	—
Sum Chun Ho, Sam	19	—	—	19
Wan Kwok Pan	14	—	—	14
Non-executive directors				
Duncan Chiu *(note 1)*	—	—	—	—
Richard Yen *(note 1)*	—	—	—	—
Total	273	190	9	472

Year ended 31 March 2006:

	Fees	Salaries and allowances	Retirement scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo *(note 2)*	—	—	—	—
Leung Tak Wah	—	260	12	272
Lo Mun Lam, Raymond	—	—	—	—
Yu Wai Yin, Vicky	70	—	—	70
Independent non-executive directors				
Chan Chi Tong *(note 3)*	70	—	—	70
Huang Hai Wen *(note 4)*	64	—	—	64
Liu Kwong Sang *(note 5)*	—	—	—	—
Lum Pak Sum	—	—	—	—
Sum Chun Ho, Sam	35	—	—	35
Wan Kwok Pan	6	—	—	6
Total	245	260	12	517

Notes:

1. Mr. Chiu and Mr. Yen appointed on 27 September 2006.
2. Mr. Tsoi resigned on 31 August 2005.
3. Mr. Chan resigned on 15 September 2005.
4. Mr. Huang resigned on 31 August 2005.
5. Mr. Liu resigned on 8 February 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the period/year.

The five individuals whose emoluments were the highest in the Group for the period include two (year ended 31 March 2006: one) directors, details of whose emoluments are set out in above. Details of the emoluments of the remaining three (year ended 31 March 2006: four) are non-directors, highest paid employees of the Group for the period/year are as follows:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	600	675
Retirement benefits scheme contributions	30	31
	630	706

The emoluments of each of the non-director, highest paid individuals for the period from 1 April 2006 to 31 December 2006 and year ended 31 March 2006 fell within Nil to HK$1,000,000 band.

During the period from 1 April 2006 to 31 December 2006 and year ended 31 March 2006, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

11. Tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period. In prior year, no provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of tax prevailing in the countries in which the Group operates.

	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
Current provision:		
— Hong Kong	575	—
— Overseas	101	—
	676	—

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	Period from 1/4/2006 to 31/12/2006		**Year ended 31/3/2006**	
	HK$'000	*%*	*HK$'000*	*%*
Profit/(loss) before tax	1,824		(17,726)	
Tax at the domestic income tax rate	319	17.5	(3,102)	(17.5)
Effect of different tax rates in other jurisdictions	(24)	(1.3)	28	0.9
Income not subject to tax	(471)	(25.8)	—	—
Expenses not deductible for tax	336	18.4	230	7.4
Tax losses not recognized	516	28.3	2,844	9.2
Tax charge at effective rate	676	37.1	—	—

12. Net profit/(loss) attributable to shareholders

The net profit/(loss) attributable to shareholders for the period from 1 April 2006 to 31 December 2006 dealt with in the financial statements of the Company is loss of approximately HK$7,511,000. (year ended 31 March 2006: loss of approximately HK$6,517,000).

13. Dividend

The directors of the Company do not recommend the payment of a dividend for the period.

14. Earnings/(loss) per share

The calculation of basic earnings per share is based on the net profit for the period from 1 April 2006 to 31 December 2006 of approximately HK$1,148,000 (year ended 31 March 2006: loss of HK$17,726,000) and the weighted average number of 361,577,386 ordinary shares (year ended 31 March 2006: 122,367,968 ordinary shares being adjusted retrospectively for the share consolidation) in issue during the period.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2006 has been retrospectively adjusted for the effect of the share consolidation completed during the period.

Diluted earnings/(loss) per share is not presented as the convertible notes had anti-dilutive effects on the basic earnings/(loss) per share.

15. Property, plant and equipment

Group

	Leasehold improvements	Computer and equipment	Furniture, fixture office equipment	Motor vehicles	Mould	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:						
At 1 April 2005	—	58,680	86	213 187	59,166	
Additions	—	9	—	—	—	9
Write-off	—	(58,689)	(86)	(213)	(187)	(59,175)
At 31 March 2006 and 1 April 2006	—	—	—	—	—	—
Acquired on acquisition of a subsidiary	3,805	—	544	—	—	4,349
Additions	52	—	73	1,616	—	1,741
At 31 December 2006	3,857	—	617	1,616	—	6,090
Accumulated depreciation:						
At 1 April 2005	—	41,677	77	213	187	42,154
Charge for the year	—	11,185	9	—	—	11,194
Write-off	—	(52,862)	(86)	(213)	(187)	(53,348)
At 31 March 2006 and 1 April 2006	—	—	—	—	—	—
Acquired on acquisition of a subsidiary	2,050	—	353	—	—	2,403
Charge for the period	347	—	62	323	—	732
At 31 December 2006	2,397	—	415	323	—	3,135
Net book value:						
At 31 December 2006	1,460	—	202	1,293	—	2,955
At 31 March 2006	—	—	—	—	—	—
At 31 March 2005	—	17,003	9	—	—	17,012

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2006, approximately amounted to HK$1,293,000 (31 March 2006: Nil).

16. Goodwill

Group

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	HK$'000
Arising from acquisition of a subsidiary	75,552
Impairment during the period	—
At 31 December 2006	75,552

17. Intangible assets

Group

	Franchise rights *HK$'000*
Cost:	
Arising from acquisition of a subsidiary	5,000
At 31 December 2006	5,000
Accumulated amortisation and impairment:	
Amortised for the period	280
At 31 December 2006	280
Net book value:	
At 31 December 2006	4,720

18. Interests in subsidiaries

	Company	
	31/12/2006 *HK$'000*	**31/3/2006** *HK$'000*
Unlisted shares, at cost	81,180	—
Due from subsidiaries	102,193	97,629
Due to a subsidiary	(3,915)	—
Impairment in value	(102,193)	(97,629)
	(3,915)	—
	77,265	—

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid up capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Golife (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Distribution of high-end apparel and accessories
Satellite Devices (BVI) Limited	British Virgin Islands	US$3	100%	—	Investment holding
Satellite Devices Limited	Hong Kong	HK$5,000,000	—	100%	Design, development and sales of location-based technology devices and application

19. Investments in associates

	Group 31/12/2006 *HK$'000*	31/3/2006 *HK$'000*
Share of net assets	4	1,474
Amount due to an associate	—	(1,470)
Impairment	(4)	—
	—	4

Particulars of the associate of the Group as at 31 December 2006 are as follows:

Name	Place of incorporation	Issued and fully paid up capital	Equity interest held indirectly	Principal activities
Telematics Systems Limited	Hong Kong	HK$10,000	40%	Dormant

20. Inventories

	Group 31/12/2006 *HK$'000*	31/3/2006 *HK$'000*
Merchandise	2,643	—

At 31 December 2006, no inventories were carried at net realisable value (31 March 2006: Nil).

21. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
0 — 30 days	1,710	283
31 — 60 days	499	45
61 — 90 days	—	—
Over 90 days	—	12,719
	2,209	13,047
Less: provision for doubtful debts	—	(12,719)
	2,209	328

22. Financial assets at fair value through profit or loss

	Group	
	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Equity investments listed in Hong Kong, at fair value	1,493	—
Derivative financial assets, at fair value	4,697	—
	6,190	—

The derivative financial assets represent some warrants on equity investments listed in Hong Kong and are with maturity date of 21 May 2007.

23. Derivative financial instruments

	31/12/2006		31/3/2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash flow hedges				
— foreign currency contracts	92	—	—	—

The Group has two forward currency contracts outstanding at 31 December 2006 to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$92,000 was credited to the income statement during the year (year ended 31 March 2006: Nil).

24. Trade and bills payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
0 — 30 days	2,433	—
31 — 60 days	367	—
61 — 90 days	16	—
Over 90 days	300	—
	3,116	—

25. Interest-bearing bank and other borrowings

	Effective interest rate (%)	**Maturity or Interest reprice date, whichever is earlier**	**31/12/2006**	**31/3/2006**
			HK$'000	*HK$'000*
Current				
Finance lease payables *(note 26)*	3.25%	2007	395	—
Bank overdrafts — secured	best lending rate + 1%	on demand	2,471	—
Bank loans — secured	prime rate + 2%	2007	6,831	—
Trust receipt loans — secured	best lending rate	2007	2,763	—
			12,460	—
Non-current				
Finance lease payables *(note 26)*	3.25%	2008-2011	1,038	—
Bank loans — secured	prime rate + 2%	2008-2009	1,747	—
Other loan — unsecured	10%	2007, but early repaid in the period	—	4,775
			2,785	4,775
			15,245	4,775
Analysed into:				
Bank loans and overdrafts payable:				
Within one year or on demand			12,065	—
In the second to fifth years, inclusive			1,747	—
			13,812	—
Other borrowings payable:				
Within one year or on demand			395	—
In the second to fifth years, inclusive			1,038	4,775
			1,433	4,775

The Group's banking facilities are secured by:

(i) personal guarantees provided by directors of a subsidiary of the Group; and

(ii) corporate guarantee provided by the Company and the Group's related company.

26. Finance lease payables

The Group leases its motor vehicles for its business. The leases are classified as finance leases and have remaining lease terms ranging from four to five years.

At the balance sheet date, the total future minimum lease payments under finance lease and the present value, were as follows:

	Minimum lease payments 31/12/2006 *HK$'000*	**Minimum lease payments 31/3/2006** *HK$'000*	**Present value of minimum lease payments 31/12/2006** *HK$'000*	**Present value of minimum lease payments 31/3/2006** *HK$'000*
Amount payable:				
Within one year	447	—	395	—
In the second year to fifth years, inclusive	1,174	—	1,038	—
Total minimum finance lease payments	1,621	—	1,433	—
Future finance charges	(188)	—		
Total net finance lease payables	1,433	—		
Portion classified as current liabilities *(note 25)*	(395)	—		
Long term portion *(note 25)*	1,038	—		

27. Convertible notes

On 31 July 2006, the Company issued interest-free convertible notes with a nominal value of HK$61.52 million to an independent noteholder. The noteholder has the right to convert the whole or any part of the principal amount of the convertible note into shares at any time and from time to time after six months from the date of issue of the convertible notes up to the date immediately prior to the maturity date.

The fair value of the liability component and the equity conversion component were determined at issuance of the convertible notes. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

The convertible notes recognized in the balance sheets are calculated as follows:

	Group and Company	
	31/12/2006	31/3/2006
	HK$'000	*HK$'000*
Nominal value of convertible notes issued during the period	61,520	—
Equity component	(11,999)	—
Liability component at the issuance date	49,521	—
Redemption during the period	(2,817)	
Interest expenses	1,484	—
Liability component at balance sheet date	48,188	—
Equity component at the issuance date	11,999	—
Redemption during the period	(683)	—
Equity component at balance sheet date	11,316	—

On 19 October 2006 and 21 December 2006, the Company redeemed convertible notes with principal amount of HK$2,500,000 and HK$1,000,000, respectively.

28. Deferred tax

The movements in deferred tax liabilities and assets during the period are as follows:

	Accelerated Tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	2,869	(2,869)	—
Charged/(credited) to consolidated income statement	(2,876)	2,876	—
At 31 March 2006 and 1 April 2006	(7)	7	—
Charged/(credited) to consolidated income statement	1	(1)	—
At 31 December 2006	(6)	6	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 December 2006, the Group had unused tax losses of approximately HK$97,340,000 (31 March 2006: approximately HK$97,339,000) available for offset against future profits. No deferred tax asset was recognized during the period due to the unpredictability of future profit streams (year ended 31 March 2006: HK$40,000). The unrecognized tax losses may be carried forward indefinitely.

29. Share capital

	Number of shares	*HK$'000*
Authorised:		
At 1 April 2006, ordinary shares of HK$0.1 each	10,000,000,000	1,000,000
Capital reorganisation *(note a)*	—	(900,000)
At 31 December 2006, ordinary shares of HK$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
At 1 April 2006, ordinary shares of HK$0.1 each	658,501,863	65,850
Capital reorganisation *(note a)*	(526,801,490)	(64,533)
Open offer *(note b)*	395,101,116	3,951
At 31 December 2006, ordinary shares of HK$0.01 each	526,801,489	5,268

Notes:

(a) Pursuant to the capital reorganization completed on 22 June 2006, 658,501,863 issued shares were consolidated to 131,700,373 shares on the basis of every 5 shares consolidated into 1 share. The nominal value of each issued consolidated share was then reduced from HK$0.1 each to HK$0.01 each by way of a reduction of capital. Accordingly, an amount of HK$64,533,183 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

(b) 395,101,116 new shares of the Company had been issued under the Open Offer on 25 July 2006, proceeds of approximately HK$23.05 million was being raised as working capital. As at 31 December 2006, the total issued share capital of the Company after the Open Offer are 526,801,489 shares.

30. Share option scheme

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

At the balance sheet date, no share option was granted under the Scheme since its adoption.

31. Reserves

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

Company

	Share premium	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	34,698	(94,338)	(59,640)
Net loss for the year	—	(6,517)	(6,517)
At 31 March 2006 and 1 April 2006	34,698	(100,855)	(66,157)
Capital reorganization	—	64,533	64,533
Issue of shares on open offer	21,730	—	21,730
Share issuance costs	(786)	—	(786)
Net loss for the period	—	(7,511)	(7,511)
At 31 December 2006	55,642	(43,833)	11,809

Note:

The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business.

At 31 December 2006, in the opinion of the directors, the Company's reserves available for distributions to shareholders amounted to HK$11,809,000.

32. Acquisition of a subsidiary

On 31 July 2006, the Company acquired 100% equity interest in Golife (Hong Kong) Limited (formerly known as "Hip Kin Retailing Limited"). This transaction has been accounted for by the purchase method.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Carrying amount of the acquiree *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value of the acquiree** *HK$'000*
Net assets acquired comprised:			
Property, plant and equipment	1,946	—	1,946
Intangible assets	—	5,000	5,000
Inventories	5,480	—	5,480
Trade receivables	1,469	—	1,469
Deposit, prepayments and other receivables	10,265	—	10,265
Cash and bank balances	474	—	474
Trade payables	(1,774)	—	(1,774)
Other payables and accruals	(3,820)	—	(3,820)
Tax payable	(3,165)	—	(3,165)
Bank overdrafts	(2,176)	—	(2,176)
Bank loans	(2,151)	—	(2,151)
Trust receipts loans	(5,920)	—	(5,920)
Net assets acquired	628	5,000	5,628
Goodwill arising on acquisition			75,552
			81,180
Satisfied by:			
Cash consideration			19,660
Convertible notes			61,520
			81,180

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(19,660)
Cash and bank balances acquired	474
Bank overdrafts acquired	(2,176)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(21,362)

33. Disposal of subsidiaries

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Net liabilities disposal of:		
Amounts due to group companies	(3,193)	—
	(3,193)	—
Realisation of reserves	15	—
Gain on disposal of subsidiaries	1,698	—
Amounts waived by group companies	1,480	—
	—	—
Satisfied by:		
Cash	—	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	Period from 1/4/2006 to 31/12/2006	Year ended 31/3/2006
	HK$'000	*HK$'000*
Cash consideration	—	—
Cash and bank balances disposed of	—	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	—

34. Notes to the consolidated cash flow statement

(a) During the period, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK$1,616,000 (31 March 2006: Nil).

(b) During the period, the Group settled the part of the purchase consideration for acquisition of Golife (Hong Kong) Limited of approximately HK$61,520,000 by issue of convertible notes with nominal value of HK$61,520,000.

35. Related party transactions

(a) In addition to the transactions and balance detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period/year:

	Group	
	Period from 1/4/2006 to 31/12/2006	**Year ended 31/3/2006**
	HK$'000	*HK$'000*
Management fee charged by a related company	495	—

Management fee was charged at a rate mutually agreed between the Group and the related company in which certain directors of the Company's subsidiary have beneficial interests.

(b) At the balance sheet date, the Group's related company has guaranteed the trust receipt loans and bank overdrafts made to the Group's subsidiary up to HK$4,000,000 and HK$1,000,000, respectively (31 March 2006: Nil) at nil consideration.

36. Litigation

On 29 June 2005, a landlord issued writ against Satellite Devices Limited, a wholly owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provision for this amount had been made in the financial statements.

Apart from the action against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

37. Contingent liabilities

At the balance sheet date, the Company has given unlimited corporate guarantees (31 March 2006: Nil) to banks to secure the banking facilities granted to its subsidiaries. Facilities amounting to HK$5,429,000 (31 March 2006: Nil) were utilized at the balance sheet date.

38. Operating lease arrangements

The Group leases certain retail shops and office premises under operating lease arrangements. Leases for retail shops and office premises are negotiated for terms ranging from 1 to 3 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Within one year	6,301	93
In the second to fifth years, inclusive	4,618	77
	10,919	170

The operating lease rentals of certain retail shops in Hong Kong are based on the higher of a fixed rental or contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rents have not been included above and only the minimum lease commitments have been included in the above table.

The operating lease rentals of certain retail shops in Taiwan are based solely on the sales of the outlets. In the opinion of the directors of the Group, as the future sales of the retail outlets could not be accurately estimated, the relevant rental commitments have not been included above table.

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group had the following commitments at the balance sheet date:

Commitments under license agreements in respect of two brand name products are:

	31/12/2006	**31/3/2006**
	HK$'000	*HK$'000*
Minimum purchases:		
Within one year	19,072	—
In the second to fifth years, inclusive	86,151	
Beyond five years	6,649	—
	111,872	—

40. Post balance sheet events

The following events have occurred subsequent to 31 December 2006:

(a) On 21 February 2007, Profit First Investments Limited ("Profit First"), a wholly owned subsidiary of the Company, has entered into an agreement with Zion Worldwide Limited ("Zion Worldwide") to establish LOC Limited ("LOC") which will be principally engaged in the wholesale, design, sourcing, merchandise planning and marketing of lifestyle consumer products including but not limited to jewellery and accessories under the Trademarks (the "Business"). LOC are owned by Profit First and Zion Worldwide in equal shares. Profit First has agreed to pay an earn-out payment to Zion Worldwide while Zion Worldwide has agreed to transfer and assign to LOC the Trademarks and all the Intellectual Property of "Business" at a consideration of HK$1. Further details of the transaction are also set out in a circular and an announcement of the Company dated 16 March 2007 and 23 February 2007, respectively.

(b) On 19 January 2007 the Company redeemed convertible notes with principal amount of HK$1,000,000.

(c) On 13 March 2007, convertible notes with principal amount of HK$37,100,000 converted into 371,000,000 ordinary shares at the conversion price of HK$0.10 per share. After issurance of 371,000,000 conversion shares, the Company's issued ordinary shares have been increased from 526,801,488 to 898,101,488.

41. Financial risk management objectives and polices

The Group's overall risk management programme seeks to minimize potential adverse effects on the financial performance of the Group.

(i) Cash flow and fair value interest rate risk

Interest rate risk refers to the risk experienced by the Group as a result of the fluctuation in interest rates. Currently, the Group does not have a hedge policy. However, the management monitors interest rate exposure and will consider hedging significant bank borrowings when the need arises.

(ii) Foreign currency risk

The Group incurs foreign currency risk on transactions and balances that are denominated in currencies other than Hong Kong dollars. The currencies giving rise to this risk are primarily Euro, Pound Sterling and New Taiwan Dollar.

Certain trade receivables, payables and trade related transactions of the Group are denominated in foreign currencies. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

(iii) Credit risk

The Group has no significant concentration of credit risk. The Group deals mainly with retail customers who pay with cash and credit cards. The Group's accounts receivable mainly represented by receivables from banks in respect of sales settled by customers through credit cards in Hong Kong and shopping malls that collected sales proceeds in Taiwan on behalf of the Group.

(iv) Liquidity risk

The Group aims to manage its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements. Short term funding is obtained from bank overdraft and trade financing facilities.

(v) Commodity price risk

The Group's exposure to commodity price risk is minimal.

42. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2007.

3. AUDITED FINANCIAL STATEMENTS

Set out below are the independent auditor's report and audited financial statements together with the relevant notes thereto as extracted from the annual report of Golife for the financial year ended 31 March 2006. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the annual report of Golife for the financial year ended 31 March 2006.

Independent Auditor's Report

陳浩賢會計師事務所

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF SATELLITE DEVICES CORPORATION
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)

Hong Kong, 23 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	5	1,359	1,442
Cost of location-based technology devices and applications		(520)	(522)
		839	920
Other income		204	29
Reversal of provision for doubtful debts		2,498	—
Reversal of write-down/(write-down) of inventories		176	(1,378)
Write-off of long outstanding other payables and accruals		252	133
Waiver of accrued salary payable to a director		—	248
Write-off of property, plant and equipment		(5,827)	—
Staff costs		(2,188)	(2,628)
Depreciation		(11,194)	(11,772)
Other operating expenses		(2,486)	(2,715)
Loss before taxation	6	(17,726)	(17,163)
Taxation	7	—	—
Loss attributable to shareholders	8	(17,726)	(17,163)
Basic loss per share	9	14.49 cents	14.52 cents

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	12	—	17,012
Investments in associates	14	4	4
		4	17,016
Current assets			
Inventories	15	—	336
Trade receivables	16	328	171
Deposits, prepayments and other receivables		10	187
Cash and cash equivalents	17	112	122
		450	816
Current liabilities			
Other payables and accruals		1,505	2,466
Amount due to a fellow subsidiary	18	—	4,108
Amount due to a director	19	—	6,108
Current portion of obligation under finance leases		—	8
		1,505	12,690
Net current liabilities		(1,055)	(11,874)
Total assets less current liabilities		(1,051)	5,142
Capital and reserves			
Share capital	20	65,850	59,092
Reserves		(71,676)	(53,950)
Total (deficits)/equity attributable to equity holders of the Company		(5,826)	5,142
Non-current liabilities			
Other loan	23	4,775	—
		(1,051)	5,142

The financial statements on pages 21 to 51 were approved and authorised for issue by the Board of Directors on 23 June 2006 and are signed on its behalf by:

LO Mun Lam, Raymond	**LEUNG Tak Wah**
Director	*Director*

Balance Sheet

As at 31 March 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Investment in subsidiaries	*13*	—	—
Current assets			
Cash and cash equivalents	*17*	22	1
Current liabilities			
Other payables and accruals		329	549
Net current liabilities		(307)	(548)
Total assets less current liabilities		(307)	(548)
Capital and reserves			
Share capital	*20*	65,850	59,092
Reserves	*22*	(66,157)	(59,640)
		(307)	(548)

LO Mun Lam, Raymond
Director

LEUNG Tak Wah
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Share capital	Share premium	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	59,092	34,698	(13)	(71,470)	22,307
Exchange differences arising on translation of financial statements of overseas subsidiaries and net losses not recognised in the consolidated income statement	—	—	(2)	—	(2)
Loss for the year	—	—	—	(17,163)	(17,163)
At 31 March 2005	59,092	34,698	(15)	(88,633)	5,142
At 1 April 2005	59,092	34,698	(15)	(88,633)	5,142
Issue of shares upon loan capitalisation	6,758	—	—	—	6,758
Loss for the year	—	—	—	(17,726)	(17,726)
At 31 March 2006	65,850	34,698	(15)	(106,359)	(5,826)

Consolidated Cash Flow Statement

For the Year Ended 31 March 2006

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(17,726)	(17,163)
Adjustments for:		
Depreciation	11,194	11,772
Write-off of property, plant and equipment	5,827	—
(Reversal of write-down)/write-down of inventories	(176)	1,378
Reversal of provision for doubtful debts	(2,537)	—
Operating loss before working capital changes	(3,418)	(4,013)
Decrease in inventories	512	159
Decrease in trade receivables	2,380	188
Decrease/(increase) in deposits, prepayments and other receivables	177	(158)
Increase in trade payables, other payables and accruals including amount due to a director and a fellow subsidiary	356	3,947
Net cash from operating activities	7	123
Net cash used in investing activities		
Purchase of property, plant and equipment	(9)	(39)
Net cash used in financing activities		
Repayment of capital element of finance leases	(8)	(15)
Net (decrease)/increase in cash and cash equivalents	(10)	69
Cash and cash equivalents at 1 April	122	55
Effect of foreign exchange rate changes	—	(2)
Cash and cash equivalents at 31 March	112	122
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	112	122

Notes to the Financial Statements

1. General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements.

The financial statements have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the continuing financial support of the Group's creditors and other external funding being available.

At 31 March 2006, the Group's net current liabilities exceeded its current assets by approximately HK$1,055,000 and the net liabilities of the Group amounted to approximately HK$5,826,000. As more detailed in note 29 below, subsequent to the balance sheet date, the directors of the Company proposed a capital reorganisation of the Company's share capital and an open offer to qualifying shareholders for subscription on the basis of three offer shares for every new share (being share of HK$0.01 each in the share capital of the Company upon the capital reorganisation become effective). Details of the proposed capital reorganisation and proposed open offer are disclosed in the Company's circular dated 27 March 2006. The estimated net proceeds from the proposed open offer will be approximately HK$23.73 million which is intended to be applied as to approximately HK$18.48 million for the partial payment of the consideration for a proposed acquisition (details of which are also disclosed in the Company's circular dated 27 March 2006) and as to approximately HK$1.85 million for marketing the brands to be acquired under the proposed acquisition and the remaining balance of approximately HK$3.40 million for general working capital of the Company. All the proposed capital reorganisation, proposed open offer and proposed acquisition were approved by the shareholders of the Company on 20 April 2006.

On the basis that the Group will raise additional working capital from the proposed open offer, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Had the going concern basis not been used, adjustments would have to be made to reclassify non-current liabilities to current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liabilities which might arise.

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised HKFRSs, HKASs and Interpretations that are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2005 which are pertinent to its operations and relevant to these financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of HKASs 2, 7, 8, 10, 12, 16, 17, 18, 19, 21, 27, 32, 33, 36, 37 and 39 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosure in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs and HKASs are summaries as follows:

(a) The adoption of HKAS 1 requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions. These related party disclosures are presented in note 26 to the financial statements.

(c) The adoption of HKFRS 2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based payment transactions in which share options granted over shares in the Company were required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4(l).

There were no share options granted by the Company after 7 November 2002 but had not vested before by 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

The Group has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The Group has considered these standards and interpretations but does not expect that they will have a material effect on the results of operation and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease [2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market-Waste, Electrical and Electronic Equipment [3]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [6]

1 Effective for the annual periods beginning on or after 1 January 2007
2 Effective for the annual periods beginning on or after 1 January 2006
3 Effective for the annual periods beginning on or after 1 December 2005
4 Effective for the annual periods beginning on or after 1 March 2006
5 Effective for the annual periods beginning on or after 1 May 2006
6 Effective for the annual periods beginning on or after 1 June 2006

3. Critical accounting judgments and key source of estimation uncertainty

Estimates and judgments 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 assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There are no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next year.

There are no significant effects on amounts recognised in the financial statements arising from the judgments or estimates used by management.

4. Principal accounting policies

These financial statements have been prepared in accordance with HKFRS and HKAS issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The measurement basis used in the preparation of the financial statements is the historical cost basis. The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Group accounting

(i) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power or issued share capital or controls the composition of its board of directors or has power to govern its financial and operating policies.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and significant influence is exercised in its management.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

(b) Property, plant and equipment

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

The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates are as follows:

Furniture, fixtures and office equipment, and computer equipment	20%-33.3%
Motor vehicles	25%
Moulds	50%

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(c) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to operating leases net of any incentives received from the leasing company are charged to the income statement on straight-line basis over the lease term.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with bank.

Other payables

Other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effects of discounting would be immaterial, in which case they are stated at cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expenses immediately.

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

(g) Provisions

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

(h) Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on temporary 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 only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

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

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

(i) ***Related parties***

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members 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 Group where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(j) ***Foreign currencies***

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(k) ***Employee benefits***

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

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(l) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(m) Research and development costs

Costs incurred in the research and development of products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, all research and development costs have been expensed.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Interest income is recognised as it accrues using the effective interest method.

5. Revenue

Revenue, which is also the Group's turnover, represents net invoiced value of goods sold, less discounts and returns.

No activity analysis and geographical analysis are presented for the years ended 31 March 2006 and 2005 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

6. Loss before taxation

Loss before taxation is stated after charging/(crediting) the following:

	2006	**2005**
	HK$'000	*HK$'000*
Auditors' remuneration		
— current year	250	250
— under provision in prior year	—	80
Building management fee	251	201
Depreciation of fixed assets		
— owned assets	11,194	11,757
— assets held under finance leases	—	15
Exchange loss	10	—
Legal and professional fees	680	531
Operating lease rental in respect of land and buildings	310	499
Research and development costs *	1,010	1,120
Retirement benefits costs **	(4)	33
Telephone	259	374

* Included in the research and development costs were staff costs of HK$1,008,000 (2005: HK$1,043,000) which had also been included in staff costs in the consolidated income statement.

** This item is included in staff costs in the consolidated income statement.

7. Taxation

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the years ended 31 March 2006 and 2005.

(b) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

(c) The taxation for the year can be reconciled to loss before taxation per the consolidated income statement as follow:

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(17,726)	(17,163)
Tax at the domestic income tax rate of 17.5%	(3,102)	(3,003)
Tax effect of non-deductible expenses	230	252
Tax effect of non-taxable income	—	(115)
Effect on different tax rates of subsidiaries operating in other jurisdictions	28	27
Deferred tax assets not recognised	2,844	2,839
	—	—

8. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$6,517,000 (2005: profit of HK$88,000).

9. Loss per share

The calculation of basic loss per share is based on the loss for the year of approximately HK$17,726,000 (2005: HK$17,163,000) and the weighted average number of 122,367,968 ordinary shares (2005 (restated): 118,183,200 ordinary shares) in issue during the year.

The weighted average number is stated after taking into consideration of the consolidation of shares by way of every five existing shares into one new consolidated share ("Share Consolidation"). The Share Consolidation was effective on 22 June 2006. Further details of the Share Consolidation are also disclosed in note 29 "Post balance sheet event".

Diluted loss per share is not presented for the years ended 31 March 2006 and 2005 as there were no potential dilutive shares outstanding during both years.

10. Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 March 2006 and 2005 are set out below:

2006	**Fees**	**Salaries and allowances**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo *(note 1)*	—	—	—	—
Leung Tak Wah	—	260	12	272
Yu Wai Yin, Vicky *(note 2)*	70	—	—	70
Lo Mun Lam, Raymond *(note 3)*	—	—	—	—
Independent non-executive directors				
Liu Kwong Sang *(note 4)*	—	—	—	—
Chan Chi Tong *(note 5)*	70	—	—	70
Huang Hai Wen *(note 1)*	64	—	—	64
Sum Chun Ho *(note 6)*	35	—	—	35
Lum Pak Sum *(note 7)*	—	—	—	—
Wan Kwok Pan *(note 8)*	6	—	6	—
Total	245	260	12	517

2005	**Fees**	**Salaries and allowances**	**Retirement scheme contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Tsoi Siu Ching, Leo	—	250	2	252
Leung Tak Wah	—	179	8	187
Independent non-executive directors				
Liu Kwong Sang	—	—	—	—
Chan Chi Tong	154	—	—	154
Huang Hai Wen	76	—	—	76
Ku Ngai *(note 9)*	—	—	—	—
Total	230	429	10	669

Note:

1. Mr. Tsoi and Mr. Huang resigned on 31 August 2005

2. Ms. Yu was appointed on 26 August 2005

3. Mr. Lo was appointed on 13 September 2005

4. Mr. Liu resigned on 8 February 2006

5. Mr. Chan resigned on 15 September 2005

6. Mr. Sum was appointed on 26 August 2005

7. Mr. Lum was appointed on 13 September 2005

8. Mr. Wan was appointed on 8 February 2006

9. Mr. Ku resigned on 29 June 2004

During the year ended 31 March 2005, Mr. Tsoi Siu Ching, Leo waived his salaries to the amount of HK$248,000. The waived amount has not been included in the above disclosure. Apart from this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2006 and 2005.

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director, details of whose emoluments are set out in above. Details of the emoluments of the remaining four (2005: four) non-director, highest paid employees of the Group for the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	675	1,041
Retirement benefits scheme contributions	31	38
	706	1,079

The emoluments of each of the non-director, highest paid individuals for the years ended 31 March 2006 and 2005 fell within Nil to HK$1,000,000 band.

During the year ended 31 March 2006 and 2005, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Retirement benefit costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the Scheme vest immediately. At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the future years.

12. Property, plant and equipment

	Computer equipment	**Furniture fixture and office equipment**	**Motor vehicles**	**Moulds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2004	58,641	86	213	187	59,127
Additions	39	—	—	—	39
At 31 March 2005	58,680	86	213	187	59,166
At 1 April 2005	58,680	86	213	187	59,166
Additions	9	—	—	—	9
Write-off	(58,689)	(86)	(213)	(187)	(59,175)
At 31 March 2006	—	—	—	—	—
Depreciation, amortisation and impairment loss					
At 1 April 2004	29,947	60	188	187	30,382
Charge for the year	11,730	17	25	—	11,772
At 31 March 2005	41,677	77	213	187	42,154
At 1 April 2005	41,677	77	213	187	42,154
Charge for the year	11,185	9	—	—	11,194
Eliminated on write-off	(52,862)	(86)	(213)	(187)	(53,348)
At 31 March 2006	—	—	—	—	—
Net book value					
At 31 March 2006	—	—	—	—	—
At 31 March 2005	17,003	9	—	—	17,012

At 31 March 2006, no property, plant and equipment were held under finance leases. At 31 March 2005, the net book value of property, plant and equipment held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK$8,000.

13. Investment in subsidiaries

	Company 2006	2005
	HK$'000	*HK$'000*
Amounts due from subsidiaries *(note (b))*	97,629	92,414
Less: provision	(97,629)	(92,414)
	—	—

(a) The following is a list of the subsidiaries of the Company as at 31 March 2006:

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
Shares held directly:				
Satellite Devices (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$3	100%
Satellite Devices Intelligence (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Shares held indirectly:				
Satellite Devices Limited	Hong Kong	Design, development and sale of location based technology devices and applications in Hong Kong	Ordinary HK$5,000,000	100%
衛科導航技術(深圳)有限公司 ("Satellite Devices Technology (Shenzhen) Company Limited")	The People's Republic of China excluding Hong Kong (the "PRC")	Provision of technical support services in the PRC	Registered capital HK$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	100%
Satellite Devices Intelligence Limited	Hong Kong	Inactive	Ordinary HK$1	100%

Satellite Devices Technology (Shenzhen) Company Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

14. Investments in associates

	2006	2005
	HK$'000	*HK$'000*
Share of net assets	1,474	1,474
Amount due to an associate *(note (b))*	(1,470)	(1,470)
	4	4

(a) The following is a list of the associates of the Group at 31 March 2006:

Company	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Interest held indirectly
Telematics Systems Limited	Hong Kong 22 June 2001	Inactive	Ordinary shares of HK$10,000	40%
New Era Telematics Limited	Hong Kong 5 September 2001	Inactive	Ordinary shares of K$3,000,000	49%

Telematics Systems Limited and New Era Telematics Limited have adopted 31 December as their financial year end date.

(b) The amount due to an associate is unsecured, interest free and has no fixed terms of repayment.

15. Inventories

As at 31 March 2005, all inventories were carried at cost.

16. Trade receivables

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days. The aging analysis of trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	283	98
31 – 60 days	45	45
61 – 90 days	—	8
Over 90 days	12,719	15,237
	13,047	15,388
Less: Provision for doubtful debts	(12,719)	(15,217)
	328	171

17. Cash and cash equivalents

The cash and cash equivalents at 31 March 2006 and 2005 comprised cash and bank balances only. Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and cash equivalents approximate to their fair values.

18. Amount due to a fellow subsidiary

The amount is due to Arcon Technology Limited ("ATL") and is unsecured, interest-free and repayable on demand. During the year, ATL assigned the amount due to it to a third party and the amount was included in other loan in the consolidated balance sheet at 31 March 2006.

19. Amount due to a director

The amount is due to Mr. Tsoi Siu Ching, Leo and is unsecured, interest-free and repayable on demand. During the year, Mr. Tsoi assigned the amount due to him to Executive Talent Limited, a company incorporated in the British Virgin Islands ("ETL"). The amount due to ETL was subsequently capitalised as detailed in note 20 below.

20. Share capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 April 2004, 31 March 2005 and 31 March 2006	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2004 and 31 March 2005	590,916,000	59,092
Issue of shares upon loan capitalisation *(note)*	67,585,863	6,758
At 31 March 2006	658,501,863	65,850

Note: On 9 December 2005, 67,585,863 new ordinary shares of HK$0.1 each were issued and allotted at par to a creditor, Executive Talent Limited, pursuant to a loan capitalisation deed entered into on 10 October 2005 with the creditor. Details of the loan capitalisation were disclosed in the Company's circular dated 27 March 2006. This is also the major non-cash transaction during the year.

21. Share options

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

No share option was granted under the Scheme since its adoption.

22. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

Company	**Share premium**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	34,698	(94,426)	(59,728)
Profit for the year	—	88	88
At 31 March 2005	34,698	(94,338)	(59,640)
At 1 April 2005	34,698	(94,338)	(59,640)
Loss for the year	–	(6,517)	(6,517)
At 31 March 2006	34,698	(100,855)	(66,157)

Note: The share premium account of the Company is the premium from the shares issued. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

In the opinion of the director, the Company had no reserve available for distributions to shareholders at the balance sheet date.

23. Other loan

The other loan is unsecured, interest bearing at the rate of 10% per annum and repayable by 4 quarterly instalments with the first instalment due on 30 June 2007.

24. Deferred taxation

The following are the major deferred tax liabilities and assets recognised and movements thereon during current and prior accounting period:

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	4,880	(4,880)	—
Charged/(credited) to consolidated income statement	(2,011)	2,011	—
At 31 March 2005	2,869	(2,869)	—
At 1 April 2005	2,869	(2,869)	—
Charged/(credited) to consolidated income statement	(2,876)	2,876	—
At 31 March 2006	(7)	7	—

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

As at 31 March 2006, the Group had unused tax losses of approximately HK$97,339,000 (2005: approximately HK$98,477,000) available for offset against future profits. A deferred tax asset was recognised for the year ended 31 March 2006 in respect of HK$40,000 (2005: HK$16,393,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

25. Financial risk management

The Group's activities exposed it mainly to currency risk and credit risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. Cash transactions are limited to high-credit-quality institutions. In respect of the receivables, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

(b) Currency risk

The Group's principal businesses are mainly conducted and recorded in Hong Kong dollars and Renminbi Yuan. Therefore, the Group does not have any significant exposure to currency risk.

(c) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest bearing unsecured loan. The unsecured loan at fixed rate exposes the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

26. Related party transactions

Other than related party transactions in respect of key management personnel remuneration, amount due to a fellow subsidiary and amount due to a director, which were disclosed in notes 10, 18 and 19 respectively, the Group entered into the following transactions with a fellow subsidiary in the ordinary course of business:

	2006	**2005**
	HK$'000	*HK$'000*
Office rental expenses paid and payable to Arcon Technology Limited	—	16

27. Commitments

(a) Commitment under operating leases

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	93	166
In the second to fifth years inclusive	77	9
	170	175

(b) Capital commitments in respect of acquisition of property, plant and equipment

As at 31 March 2006, the Group had commitments in respect of acquisition of property, plant and equipment as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Contracted but not provided for	—	540
Authorised but not contracted for	—	—
	—	540

(c) Capital commitments in respect of investment in a subsidiary

As at 31 March 2006, the Group had unprovided capital commitments amounting to HK$857,000 (2006: HK$857,000) in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

(d) Capital commitments in respect of acquisition of a company

On 10 October 2005 and 24 November 2005, the Company entered into a sale and purchase agreement and supplemental agreement respectively, with Chung Chiu Limited, a company incorporated in the British Virgin Islands with its principal office in Hong Kong, (the "Vendor") for the acquisition of the entire issued share capital of Hip Kin Retailing Limited, a company incorporated in Hong Kong ("HKR") at the consideration of HK$80 million. The consideration shall be satisfied by (i) approximately HK$18.48 million in cash out of the estimated net proceeds from the proposed open offer (as detailed in note 29 below) and the issue of convertible note for the remaining balance of approximately HK$61.52 million. The proposed acquisition of HKR is subject to the Company's shareholders' approval and certain conditions, among of which are the Capital Reorganisation having become effective and the completion of Open Offer (both as defined below). Further details of the proposed acquisition are set out in the Company's circular dated 27 March 2006. Such proposed acquisition was approved by the Company's shareholders on 20 April 2006.

28. Litigation

On 29 June 2005, a landlord issued writ against Satellite Devices Limited, a wholly owned subsidiary of the Company, to claim for the arrears of rent, rates, air-conditioning and management fee, reinstatement costs and late payment interest for a total amount of approximately HK$331,000. Full provision for this amount had been made in the financial statements.

Apart from the action against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

29. Post balance sheet events

On 20 April 2006, the following proposals which are detailed in the Company's circular dated 27 March 2006 (the "Circular"), were approved by the shareholders of the Company:

(i) proposed capital reorganisation ("Capital Reorganisation") — (i) every five existing issued and unissued shares of HK$0.10 each in the share capital of the Company be consolidated into one share of HK$0.50 each (the "Consolidated Share") in the capital of the Company (the "Share Consolidation"); (ii) the issued share capital of the Company be reduced (the "Capital Reduction") by cancelling paid-up capital to the extent of HK$0.49 on each Consolidated Share in the capital of the Company in issue on the date the Capital Reduction become effective (the "Effective Date") so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK$0.01 each in the capital of the Company (the "New Share"); (iii) the authorised but unissued share capital of the Company be sub-divided by subdividing each of the authorised but unissued shares of HK$0.50 each in the capital of the Company into fifty new shares of HK$0.01 each; and (iv) the credit amount arising from the Capital Reduction be applied to a distributable reserve of the Company where it may be utilised by the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at the Effective Date. The Capital Reorganisation had become effective on 22 June 2006;

(ii) proposed open offer ("Open Offer") — conditional upon the Capital Reorganisation having become effective and other conditions set out in the Circular being satisfied, the issue by way of open offer of 395,101,116 shares of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation (the "Offer Shares") to the Qualifying Shareholders (as defined in the Circular) for subscription on the basis of three Offer Shares for every one share of HK$0.01 at a price of HK$0.065 per Offer Share; and

(iii) the proposed acquisition of HKR as mentioned in note 27 above.

4. UNAUDITED FINANCIAL STATEMENTS

Set out below are the unaudited financial statements together with the relevant notes thereto as extracted from the third quarterly report of Golife for the nine months ended 30 September 2008. For avoidance of doubt, capitalised terms used in the extract below shall have the meaning as ascribed to them in the third quarterly report of Golife for the nine months ended 30 September 2008.

Condensed Consolidated Income Statement — Unaudited
For the nine months ended 30 September 2008

		For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	2008	2007
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER		15,926	17,427	51,177	39,454
Cost of sales		(7,516)	(5,998)	(23,298)	(13,845)
Gross profit		8,410	11,429	27,879	25,609
Other revenues and gains	4	276	2,702	5,354	6,071
Selling and distribution costs		(742)	(1,558)	(2,497)	(2,085)
Administrative expenses		(24,713)	(14,032)	(58,386)	(29,353)
Other expenses and losses	5	(131)	—	(13,705)	—
Finance costs	6	(426)	(346)	(1,097)	(1,254)
Share of loss of jointly controlled entities		—	(180)	—	(233)
PROFIT/(LOSS) BEFORE TAX	7	(17,326)	(1,985)	(42,452)	(1,245)
Tax	8	—	(213)	(12)	(734)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		(17,326)	(2,198)	(42,464)	(1,979)
DIVIDEND	9	—	—	—	—
Earnings/(loss) per share	10				
Basic		(6.40) cents	(0.88) cents	(16.53) cents	(0.99) cents
Diluted		N/A	N/A	N/A	N/A

Notes to the Condensed Consolidated Financial Statements

1. General Information

Golife Concepts Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands and Suite A, 15/F., Wyndham Place, 40-44 Wyndham Street, Central, Hong Kong respectively.

The Company's principal activity is investment holding. The principal activity of its subsidiaries is distribution of high-end apparel and accessories.

2. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, including the Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants; accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

The accounting policies and basis of preparation adopted in the preparation of the Financial Statements are consistent with those adopted in annual financial statements for the year ended 31 December 2007.

All significant transactions and balances within the Group have been eliminated on consolidation.

The Financial Statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

3. Turnover

The Group's principal activity is distribution of high-end apparel and accessories. Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

4. Other Revenues and Gains

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank interest income	230	13	591	13
Fair value gain on financial assets at fair value through profit or loss	—	—	—	346
Profit on disposal of financial assets at fair value through profit or loss	16	2,180	16	5,040
Profit on disposal of derivative financial instruments	—	—	3,057	—
Profit on disposal of subsidiaries	—	392	—	392
Management services income	30	117	90	280
Waiver of other payable	—	—	1,600	—
	276	2,702	5,354	6,071

5. Other Expenses and Losses

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fair value loss on financial assets at fair value through profit or loss	31	—	482	—
Loss on disposal of financial assets at fair value through profit or loss	100	—	140	—
Loss on disposal of derivative financial instruments	—	—	783	—
Break-up fee for a terminated acquisition *(note)*	—	—	12,300	—
	131	—	13,705	—

Note: Upon termination of the agreement to purchase 96.57% of a French company, a break-up fee of EUR 1 million was paid to the counterparties accordingly.

6. Finance Costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on convertible notes	145	—	161	498
Interest on bank loans and overdrafts wholly repayable within five years	268	346	897	743
Interest on finance leases	13	—	39	13
	426	346	1,097	1,254

7. Profit/(Loss) before Tax

Profit/(loss) before tax is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of inventories sold	7,516	5,998	23,298	13,845
Depreciation	1,097	460	3,521	931
Minimum lease payments under operating leases on land and buildings	5,401	3,774	15,344	9,357

8. Tax

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current income tax				
Hong Kong	—	131	—	637
Overseas	—	82	—	97
Under provision for prior years				
Overseas	—	—	12	—
	—	213	12	734

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. In the corresponding period last year, Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of tax prevailing in the countries in which the Group operates.

9. Dividend

The Board does not recommend the payment of dividend for the nine months ended 30 September 2008 (2007: Nil).

10. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

	For the nine months ended 30 September	
	2008	**2007**
	HK$'000	*HK$'000*
Profit/(loss) attributable to shareholders	(42,464)	(1,979)
	Number of shares	
Weighted average number of ordinary shares in issue	256,820,965	199,403,008

Diluted earnings/(loss) per share is not presented as the convertible bonds and share options had antidilutive effects.

The weighted average number of ordinary shares in issue has been adjusted for the effect of share consolidation on 13 August 2008.

11. **Reserves**

	Share premium	Equity component of convertible notes	Share-based payments reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	55,642	11,316	—	(40,678)	26,280
Conversion of convertible notes	53,300	(11,316)	—	—	41,984
Placing of new shares	23,250	—	—	—	23,250
Cost of placing of new shares	(335)	—	—	—	(335)
Loss for the period	—	—	—	(1,979)	(1,979)
As at 30 September 2007	131,857	—	—	(42,657)	89,200
At 1 January 2008	132,103	—	98	(132,918)	(717)
Issue of convertible bonds	—	5,587	—	—	5,587
Conversion of convertible bonds	1,673	(89)	—	—	1,584
Loss for the period	—	—	—	(42,464)	(42,464)
As at 30 September 2008	133,776	5,498	98	(175,382)	(36,010)

12. **Comparative Figures**

Certain comparative figures have been reclassified to conform with current period's presentation.

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

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

Long positions

Name of Director	Nature of interests	Interests in Shares	Interests in underlying Shares	Total interests in Shares	Approximate percentage of the issued share capital of the Company
Ms. Chen	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%
Mr. Heung	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

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

Long positions

Name	*Notes*	Capacity	Interests in Shares	Interests in underlying Shares	Total interests in Shares	Approximate percentage of the issued share capital of the Company
Classical Statue	*1*	Beneficial owner	32,928,286	—	32,928,286	29.9%
Glenstone Investments Limited	*1*	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%
Porterstone	*1*	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%
Mr. Heung	*1*	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%
Ms. Chen	*1*	Interest of controlled corporation	32,928,286	—	32,928,286	29.9%

Name	*Notes*	Capacity	Interests in Shares	Interests in underlying Shares	Total interests in Shares	Approximate percentage of the issued share capital of the Company
Asia Vest Partners VII Limited	*2*	Interest of controlled corporation	1,294,921	—	1,294,921	9.95%
Asia Vest Partners X Limited	*2*	Interest of controlled corporation	1,294,921	—	1,294,921	9.95%
Asia Vest Partners Limited	*2*	Interest of controlled corporation	1,294,921	—	1,294,921	9.95%
Mr. Andrew Nan Sherrill	*2*	Interest of controlled corporation	1,294,921	—	1,294,921	9.95%
Kingston Securities Limited	*3*	Beneficial owner	—	8,159,509	8,159,509	7.40%
Ms. Chu Yuet Wah	*3*	Interest of controlled corporation	—	8,159,509	8,159,509	7.40%
Ms. Ma Siu Fong	*3*	Interest of controlled corporation	—	8,159,509	8,159,509	7.40%

Notes:

1. Classical Statue is a company wholly-owned by Glenstone Investments Limited. Glenstone Investments Limited is a company owned as to 60% by Porterstone (a company wholly-owned by Ms. Chen) and as to 40% by Mr. Heung.

2. The number of Shares was adjusted for the share consolidations that took effective on 30 April 2008 and 23 April 2009.

3. 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 8,159,509 Shares by virtue of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Enlarged 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 Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

5. COMPETING INTEREST

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

6. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not 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.

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 following are the qualifications of the experts who have given opinion and advice, which is contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Grant Sherman Appraisal Limited	Independent professional valuer

Each of HLB Hodgson Impey Cheng and Grant Sherman Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, references to its name and/or its advice in the form and context in which they respectively appear.

9. EXPERTS' INTERESTS IN ASSETS

As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Grant Sherman Appraisal Limited:

(a) was 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 2008, being the date to which the latest published audited accounts of the Company were made up; and

(b) did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Enlarged Group.

10. 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, having its registered office situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) Mr. Chan Kin Wah, Billy, the company secretary of the Company, is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from University of New South Wales in Australia.

(d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

11. MATERIAL CONTRACTS

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

(i) 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 ordinary shares of HK$0.10 each in the then share capital of the Company at a subscription price of HK$0.30 per share 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;

(ii) the loan agreement dated 5 November 2007 entered into between the Company and Ms. Chen pursuant to which Ms. Chen 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;

(iii) the conditional sale and purchase agreement dated 28 February 2008 entered into between Riche (BVI) Limited and Well Will Investment Limited relating to an acquisition of a 100% interest in Rich Daily Group Limited at an initial consideration of HK$504,000,000 (subject to adjustment);

(iv) the service agreement entered into between Ocho Sciedade Unipessoal Limited ("Ocho") and Rich Daily Group Limited on 28 February 2008 in relation to the provision of concierge services by Rich Daily Group Limited to Ocho with the monthly services fee calculated as 0.03% of the rolling turnover achieved by Ocho;

(v) the placing agreement dated 4 November 2008 (as supplemented by a supplemental agreement dated 6 November 2008) entered into by the Company and Kingston Securities Limited, pursuant to which the Company agreed to place a maximum of 500,000,000 new shares of HK$0.01 each in the share capital of the Company by a maximum of five tranches to independent investors at a price of HK$0.05 per share;

(vi) the conditional sale and purchase agreement dated 26 November 2008 entered into between Riche (BVI) Limited, Mega Shell Services Limited and Golife Concepts Holdings Limited in relation to the proposed disposal of the entire issued share capital of Shinhan-Golden Faith International Development Limited and World East Investments Limited and two sale loans by Riche BVI) Limited for a consideration of HK$211,466,310 (subject to adjustment);

(vii) the termination agreement dated 23 December 2008 entered into Legend Rich Limited, the Company and CSE in relation to the termination of the conditional sale and purchase agreement as mentioned in (i) above;

(viii) the top-up placing and subscription agreement entered into among the Company, Kingston Securities Limited and Classical Statue in relation to the placing of 39,000,000 existing shares of HK$0.01 each in the then issued share capital of the Company and the top-up subscription of 39,000,000 new shares of HK$0.01 each in the then share capital of the Company at a price of HK$0.102 per share;

(ix) the underwriting agreement dated 16 February 2009 entered into between the Company and Kingston Securities Limited in relation to the proposed issue of not less than 217,093,498 new shares and not more than 367,093,498 new shares in the then issued share capital of the Company at a subscription price of HK$0.10 per new share 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;

(x) the conditional loan agreement dated 11 March 2009 entered into between the Company as lender and CSE as borrower in respect of the Loan Facility of up to HK$200 million granted by the Company to CSE;

(xi) the deed of termination dated 18 March 2009 entered into between Rich Joy Investments Limited and Best Season Holdings Corp. in relation to the termination of the facility agreement dated 11 May 2007 entered into between Rich Joy Investments Limited and Best Season Holdings Corp. in relation to the revolving facility of up to HK$200,000,000; and

(xii) the CB Subscription Agreement.

12. 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 of association and bye-laws of the Company;

(b) the annual reports of the Company for the two financial years ended 31 December 2008;

(c) the accountants' report on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;

(d) the written consents referred to in the paragraph headed "Experts and Consents" to this Appendix;

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

(f) 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 2008, being the date of the latest published audited accounts of the Company.

中国星

CHINA STAR INVESTMENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of China Star Investment Holdings Limited (the "**Company**") will be held at Unit 3408, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Monday, 14 September 2009 at 4:30 p.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) subject to the fulfillment or waiver of the conditions as set out in the conditional subscription agreement (the "**CB Subscription Agreement**", a copy of which having been produced to the Meeting marked "A" and initialled by the chairman of the Meeting for the purpose of identification) dated 23 July 2009 and entered into between the Company and China Star Entertainment Limited ("**CSE**") in respect of the subscription of convertible bond (the "**Convertible Bond**") to be issued by CSE in the principal amount of HK$200,000,000, the CB Subscription Agreement and the transactions contemplated thereunder (including but not limited to the exercise of conversion rights conferred by the Convertible Bond) be and are hereby approved, confirmed and ratified; and

(b) any one or more of the directors (each a "**Director**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as he/she/they consider(s) necessary, desirable or expedient in his/her/their opinion to implement and/or give effect to the CB Subscription Agreement and any transaction contemplated thereunder."

2. “**THAT**

(a) the refreshment (the “**Proposed Refreshment**”) of the total number of ordinary shares in the capital of the Company which may be issued upon the exercise of option to be granted under the share option scheme adopted by the Company on 21 January 2002 to up to 10 per cent. of the shares of the Company in issue as at the date of passing of this resolution be and is hereby approved; and

(b) any one or more of the Directors be and is/are hereby authorised to take all such acts and things and execute all such documents, including under seal where applicable, as he/she/they consider(s) necessary, desirable or expedient in his/her/their opinion to implement and/or give effect to the Proposed Refreshment.”

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

Hong Kong, 28 August 2009

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

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road Central, Wanchai, Hong Kong 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 a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.