RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 764)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

FINAL RESULTS

The board of directors (the "Board") of Riche Multi-Media Holdings Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures for 2004 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	2	**38,339**	58,382
Cost of sales		**(36,466)**	(48,674)
Gross profit		**1,873**	9,708
Other revenue	4	**2,066**	390
Other income	4	**7,110**	—
Administrative expenses		**(19,332)**	(36,266)
Selling expenses		**(29)**	(234)
Impairment loss recognised in respect of film rights		**(8,956)**	(16,213)
Impairment loss recognised in respect of other asset		**—**	(46,512)
Impairment loss recognised in respect of goodwill		**(12,056)**	(28,072)
Impairment loss recognised in respect of available-for-sale financial assets		**—**	(12,000)
Allowance for advances to an associate		**—**	(138,531)
Loss from operations	5	**(29,324)**	(267,730)
Finance costs	6	**(340)**	(340)
Loss before taxation		**(29,664)**	(268,070)
Taxation	7	**—**	(277)
Loss for the year		**(29,664)**	(268,347)
Attributable to:			
Equity holder of the Company		**(29,664)**	(268,347)
Loss per share attributable to the equity holders of the Company	8		
Basic		**HK(0.61) cents**	HK(5.65) cents
Diluted		**HK(0.61) cents**	HK(5.65) cents

AUDITED CONSOLIDATED BALANCE SHEET
At 31 December 2005

	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**3,418**	7,975
Interests in leasehold land	**—**	1,580
Film rights	**—**	9,236
Goodwill	**—**	4,400
Interests in associates	**—**	—
Club memberships	**172**	172
	3,590	23,363
Current assets		
Inventories	**6**	15
Film rights	**—**	1,105
Film rights deposits	**14**	14
Trade receivables	**4,729**	23,308
Deposits, prepayments and other receivables	**54,202**	4,584
Deposit with a related company	**—**	5,000
Financial assets at fair value through profit and loss	**30,567**	41,732
Available-for-sale financial assets	**—**	18,000
Amount due from an associate	**—**	300
Tax prepayment	**4,146**	—
Cash and bank balances	**137,973**	15,460
	231,637	109,518
Total assets	**235,227**	132,881
EQUITY		
Capital and reserve attributable to the Company's equity holders		
Share capital	**51,540**	47,520
Reserves	**116,070**	21,051
	167,610	68,571
LIABILITIES		
Current liabilities		
Trade payables	**1,714**	1,983
Other payables and accruals	**7,619**	3,797
Receipt in advance	**483**	1,204
Amounts due to related companies	**34,832**	549
Obligations under a finance lease — amount due within one year	**—**	8
Convertible notes payable	**—**	33,800
Taxation payable	**22,969**	22,969
	67,617	64,310
Total equity and liabilities	**235,227**	132,881
Net current assets	**164,020**	45,208

Notes:

1. **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.

Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations (Ints) issued by the Hong Kong Institute of Certified Public Accountants (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 Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the financial statement is historical cost as modified for the revaluation of certain financial assets and buildings.

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

The preparation of the financial statements requires management to exercise its judgement in the process of applying the Company's accounting polices. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

The Adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised standards and Interpretations of HKFRSs below, which are relevant to its operations. The 2004 comparative figures have been restated as required, in accordance with the relevant requirements.

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 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 21	Income Taxes-Recovery of Revalued Non Depreciable Assets
HKFRS 2	Share-based payment
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of an asset. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior year, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 January 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognized in an option reserve. The related option reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights.

As transitional provision set out in HKFRS 2, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 shall expense retrospectively in the income statement of the respective periods. The Group has taken the advantages of the transitional provisions under which all of the Company's outstanding share options granted after 7 November 2002 were all vested at the date of granting the share options. As a result, the adoption of HKFRS 2 does not have material impact on the Group's financial position for the year ended 31 December 2005.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight line basis over a period ranging from 5 to 20 years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its film rights in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKFRS 3 — prospectively after 1 January 2005.

Effect on the consolidated balance sheet at 1 January 2005:

	Effect of adopting			
At 1 January 2005	**HKAS 17**	**HKAS 39**	**HKFRS 3**	
Effect of new policies	**Interests in leasehold land *HK$'000***	**Financial instruments *HK$'000***	**Business combination *HK$'000***	**Total *HK$'000***
Assets				
Decrease in investments in securities	—	(59,732)	—	(59,732)
Increase in financial assets at fair value through profit and loss	—	41,732	—	41,732
Increase in available-for-sale financial assets	—	18,000	—	18,000
	—	—	—	—

Effect on the consolidated balance sheet at 1 January 2004:

At 1 January 2004	HKAS 17	HKAS 39	HKFRS 3	
	Effect of adopting			
Effect of new policies	Interests in leasehold land *HK$'000*	Financial instruments *HK$'000*	Business combination *HK$'000*	Total *HK$'000*
Assets				
Decrease in property, plant and equipment	(3,084)	—	—	(3,084)
Increase in interests in leasehold land	1,931	—	—	1,931
	(1,153)	—	—	(1,153)

Effect on the balances of equity at 1 January 2004 and 2005

	HKAS 17	HKAS 39	HKFRS 3	
	Effect of adopting			
Effect of new policies	Interests in leasehold land *HK$'000*	Financial instruments *HK$'000*	Business combination *HK$'000*	Total *HK$'000*
1 January 2004				
Decrease in properties revaluation reserve	(2,638)	—	—	(2,638)
Increase in retained earnings	1,154	—	—	1,154
	(1,484)	—	—	(1,484)
1 January 2005				
Decrease in properties revaluation reserve	(812)	—	—	(812)

Effect on the consolidated income statement for the years ended 31 December 2004 and 2005

	HKAS 17	HKAS 39	HKFRS 3	
	Effect of adopting			
Effect of new policies	Interests in leasehold land *HK$'000*	Financial instruments *HK$'000*	Business combination *HK$'000*	Total *HK$'000*
Year ended 31 December 2004				
Decrease in administrative expenses	(43)	—	—	(43)
Total increase in loss for the year	(43)	—	—	(43)
Increase in basic loss per share (HK cents)	—	—	—	—
Increase in diluted loss per share (HK cents)	—	—	—	—

	HKAS 17	HKAS 39	HKFRS 3	
Effect of new policies	Interest in leasehold land *HK$'000*	Financial instruments *HK$'000*	Business combination *HK$'000*	Total *HK$'000*
Year ended 31 December 2005				
Increase in prepaid operating lease payment	10	—	—	10
Total increase in loss for the year	10	—	—	10
Increase in basic loss per share (HK cents)	—	—	—	—
Increase in diluted loss per share (HK cents)	—	—	—	—

There was no impact on basic and diluted earnings per share from the adoption of HKAS 39 and HKFRS 3.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 2 and HKFRS 3.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 4	Determining whether an Arrangement contain a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 January 2007.

2. **Turnover**

	2005 ***HK$'000***	2004 *HK$'000* (Restated)
Distribution of films	**9,382**	27,285
Sub-licensing of film rights	**10,534**	16,319
Sales of financial assets at fair value through profit and loss	**18,423**	14,778
	38,339	58,382

3. **Segment Information**

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely distribution, sub-licensing and investments in securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Distribution	Distribution of films
Sub-licensing	Sub-licensing of film rights
Investments in securities	Investments in listed and unlisted equity securities

Segment information about these businesses for the years ended 31 December 2005 and 2004 is presented below.

Consolidated income statement for the year ended 31 December 2005

	Distribution ***HK$'000***	**Sub-licensing** ***HK$'000***	**Investments in securities** ***HK$'000***	**Consolidated** ***HK$'000***
Turnover	**9,382**	**10,534**	**18,423**	**38,339**
Segment profit/(loss) before impairment losses recognised in respect of film rights and goodwill	**2,443**	**(4,613)**	**(2,045)**	**(4,215)**
Impairment loss recognised in respect of film rights	**(8,956)**	**—**	**—**	**(8,956)**
Impairment loss recognised in respect of goodwill	**—**	**(12,056)**	**—**	**(12,056)**
Segment loss	**(6,513)**	**(16,669)**	**(2,045)**	**(25,227)**
Unallocated corporate income				**9,176**
Unallocated corporate expenses				**(13,273)**
Loss from operations				**(29,324)**
Finance costs				**(340)**
Loss before taxation				**(29,664)**
Taxation charge				**—**
Net loss for the year attributable to equity holders of the Company				**(29,664)**

Consolidated balance sheet for the year ended 31 December 2005

	Distribution ***HK$'000***	**Sub-licensing** ***HK$'000***	**Investments in securities** ***HK$'000***	**Consolidated** ***HK$'000***
Assets				
Segment assets	**4,582**	**4,729**	**41,869**	**51,180**
Unallocated corporate assets				**184,047**
Consolidated total assets				**235,227**
Liabilities				
Segment liabilities	**2,439**	**6,172**	**—**	**8,611**
Unallocated corporate liabilities				**59,006**
Consolidated total liabilities				**67,617**

Other information for the year ended 31 December 2005

	Distribution ***HK$'000***	**Sub-licensing** ***HK$'000***	**Investment in securities** ***HK$'000***	**Unallocated** ***HK$'000***	**Consolidated** ***HK$'000***
Additions of property, plant and equipment	**—**	**—**	**—**	**—**	**—**
Additions of film rights	**3,600**	**5,347**	**—**	**—**	**8,947**
Depreciation and amortisation	**3,246**	**7,086**	**1,108**	**10**	**11,450**
Impairment losses recognised	**1,661**	**8,483**	**12,056**	**—**	**22,200**

Consolidated income statement for the year ended 31 December 2004

	Distribution *HK$'000*	Sub-licensing *HK$'000*	Investments in securities *HK$'000*	Consolidated *HK$'000* (Restated)
Turnover	27,285	16,319	14,778	58,382
Segment loss before amortisation of other asset, impairment losses recognised in respect of film rights, other asset, goodwill and available-for-sale financial assets and allowance for advances to an associate	(3,222)	(216)	(1,460)	(4,898)
Amortisation of other asset	—	(6,644)	—	(6,644)
Allowance for advances to an associate	—	(138,531)	—	(138,531)
Impairment loss recognised in respect of film rights	(980)	(15,233)	—	(16,213)
Impairment loss recognised in respect of other asset	—	(46,512)	—	(46,512)
Impairment loss recognised in respect of goodwill	(20,000)	(8,072)	—	(28,072)
Impairment loss recognised in respect of available-for-sale financial assets	—	—	(12,000)	(12,000)
Segment loss	(24,202)	(215,208)	(13,460)	(252,870)
Unallocated corporate income				390
Unallocated corporate expenses				(15,250)
Loss from operations				(267,730)
Finance costs				(340)
Loss before taxation				(268,070)
Taxation charge				(277)
Net loss for the year attributable to equity holders of the Company				(268,347)

Consolidated balance sheet for the year ended 31 December 2004

	Distribution *HK$'000*	Sub-licensing *HK$'000*	Investments in securities *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000* (Restated)
Assets					
Segment assets	22,974	25,192	59,732	2,108	110,006
Unallocated corporate assets					22,875
Consolidated total assets					132,881
Liabilities					
Segment liabilities	1,254	5,057	—	—	6,311
Unallocated corporate liabilities					57,999
Consolidated total liabilities					64,310

Other information for the year ended 31 December 2004

	Distribution *HK$'000*	Sub-licensing *HK$'000*	Investments in securities *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000* (Restated)
Additions of property, plant and equipment	54	5	—	40	99
Additions of film rights	13,358	4,970	—	—	18,328
Allowance for inventory obsolescence	917	—	—	—	917
Allowance for film rights deposits	1,000	—	—	—	1,000
Allowance for advances to an associate	—	138,531	—	—	138,531
Depreciation and amortisation	10,270	18,905	—	615	29,790
Impairment loss on provision of bad and doubtful debts	147	1,445	—	56	1,648
Impairment losses recognised	20,980	69,817	12,000	—	102,797

Geographical segments

The Group's operations are substantially located in Hong Kong and Macau. Thus, no geographical analysis for the carrying amounts of segment assets and additions to property, plant and equipment and intangible assets is presented.

The following table provides an analysis of the Group's sales by location of markets:

	Hong Kong		**The People's Republic of China**		**Others**		**Consolidated**	
	2005 ***HK$'000***	2004 *HK$'000*	**2005** ***HK$000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000*
Segment revenue:								
Sales to external customers	**18,892**	15,978	**19,447**	42,404	**—**	—	**38,339**	58,382
Other revenue	**2,066**	390	**—**	—	**—**	—	**2,066**	390
Other income	**7,110**	—	**—**	—	**—**	—	**7,110**	—
	28,068	16,368	**19,447**	42,404	**—**	—	**47,515**	58,772

4. **Other revenue and other income**

	2005 HK$'000	2004 HK$'000 (Restated)
Other revenue		
Dividend income from financial assets at fair value through profit and loss	**627**	315
Interest income on bank deposits	**1,339**	14
Sundry income	**100**	61
	2,066	390
Other income		
Gain on disposal of leasehold land and buildings	**7,110**	—

5. **Loss from operations**

	2005 HK$'000	2004 HK$'000 (Restated)
Loss from operations has been arrived after charging:—		
Allowance for film right deposits	—	1,000
Allowance for inventory obsolescence	—	917
Amortisation of prepaid operating lease payment	**10**	20
Amortisation of film rights	**10,332**	17,894
Amortisation of goodwill	—	3,953
Amortisation of other asset	—	6,644
Auditors' remuneration	**500**	720
Cost of inventories sold	**33**	1,904
Depreciation of property, plant and equipment:		
— owned assets	**1,098**	1,206
— leased assets	**10**	10
	1,108	1,216
Impairment loss recognised in respect of prepayments	**1,188**	—
Impairment loss on provision of bad and doubtful debts	**2,474**	1,648
Operating leases rental in respect of rented premises	**900**	1,616
Staff costs including directors' emoluments:		
— Salaries	**6,813**	10,008
— Contribution to retirement benefits scheme	**143**	212
	6,956	10,220
Unrealised loss on financial assets at fair value through profit and loss	**3,928**	852

6. **Finance costs**

	2005 HK$'000	2004 HK$'000 (Restated)
Interest on borrowing wholly repayable within five years:		
— convertible notes payable	**100**	338
— loan payable	**238**	—
— a finance lease	**2**	2
	340	340

7. **Taxation**

	2005 HK$'000	2004 HK$'000 (Restated)
The taxation (charge)/credit is as follows:		
Hong Kong Profits Tax:		
— current year	—	(284)
— overprovision in prior years	—	7
Taxation charge attributable to the Company and its subsidiaries	—	(277)

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2005 as the Company and its subsidiaries either have no estimated assessable profits or their estimated assessable profits are wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year ended 31 December 2004.

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

	2005 HK$'000	%	2004 HK$'000	%
Loss before taxation	**(29,664)**		(268,070)	
Taxation at income tax rate of 17.5%	**5,191**	**17.5**	46,912	17.5
Tax effect of income that is not taxable in determining taxable profit	**8,554**	**28.8**	606	0.2
Tax effect of expenses that are not deductible in determining tax profit	**(11,308)**	**(38.1)**	(45,632)	(17.0)
Underprovision in respect of prior years	—	—	7	—
Tax effect of estimated tax losses for which deferred tax assets have not been recognised	—	—	(2,170)	(0.8)
Tax losses not yet recognised	**(2,437)**	**(8.2)**	—	—
Taxation charge for the year	—	—	(277)	(0.1)

In April 2002, April 2003, March 2004, and January 2005, the Inland Revenue Department (the "IRD") of Hong Kong issued estimated assessments to Ocean Shores Licensing Limited ("OSLL") in respect of their potential tax liabilities for the years of assessments from 1995/1996 to 2000/2001 in the amount of HK$22,971,000. OSLL has formally objected to the estimated assessments. The directors of the Company consider appropriate tax provision has already been made in the financial statements.

At the request of the IRD, OSLL has already paid deposits totaling approximately HK$4,146,000 by way of purchase of tax reserve certificates and payment of instalments in cash. There are possible obligations in penalty and interest arising in respect of the potential tax liabilities in the event that the objection is settled.

8. **Loss per share**

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

	2005 HK$'000	2004 HK$'000 (Restated)
Loss for the purposes of basic loss per share — net loss for the year	**(29,664)**	(268,347)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes payable	—	—
Loss for the purposes of diluted loss per share	**(29,664)**	(268,347)
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,865,190**	4,752,000
Effect of dilutive potential ordinary shares:		
Warrants	—	—
Convertible notes payable	—	—
Share options	—	—
Weighted averaged number of ordinary share for the purposes of diluted loss per share	**4,865,190**	4,752,000

The computation of diluted loss per share for the year ended 31 December 2005 did not assume the exercise of the Company's share options because the effect of exercising an option to subscribe for an additional share in the Company would result in a decrease of net loss per share.

The computation of diluted loss per share for the year ended 31 December 2004 did not assume the exercise of the Company's warrants, convertible notes payable and share options because the effect of exercising a warrant, a convertible note payable and an option to subscribe for an additional share in the Company would result in a decrease of net loss per share.

DIVIDEND

The Board do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a turnover of HK$38,339,000 for the year ended 31 December 2005, a 34% decrease from HK$58,382,000 for the previous year. The decrease was mainly attributed to a decrease in the number of films distributed and sub-licensed. Of the total turnover amount, HK$9,382,000 or 25% was generated from distribution of films, HK$10,534,000 or 27% was generated from sub-licensing of film rights and HK$18,423,000 or 48% was generated from investments in securities. The loss for the year ended 31 December 2005 was HK$29,664,000, representing an 89% improvement over the corresponding figure of HK$268,347,000. The improvement in the loss for the year was mainly attributable to the fact that the Group did not record any allowance for advances to an associate in 2005 while the Group recorded such an allowance of HK$138,531,000 in 2004, and a substantial decrease in impairment losses.

Cost of sales for the year ended 31 December 2005 amounted to HK$36,466,000, out of which HK$20,374,000 was related to investments in securities. Cost of sales for film distribution and sub-licensing of film rights decreased from HK$32,436,000 for the year ended 31 December 2004 to HK$16,092,000 for the year ended 31 December 2005. The decrease was attributed to a decrease in amortisation of film rights, which was the result of distributing and sub-licensing a less number of films in 2005.

Gross profit margin for film distribution and sub-licensing of film rights dropped from 26% in the year ended 31 December 2004 to 19% in the year ended 31 December 2005. The drop in gross profit margin was attributed to the better margins the Group obtained from delivery of 108 old films in 2004, the cost of which had already been almost fully amortised.

For the year ended 31 December 2005, the Group recorded a gross loss of HK$1,951,000 for investments in securities. Taking into account the dividend income of HK$627,000 recorded in other revenue, the performance of the Group's financial assets at fair value through profit and loss was a loss of HK$1,324,000 for the year. At 31 December 2005, the fair value of the Group's financial assets through profit and loss amounted to HK$30,567,000. The Group will manage its financial assets at fair value through profit and loss in a prudent manner.

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

Other income represents a gain of HK$7,110,000 arising from the sale of the Group's leasehold land and buildings to China Star Group in July 2005.

During the year, the Group had exercised prudence measures on cost control policies and decreased its administrative expenses (net of amortisation and depreciation expenses and impairment losses) to HK$14,552,000 in the year ended 31 December 2005, a 36% decrease as compared to the correspondence figure of HK$22,785,000 for the previous year.

To cope with the difficult operating environment, management reviewed the headcount policy and reduced the Group's headcount at 28 at 31 December 2005 to create a more efficient infrastructure. Total staff costs (including directors' remuneration) amounted to HK$6,956,000 in the year ended 31 December 2005, a 32% decrease from HK$10,220,000 for the previous 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 2005 and 2004 is as follows:

	Year ended 31 December 2005	2004
Total staff costs (inclusive of severance costs) in HK$		
— Hong Kong and Macau	**6,562,000**	7,142,000
— The People's Republic of China (the "PRC")	**394,000**	3,078,000
	6,956,000	10,220,000
Headcount		
— Hong Kong and Macau	**23**	26
— the PRC	**5**	15
	28	41

At 31 December 2005, an impairment loss of HK$2,474,000 was recognised for long outstanding receivables. The directors were uncertain whether the amount would ultimately be collected and considered that it was prudent to make such an impairment.

For prudence, the Group has reviewed the carrying amounts of its film rights and, in light of the decline in popularity of Hong Kong films and rampant privacy in the PRC, an impairment loss of HK$8,956,000 was recognised in the year ended 31 December 2005. The Group has also reviewed the carrying amount of goodwill arising from the acquisition of World East Investments Limited, in light of the difficult operating environment of film exhibition business in the PRC, an impairment loss of HK$4,400,000 was recognised in the year ended 31 December 2005.

In 2002, Gainful Fortune Limited ("Gainful Fortune"), a then associate of the Group, issued the convertible notes in an aggregate amount of HK$160,000,000 to the Group for the purchase of the hotel and intranet distribution rights in the PRC in respect of an aggregate of up to 300 films and the entire issued share capital of Ocean Shores Licensing Limited ("OSLL") from the Group. Gainful Fortune faced the illegal broadcasting of the Group's films by hotel operators in the PRC and its business did not progress as planned. In April 2005, the Group exercised its right to convert the outstanding principal amount of the convertible notes into shares of Gainful Fortune to repossess the 300 films previously sold. Gainful Fortune and OSLL now become subsidiaries of the Company. Since April 2005, the principal activities of Gainful Fortune and OSLL are holding of film rights. In light of the difficult operating environment in hotel media in the PRC, the Group recognised an impairment loss of HK$7,656,000 for goodwill arising from the acquisition of Gainful Fortune in the year ended 31 December 2005.

In March 2004, the Group acquired 40% of the issued share capital of Rainbow Choice Enterprises Limited ("Rainbow Choice") by investing HK$30,000,000. Rainbow Choice engaged in the business of producing and distributing of entertainment news programmes in the PRC. The acquisition facilitated the Group's expansion into the PRC television advertising business. As the performance of Rainbow Choice was not satisfactory, the Group entered into an agreement with the other shareholder of Rainbow Choice in April 2005. Under the agreement, the Group would own the intellectual property rights of the contents produced by Rainbow Choice and the other shareholder of Rainbow Choice would repay the production and distribution fees of HK$18,000,000 to the Group. The Group recognised an impairment loss of HK$12,000,000 for this investment at the end of 2004.

During the year ended 31 December 2005, the Group's operations were funded by cash generated from its operations, the issuance of new shares and a one-year term loan granted by China Star Entertainment Limited ("China Star"). At 31 December 2005, the cash and bank balances of the Group amounted to HK$137,973,000 and its current ratio was 3.43 (2004: 1.70).

During the year ended 31 December 2005, the Company issued 400,000,000 new shares at a price of HK$0.34 each by way of a vendor placing and top-up subscription raising HK$131,179,000 (net of expenses).

On 19 April 2005, the convertible notes issued to First-Up Investments Limited ("First-Up"), a wholly-owned subsidiary of China Star, matured. First-Up did not exercise the right to convert the outstanding principal amount of the convertible notes of HK$33,800,000 into shares of the Company and the Group repaid HK$33,800,000 to First-Up. On the same date, China Star granted a one-year term loan of HK$33,800,000 to the Company.

At 31 December 2005, the Group had outstanding borrowings of HK$33,800,000 representing the one-year term loan of HK$33,800,000 granted by China Star, which was unsecured, interest bearing at 1% per annum and maturing on 19 April 2006. The gearing ratio calculated as a percentage of total borrowings over total equity was 20% (2004: 50%).

During the year ended 31 December 2005, the Group had not created any charge on its assets.

The Group adopts a set of treasury policies to ensure a well-balance between cash and financial assets at fair value through profit and loss in order to generate an adequate return on the Group's assets.

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 2005, the Group had no material contingent liabilities.

Operation Review

For the year ended 31 December 2005, the turnover for distribution of films decreased to HK$9,382,000, a 66% decrease from HK$27,285,000 for the previous year. The decrease was due to the decrease in the number of films distributed and the decline in average distribution income per new film. During the year, the Group released five new films in video format as compared to 10 new films in the previous year. The decline in popularity of Hong Kong films and the rampant privacy placed price pressures on the Group's films. During the year, the Group recorded an 18% decease in the average distribution income per new film compared to the previous year. During the year ended 31 December 2005, the Group did not sell any video rights of its old films in the PRC while the Group sold 32 old films to a PRC distributor in the previous year. As the piracy in the PRC continued to proliferate, the Group decided to sell its video products through Carrefour's 27 stores at the end of 2004. Accordingly, the Group terminated the sub-distribution arrangement with 天津市星匯音像制品銷售有限公司 (Tianjin Xinghui) in the first quarter of 2005.

For the year ended 31 December 2005, the turnover for sub-licensing of films rights amounted to HK$10,534,000, a 35% decrease compared to HK$16,319,000 for the previous year. The decrease was attributed to the decrease in the number of films exhibited and sub-licensed. During the year, five new films (2004: seven) were theatrically released in the PRC and 31 film rights (2004: 52) in respect of free TV were sub-licensed to the PRC distributors. In addition, no film rights in respect of hotel and intranet were sub-licensed to Gainful Fortune in 2005, while the Group delivered 24 films to Gainful Fortune in 2004. As the drop in license fees has stabilized since the first half of 2005 and the quality of the Group's films sub-licensed was improved in 2005, the Group recorded an 11% increase in the average film exhibition income per new film and a 59% increase in the average sub-licensing income per film compared to the previous year.

At 31 December 2005, the Group had HK$1,127,000 worth of signed distribution agreements in its order books.

In view of the strong growth on advertising spending in the PRC, the Group ventured into television advertising business by acquiring 40% interest in Rainbow Choice in March 2004. Rainbow Choice distributed its entertainment news programmes on a barter basis, through which television stations offered advertising spots to Rainbow Choice in exchange for the programmes. Due to a flood of similar programmes in the market, Rainbow Choice failed to build up a strong television networks and obtain advertising spots at prime time within the first six months of its operations. As a result, the management team of Rainbow Choice decided to cease its business in the first quarter of 2005.

On 5 February 2002, the Group entered into a territory supply agreement with China Star International Distribution Limited ("CSIDL"), a wholly-owned subsidiary of China Star, whereby CSIDL granted in favour of the Group a first right of refusal to acquire the exclusive distribution rights (excluding the theatrical and internet rights) in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of China Star Group's films for a period of three years from 8 April 2002 and an option to acquire the theatrical rights of such films. In view of the decline in popularity of Hong Kong films, the Group decided not to renew the territory supply agreement with CSIDL upon its expiry in April 2005. The Group believes that the non-renewal of the territory supply agreement provides it with a greater flexibility in acquiring film rights for distribution.

Expand into New Business

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 (i) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and (ii) the debts owed by Shinhan-Golden to Northbay, at an aggregate consideration of HK$266,064,350 (the "Acquisition"). The consideration shall be satisfied by the allotment and issue of 1,330,321,745 shares at HK$0.20 per share. Shinhan-Golden is an investment holding vehicle and its major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property (the "Property") located at Inner Jiangguo Gate of Dongcheng District, Beijing, the PRC (currently known as No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC). The Property is currently under renovation and being transformed from an apartment complex into serviced apartments. The renovation project is expected to be completed in October 2006. Subject to the fulfillment of the conditions set out under the agreement, the Acquisition is expected to be completed in June 2006.

On 31 March 2006, the Company announced that it would not complete the conditional agreement with Leadfirst Limited ("Leadfirst") and Mr. Benny Ki, pursuant to which the Group would acquire 100% of the issued share capital of Best Winning Group Limited ("Best Winning") for a consideration of HK$600,000,000. During the due diligence exercise conducted by the Company, the Company had raised concern over the appointment of Leadfirst as the sole and exclusive service provider for the promotion and introduction of customers to Asia Star and the provision of rolling and settlement services for customers of the gaming establishment on board Asia Star may be terminated in the event of a change the ownership of Asia Star, thereby affecting the sub-marketing between Leadfirst and Best Winning. As the directors are unable to satisfy themselves as to the business and legal structure pertaining the contractual arrangements among the vessel owner of Asia Star, casino operator, Leadfirst and Best Winning by the longstop date. It was in the best interest of the Company and its shareholders that the Company does not proceed to complete the conditional agreement.

Future Prospects

Sale negotiations with the PRC distributors show the drop in license fees for Hong Kong films has been stabilized. The directors anticipate that it takes some time for the market to recover as piracy remains rampant. As piracy and copyright infringements affect the film industries in both Hong Kong and the PRC, the PRC distributors are working together with the film industry practitioners to give pressure on the PRC Central Government to combat piracy and copyright infringements. Recent meetings with the PRC distributors reveal that the PRC Central Government plans to step up the enforcement of intellectual property laws in 2006. In addition, a PRC video distributor has conducted an extensive research on Internet users in the PRC. The research shows that the youth of the PRC have spent quite a lot of time on Internet for entertainment and distributing movies through Internet may be an effective mean to capture this segment. In response to the research findings, the PRC distributor is planning to set up an Internet movies station.

Despite the above encouraging messages, the Group will continue to cautiously monitor the business environment and strengthen its business foundations by implementing prudent cost control and adopting a more cautious approach in acquiring film rights.

Upon the completion of the Acquisition, whilst the Group will continue to carry out its existing business, the Group will also carry out the property investment business. In view of the growing demand for high-end serviced apartments resulting from Beijing's successful bid for the 2008 Olympic Games and the PRC's accession to the World Trade Organisation, the Group currently intends to hold the Property as a long-term investment for rental purposes. The directors believes that the Acquisition will enable the Group to diversify its businesses and provide it with a stable revenue stream, which would have a positive impact on the Group's profitability.

CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring proper standards of corporate governance are maintained and for accounting to shareholders. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2005, except for the following deviations:

1. **Code Provision A.2.1**

   Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company does not maintain the office of chief executive officer, however, the day-to-day management of the Group is responsible by the Vice Chairman. The division of responsibilities between the Chairman and the Vice Chairman has been clearly established and was set out in writing.

2. **Code Provision A.4.1**

   Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

3. **Code Provisions B.1.4 and C.3.4**

   Under the code provisions B.1.4 and C.3.4 of the Code, the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website. Since the Company has not yet established its own website, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

Information on the Company's compliance of the Code and deviations from certain code provisions of the Code for the year ended 31 December 2005 is set out in the Corporate Governance Report in the Company's annual report which will be sent to the shareholders at the end of April 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2005. The Model Code also applies to other specified senior management of the Group.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Tang Chak Lam, Gilbert, Mr. Ho Wai Chi, Paul and Mr. Lien Wai Hung. Mr. Tang Chak Lam, Gilbert is the chairman of the Audit Committee.

The Audit Committee has reviewed the audited financial statements and annual report of the Company for the year ended 31 December 2005.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors of the Company consists of two executive directors, Mr. Heung Wah Keung *(Chairman)* and Ms. Chen Ming Yin, Tiffany *(Vice Chairman)* and three independent non-executive directors, Mr. Tang Chak Lam, Gilbert, Mr. Ho Wai Chi, Paul and Mr. Lien Wai Hung.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE's WEBSITE

Information that is required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Heung Wah Keung
Chairman

Hong Kong, 24 April 2006