39. FINANCIAL RISK MANAGEMENT

(a) Liquidity risk

Management considers the Group's liquidity position to be strong, with bank deposits of HK$115 million and available banking facilities of HK$252 million to draw on. The Group maintains good business relationships with its banks and has available banking facilities for future business development. Therefore, the Group's exposure to liquidity risk is considered minimal.

(b) Credit risk

The Group's exposure to credit risk is limited to credit sales to certain steady customers with long credit histories. The Group has not experienced bad debts in recent years and thus, credit risk is not considered significant.

(c) Foreign currency risk

The Group's exposure to foreign currency risk is limited because the Group's operations are located in Hong Kong and Macau, and the Macanese pataca (''MOP'') is officially pegged to the Group's functional currency of HK$ at HK$1 to MOP1.03.

(d) Cash flow and interest rate risk

Interest rate risk is the risk that the position of the Group may be adversely affected by changes in market interest rates.

The Group is exposed to interest rate risk on its secured bank loans of HK$140 million fully repayable within five years, with interest charged at variable rates linked to market rates. The Group does not take measures such as interest rate swaps to protect from the risk of paying rates in excess of current market rates, as management considers any exposure to adverse fluctuations in short term market rates to be acceptable. Cash flow risk is limited as the Group is able to generate sufficient cash flow from operations to fulfill its repayment obligations and meet the cash requirements for its day-to-day operations.

40. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are 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 key assumptions and judgments used in preparing the financial statements that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Distinction between owner-managed properties and investment properties

The Group determines whether a property qualifies as investment property. The hotel property comprises a portion that is held to earn rental income and a portion held for use in the production or supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether the ancillary services are so significant that a property does not qualify as investment property.

40. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(b) Fair value of investment properties and land and buildings

The fair value of the investment properties and land and buildings are determined by independent valuers on an open market for existing use basis. In making their judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date, by reference to recent market transactions and appropriate capitalisation rates based on an estimation of the rental income. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

The fair value of the hotel property at the date of acquisition is determined by independent valuers on an open market for existing use basis. The apportionment between the value of land and building of the hotel property is determined by making an assessment of the net replacement cost of the building as at the date of valuation and deducting this from the valuation of the property.

(c) Useful lives of property, plant and equipment

Management determines the estimated useful lives of the property, plant and equipment. Management will revise depreciation charges when useful lives differ from previous estimates.

(d) Impairment test 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 the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(e) Share options

The fair value of share options granted is estimated by independent professional valuers based on various assumptions on volatility, life of options, dividend paid out rate and annual risk-free rates which generally represent the best estimate of the fair value of the share options at date of grant.

(f) Provision for long service payments

The obligations for long service payments are assessed using the projected unit credit method. The provisions are calculated as the present values of the estimated future cash outflows for each employee. To estimate the future cash outflows, management uses the best estimates for suitable discount rates and expected rates of future salary increases.

41. POST BALANCE SHEET EVENTS

On 14 April 2006, Well Allied Investments Limited (''Well Allied'') (a 51% owned subsidiary of Welly Champ International Limited (''Welly Champ''), a 60% owned subsidiary of the Company) set up a wholly owned subsidiary, 中音傳播（深圳）有限公司 (China Music Video Broadcast (Shenzhen) Company Limited) (''China Music''), in the PRC.

41. POST BALANCE SHEET EVENTS *(continued)*

China Music entered into the following agreements in respect of the business of licensing copyright of karaoke music products to karaoke operators in the PRC (except Hong Kong and Macau):

(i) a copyright co-operation agreement dated 8 May 2006 between China Music and 中國音像集體管理協會 (China Music Video Collective Management Association) (the ''Association'');

(ii) a copyright business operation co-operation agreement dated 8 May 2006 between China Music, the Association and 北京天語同聲信息有限公司 (Song Labs., Ltd.) (''Song Labs''); and

(iii) a further co-operation agreement dated 12 June 2006 between Song Labs and China Music relating to market development and sharing of expenses and income in respect of such licensing business.

To finance the above-mentioned licensing business, a shareholders agreement dated 12 June 2006 between the shareholders of Well Allied was entered into whereby the shareholders agreed to advance loans in the total sum of HK$11 million to Well Allied proportional to their shareholdings respectively, HK$9,999,900 of which was advanced to China Music.

Another shareholders agreement dated 12 June 2006 between the shareholders of Welly Champ was entered into whereby they agreed to advance loans in the total sum of HK$5,610,000 to Welly Champ proportional to their shareholdings.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 6 July 2006.