

# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of the Offers, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in KH Investment Holdings Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Exchanges and Clearing Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.

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## **New Asia Media Development Limited**

*(Incorporated in the British Virgin Islands  
with limited liability)*

## **Culture Landmark Investment Limited**

*(Incorporated in Bermuda  
with limited liability)*

**(Stock code: 674)**



**KH INVESTMENT HOLDINGS LIMITED**

嘉匯投資控股有限公司\*

*(Incorporated in the Cayman Islands and  
continued in Bermuda with limited liability)*

**(Stock code: 8172)**

**COMPOSITE DOCUMENT RELATING TO  
THE UNCONDITIONAL MANDATORY CASH OFFERS BY  
REORIENT FINANCIAL MARKETS LIMITED  
ON BEHALF OF  
NEW ASIA MEDIA DEVELOPMENT LIMITED  
(I) TO ACQUIRE ALL OF THE ISSUED SHARES  
IN THE SHARE CAPITAL OF  
KH INVESTMENT HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
NEW ASIA MEDIA DEVELOPMENT LIMITED,  
CULTURE LANDMARK INVESTMENT LIMITED  
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM); AND  
(II) TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE LOAN NOTES OF  
KH INVESTMENT HOLDINGS LIMITED**

**Financial adviser to Culture Landmark Investment Limited and  
New Asia Media Development Limited**



**REORIENT Financial Markets Limited**

**Independent financial adviser to the Independent Board Committee  
of KH Investment Holdings Limited**



**KBC Bank N.V. Hong Kong Branch**

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A letter from REORIENT Financial Markets Limited containing, among other things, details of the terms of the Offers is set out on pages 10 to 20 of this Composite Document.

A letter from the KH Board is set out on pages 21 to 30 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation to the Independent KH Shareholders and the CLN Holders in relation to the Offers is set out on pages 31 to 32 of this Composite Document.

A letter from KBC Bank N.V. Hong Kong Branch containing its opinion and advice to the Independent Board Committee is set out on pages 33 to 51 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptance of the Offers must be received by the Registrar or the company secretary of KH Investment Holdings Limited (as the case may be) no later than 4:00 p.m. on Friday, 2 March 2012 or such later time and date as the Offeror may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

\* For identification purposes only

10 February 2012

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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## EXPECTED TIMETABLE

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2012

Despatch date of this Composite Document and the accompanying Forms of Acceptance and commencement of the Offers . . . . .	Friday, 10 February
Latest time and date for acceptance of the Offers . . . . .	4:00 p.m. on Friday, 2 March
Closing Date of the Offers. . . . .	4:00 p.m. on Friday, 2 March
Announcement of the results of the Offers as at the Closing Date to be posted on the Stock Exchange's website ( <i>Note 1</i> ) . . . . .	by 7:00 p.m. on Friday, 2 March
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on 2 March 2012 ( <i>Note 2</i> ) . . . . .	Monday, 12 March

*Notes:*

1. In accordance with the Takeovers Code, the Offers must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. **The latest time and date for acceptance of the Offers is 4:00 p.m. on Friday, 2 March 2012** unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror will issue an announcement through the website of the Stock Exchange by 7:00 p.m. on Friday, 2 March 2012 stating whether the Offers have expired, or have been revised or extended. In the event that the Offeror decides to extend the Offers, at least 14 days' notice in writing will be given to the Independent KH Shareholders and CLN Holders before the Offers are closed. The Offeror has stated that it has no intention to extend the Offer Period unless otherwise required under the Takeovers Code or other regulations.
2. Amounts due to each of the Independent KH Shareholders and CLN Holders who accepts the Offers should be paid by the Offeror as soon as possible but in any event within 10 days of the date of receipt of the duly completed Form(s) of Acceptance in accordance with the Takeovers Code.

**Unless otherwise expressly stated, all time and date references contained in this Composite Document refer to Hong Kong time and date.**

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## DEFINITIONS

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*In this Composite Document, the following expressions have the following meanings, unless the context otherwise requires:*

“Acquisition”	the acquisition of the Sale Shares by the Offeror from the Vendors for an aggregate consideration of HK\$81,200,000
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Aikford”	Aikford Financial Services Limited, an indirect wholly-owned subsidiary of Century City, being one of the Vendors
“associate(s)”	has the meaning ascribed to it in the Takeovers Code or the Listing Rules, as the context may require from time to time
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Century City”	Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 355), the listed holding company of Splendor Glow and Aikford
“CLN”	the zero-coupon convertible loan notes due 24 September 2013 issued by KH Investment which was held as to HK\$5,800,000 by Goldig Investment Group Limited and as to HK\$400,000 by Mr. Cheung Pui Kay as at the Latest Practicable Date. Each of Goldig Investment Group Limited and Mr. Cheung Pui Kay is a third party independent of the Offeror and parties acting in concert with it. As at the Latest Practicable Date, Goldig Investment Group Limited holds no KH Shares and Mr. Cheung Pui Kay holds less than 1.5% of the issued share capital of KH Investment

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## DEFINITIONS

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“CLN Holder(s)”	holder(s) of CLN
“CLN Offer”	the unconditional mandatory cash offer made by REORIENT on behalf of the Offeror for the acquisition of the CLN in accordance with the Takeovers Code
“CLN Offer Consideration”	the amount of HK\$0.7187 for every HK\$1 face value of the CLN payable by the Offeror to the CLN Holders accepted under the CLN Offer
“Closing Date”	2 March 2012, or any subsequent closing date of the Offers as may be announced by the Offeror and approved by the Executive
“Composite Document”	this composite offer and response document dated 10 February 2012 jointly issued by the Offeror, Culture Landmark and KH Investment in relation to the Offers together with the Forms of Acceptance
“Conversion Share(s)”	12,731,006 new KH Share(s) to be allotted and issued upon the conversion of the CLN in full at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment)
“Culture Landmark”	Culture Landmark Investment Limited, a company incorporated in Bermuda with limited liability and whose issued shares are listed on the Main Board (stock code: 674), the holding company of the Offeror
“Culture Landmark Board”	the board of Culture Landmark Directors
“Culture Landmark Director(s)”	the director(s) of Culture Landmark from time to time
“Culture Landmark Group”	Culture Landmark and its subsidiaries from time to time
“Culture Landmark Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of Culture Landmark
“Culture Landmark Shareholder(s)”	the registered holder(s) of the Culture Landmark Share(s) from time to time

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## DEFINITIONS

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“Date of Title Transfer”	4 January 2012, being the date when all the Sale Shares were transferred to or registered under the name of the Offeror
“Eternity”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange (stock code: 764)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form(s) of Acceptance”	one or more of the <b>PINK</b> Form of Acceptance and/or <b>WHITE</b> Form of Acceptance (as the context may require), being part of this Composite Document, in relation to the Offers
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of KH Investment, comprising all the independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng, established for the purpose of advising the Independent KH Shareholders and the CLN Holders on the terms of the Offers

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## DEFINITIONS

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“Independent Financial Adviser”	KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee in relation to the Offers
“Independent KH Shareholders”	KH Shareholders other than the Offeror, Culture Landmark and parties acting in concert with any of them
“Joint Announcement”	the announcement dated 16 January 2012 jointly issued by the Offeror, Culture Landmark and KH Investment in relation to, among other things, the Offers
“KH Board”	the board of KH Directors
“KH Director(s)”	the director(s) of KH Investment
“KH Group”	KH Investment and its subsidiaries from time to time
“KH Investment” or “Company”	KH Investment Holdings Limited, a company incorporated in the Cayman Islands with limited liability and continued in Bermuda, the shares of which are currently listed on the GEM (stock code: 8172)
“KH Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of KH Investment
“KH Shareholder(s)”	the registered holder(s) of the KH Share(s) from time to time
“Last Full Trading Day”	21 September 2011, being the last full trading day of the KH Shares before the release of the Joint Announcement
“Latest Practicable Date”	8 February 2012, being the latest practicable date for the purpose of ascertaining certain information in this Composite Document



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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM
“Offer Consideration”	the maximum consideration of approximately HK\$36.4 million (equivalent to HK\$0.35 per Offer Share) payable by the Offeror to the holders of the Offer Shares (assuming that all outstanding CLNs are converted into new KH Shares prior to the Closing Date) in respect of full acceptance under the Share Offer (except Aikford which has given an irrevocable undertaking not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the 35,247,161 KH Shares it holds after the Acquisition but prior to the close of the Offers)
“Offer Period”	has the meaning ascribed to it under the Takeovers Code and commencing from the date of the Joint Announcement and ending on the Closing Date
“Offer Price”	the amount of HK\$0.35 per Offer Share payable by the Offeror to the holders of the Offer Shares for each Offer Share accepted under the Share Offer
“Offer Share(s)”	all the KH Share(s) other than those already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them
“Offeror”	New Asia Media Development Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Culture Landmark
“Offers”	collectively, the Share Offer and the CLN Offer

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## DEFINITIONS

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“Overseas CLN Holder(s)”	independent CLN Holder(s) whose address(es) as stated in the register of CLN Holders is or are outside of Hong Kong
“Overseas KH Shareholder(s)”	Independent KH Shareholder(s) whose address(es) as stated in the register of members of KH Investment is or are outside of Hong Kong
“ <b>PINK</b> Form of Acceptance”	the form of acceptance and transfer of the CLN in <b>PINK</b> in respect of the CLN Offer
“PRC”	the People’s Republic of China, which for the purpose of this Composite Document only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar of KH Investment in Hong Kong
“Relevant Period”	the period from 17 July 2011, being the date falling six months preceding the commencement of the Offer Period, up to and including the Latest Practicable Date
“REORIENT”	REORIENT Financial Markets Limited, a licensed corporation under the SFO to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities, being the financial adviser to Culture Landmark and the Offeror in respect of the Offers
“Sale Shares”	an aggregate of 232,000,000 KH Shares acquired by the Offeror from the Vendors pursuant to the Acquisition
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share Offer”	the unconditional mandatory cash offer made by REORIENT on behalf of the Offeror for the Offer Shares in accordance with the Takeovers Code
“Splendor Glow”	Splendor Glow Limited, an indirect wholly-owned subsidiary of Century City, being one of the Vendors
“Splendor Glow Offer”	the voluntary general offer made by Splendor Glow, through its financial adviser, to acquire all outstanding KH Shares, CLN and share options in KH Investment as announced jointly by Century City and Splendor Glow on 13 July 2011 and by KH Investment on 15 July 2011
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“Vendors”	collectively, Aikford and Splendor Glow
“ <b>WHITE</b> Form of Acceptance”	the form of acceptance and transfer of the Offer Shares in <b>WHITE</b> in respect of the Share Offer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



Suites 1102-03  
Far East Finance Centre  
16 Harcourt Road  
Admiralty, Hong Kong

10 February 2012

*To the Independent KH Shareholders and the CLN Holders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY  
REORIENT FINANCIAL MARKETS LIMITED  
ON BEHALF OF  
NEW ASIA MEDIA DEVELOPMENT LIMITED  
(I) TO ACQUIRE ALL OF THE ISSUED SHARES  
IN THE SHARE CAPITAL OF  
KH INVESTMENT HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY  
NEW ASIA MEDIA DEVELOPMENT LIMITED,  
CULTURE LANDMARK INVESTMENT LIMITED  
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM); AND  
(II) TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE LOAN  
NOTES OF KH INVESTMENT HOLDINGS LIMITED**

**INTRODUCTION**

On 16 January 2012, the Joint Announcement was made regarding the Acquisition which resulted in the Offeror triggering the obligation to make the Offers in compliance with the Takeovers Code through REORIENT (i) to acquire all the KH Shares not already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them at the Offer Price of HK\$0.35 per Offer Share; and (ii) to acquire the CLN at the CLN Offer Consideration of HK\$0.7187 for every HK\$1 face value of the CLN.

This letter sets out, among other things, details of the terms of the Offers, information on the Offeror and the intention of the Offeror regarding the KH Group. Further details of the terms of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance.

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# LETTER FROM REORIENT

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## THE OFFERS

The Offeror is a wholly-owned subsidiary of Culture Landmark. The Offeror acquired in aggregate 232,000,000 Sale Shares from the Vendors pursuant to the bought and sold notes entered into by the Offeror and the Vendors on 30 December 2011. The shareholding interest of the Offeror in KH Investment has, as a result of the Acquisition, increased from approximately 29.08% to approximately 74.96%. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make the Offers. The Offers are made through REORIENT, on and subject to the terms set out in this Composite Document and the Forms of Acceptance accompanied herewith, (i) to acquire all the KH Shares not already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them; and (ii) to acquire the outstanding CLN.

### Share Offer

For each Offer Share ..... HK\$0.35 in cash

As set out in the Letter from the KH Board in this Composite Document, as at the Latest Practicable Date, there were a total of 505,649,726 KH Shares in issue. If the CLN are converted in full into 12,731,006 Conversion Shares at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment), the total number of KH Shares in issue will increase to 518,380,732. Save for the outstanding CLN, KH Investment had no outstanding securities, options, derivatives or warrants which are convertible or exchangeable into KH Shares and KH Investment had not entered into any agreement for the issue of such securities, options, derivatives or warrants of KH Investment as at the Latest Practicable Date.

As at the Latest Practicable Date, the Offeror, Culture Landmark and parties acting in concert with any of them held 379,030,000 KH Shares, representing approximately 74.96% of the entire issued share capital of KH Investment. Save for the aforesaid, the Offeror, Culture Landmark and parties acting in concert with any of them do not have any other interests in the share capital or voting rights of KH Investment.

### *Comparison of value*

The Offer Price of HK\$0.35 per Offer Share represents:

- (a) a premium of approximately 41.7% over the closing price of HK\$0.247 per KH Share as quoted on the Stock Exchange on the Last Full Trading Day;
- (b) a premium of approximately 40.0% over the average closing price of approximately HK\$0.25 per KH Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Full Trading Day;

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## LETTER FROM REORIENT

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- (c) a premium of approximately 42.3% over the average closing price of approximately HK\$0.246 per KH Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Full Trading Day;
- (d) a premium of approximately 1.4% over the closing price of HK\$0.345 per KH Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 51.5% over KH Investment's unaudited consolidated net asset per KH Share of approximately HK\$0.231 based on KH Investment's unaudited consolidated net assets of approximately HK\$116.7 million as at 30 June 2011 and 505,649,726 KH Shares in issue as at the Latest Practicable Date.

### *Highest and lowest prices of the KH Shares*

The highest and lowest market closing prices of the KH Shares as quoted on the Stock Exchange during the six-month period preceding the Last Full Trading Day were HK\$0.35 per KH Share on 6 April 2011 and HK\$0.202 per KH Share on 24 March 2011 and 25 March 2011.

### **CLN Offer**

As at the Latest Practicable Date, the total outstanding principal amount of the CLN is HK\$6,200,000 which is convertible into 12,731,006 Conversion Shares at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment). In accordance with Rule 13 of the Takeovers Code, the CLN Offer is made by the Offeror. The CLN Offer Consideration is determined using a "see-through" approach whereby the Offeror will effectively offer to pay the Offer Price of HK\$0.35 for each Conversion Share that the CLN could be converted into. As such, the CLN Offer will be made on the following terms:

For every HK\$1 face value of the CLN ..... HK\$0.7187 in cash

Each of the CLN Holders, namely Goldig Investment Group Limited and Mr. Cheung Pui Kay, is a third party independent of Culture Landmark, the Offeror, their connected persons and parties acting in concert with any of them. As at the Latest Practicable Date, Goldig Investment Group Limited held no KH Shares and Mr. Cheung Pui Kay held less than 1.5% of the issued share capital of KH Investment.

As at the Latest Practicable Date, save for the CLN, KH Investment had no other outstanding securities, options, derivatives or warrants which are convertible or exchangeable into KH Shares and KH Investment had not entered into any agreement for the issue of such securities, options, derivatives or warrants of KH Investment.

### **Total consideration of the Offers**

On the basis of 505,649,726 KH Shares in issue as at the Latest Practicable Date and assuming the CLN will be converted into 12,731,006 Conversion Shares, the Share Offer based on the Offer Price values the equity value of KH Investment at approximately HK\$181.4 million. On the basis of 505,649,726 KH Shares in issue as at the Latest Practicable Date and assuming no CLN to be converted, the Share Offer based on the Offer Price values the equity value of KH Investment at approximately HK\$177.0 million.

Assuming that the Share Offer is accepted in full by the Independent KH Shareholders (except Aikford who has given an irrevocable undertaking not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the 35,247,161 KH Shares it holds after the Acquisition but prior to the close of the Offers) and that the CLN Offer is accepted in full by the CLN Holders, the total amount of cash required to effect the Offers will be approximately HK\$36.4 million.

### **Financial resources**

The maximum cash consideration payable under the Offers is HK\$36,436,337.75 excluding the 35,247,161 KH Shares held by Aikford and HK\$48,772,844.10 taking into account such KH Shares held by Aikford. In addition to the Culture Landmark Group's available cash (including internal cash resources and cash which the Culture Landmark Group has drawn down on its general banking facilities), REORIENT has provided a loan facility amounting to HK\$31,980,397.75 to the Offeror (as guaranteed by Culture Landmark) to partly finance the Offers. REORIENT is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptances of the Offers.

### **Offer period**

The Offers will be open for acceptance from the date of this Composite Document on Friday, 10 February 2012 to Friday, 2 March 2012, both dates inclusive.

### **Closing of the offer period**

The Offeror will not extend the offer period for the Offers beyond 2 March 2012, being 21 days following the despatch of this Composite Document, unless otherwise required by the Takeovers Code or other regulations.

### **EFFECTS OF ACCEPTING THE OFFERS**

By accepting the Share Offer, the Independent KH Shareholders will sell their Offer Shares to the Offeror free from all liens, claims, encumbrances and all third party rights and with all rights attached thereto as at the date of the Joint Announcement or subsequently becoming attached to them, including the right to receive all dividends declared, paid or made, if any, on or after the date of the Joint Announcement.

By accepting the CLN Offer, CLN Holders are deemed to have warranted to the Offeror that the CLN are free from all liens, claims, encumbrances and all third party rights and the CLN will be acquired by the Offeror together with all rights attaching thereto as at the date of the Joint Announcement or subsequently becoming attached to them.

### **Overseas KH Shareholders and Overseas CLN Holders**

The Share Offer and the CLN Offer are extended to all Independent KH Shareholders and independent CLN Holders respectively.

As at the Latest Practicable Date, there were no Overseas KH Shareholders and no Overseas CLN Holders.

It is the sole responsibility of each relevant Overseas KH Shareholder or each relevant Overseas CLN Holder, who wishes to accept the Share Offer or CLN Offer, as the case may be, to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required in compliance with all necessary formalities or legal requirements and the payment of any transfer or other taxes due in such relevant jurisdictions.

### **Compulsory acquisition**

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any KH Shares after the close of the Offers.

### **Settlement**

Settlement of the Offer Price and the CLN Offer Consideration will be made in cash as soon as possible but in any event within ten days of the date on which the relevant documents of title are received by or on behalf of the Offeror to render each such acceptance complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code.



### **Stamp duty**

Seller's ad valorem stamp duty payable by the Independent KH Shareholders who accept the Share Offer and by the CLN Holders who accept the CLN Offer at a rate of 0.1% of (i) the market value of the Offer Shares or the CLN, as the case may be; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer or the CLN Offer, as the case may be, whichever is higher, will be deducted from the amount payable by the Offeror to the Independent KH Shareholders or the CLN Holders, as the case may be, on acceptance of the Offers.

### **INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in the British Virgin Islands on 5 October 2010 with limited liability and is principally engaged in investment holding. The Offeror is a wholly-owned subsidiary of Culture Landmark. The Culture Landmark Group is principally engaged in property investment, property sub-leasing, licence fee collection business in the PRC, entertainment business, exhibition-related business, hotel operations and restaurant operations.

The total consideration paid by the Offeror to the Vendors in respect of the Acquisition is HK\$81.2 million. To partly finance the Acquisition, Culture Landmark has issued convertible notes to Wingo Consultants Limited, a wholly-owned subsidiary of Eternity, with an aggregate face value of HK\$75 million, as announced by Culture Landmark on 22 December 2011. Eternity is presumed to be a party acting in concert with Culture Landmark and the Offeror under class 9 of the persons presumed to be acting in concert under the definitions section of the Takeovers Code. As confirmed by Eternity, some of Eternity's directors (and a company wholly owned by one of them), who were holders of KH Shares, accepted the share offer under the Splendor Glow Offer in respect of an aggregate of 30,044,000 KH Shares at the offer price of HK\$0.25 per KH Share. Eternity has confirmed that as at the Latest Practicable Date, it and parties acting in concert with it (apart from Culture Landmark and its concert parties) did not own any KH Shares or any other securities in KH Investment (including convertible securities, warrants or options). Save as disclosed above, Eternity and parties acting in concert with it (apart from Culture Landmark and its concert parties) have not acquired or dealt in any KH Shares or any options, warrants, derivatives or securities convertible into KH Shares during the period commencing on the date falling six months prior to 16 January 2012 (being the date of the Joint Announcement).

As at the Latest Practicable Date, the Offeror, Culture Landmark and parties acting in concert with any of them held (or have control or direction over) in aggregate 379,030,000 KH Shares representing approximately 74.96% of the KH Shares in issue; and did not hold

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## LETTER FROM REORIENT

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(or have control or direction over) any other securities in KH Investment (including any convertible securities, warrants or options). Save for the purchase of the Sale Shares by the Offeror from the Vendors pursuant to the Acquisition and the disposal of KH Shares by certain directors of Eternity (and by a company wholly owned by one of them) under the Splendor Glow Offer as set out in the preceding paragraph, the Offeror, Culture Landmark and parties acting in concert with any of them have not acquired or dealt in any KH Shares or any options, warrants, derivatives or securities convertible into KH Shares during the period commencing on the date falling six months prior to 16 January 2012.

There are no outstanding derivatives in respect of securities of KH Investment that have been entered into by the Offeror, Culture Landmark and parties acting in concert with any of them. Save that Aikford has irrevocably undertaken to the Offeror not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, such KH Shares prior to the close of the Offers, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or KH Investment and which might be material to the Offers. The Offers are unconditional. There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Offers.

The Offeror, Culture Landmark and parties acting in concert with any of them have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of securities in KH Investment.

### **INFORMATION ON KH INVESTMENT**

KH Investment was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The KH Shares are listed on the GEM (stock code: 8172). The KH Group is principally engaged in (i) artist management; (ii) film distribution and production; and (iii) the provision of infrared thermal imaging and thermography solutions and consultancy services.

## LETTER FROM REORIENT

The financial information of the KH Group, as extracted from its annual report for the year ended 31 December 2010, interim report for the six months ended 30 June 2011 and the third quarterly report for the nine months ended 30 September 2011, is as follows:

	<b>For the nine months ended 30 September 2011</b>	<b>For the year ended 31 December</b>	
	<b>(Unaudited)</b>	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	30,494	21,790	7,198
(Loss)/profit for the period/year	(3,935)	(52,453)	26,099
		<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets		136,898	138,064
Total liabilities		20,223	22,366
Net assets		116,675	115,698

### IRREVOCABLE UNDERTAKING

Aikford holds 35,247,161 KH Shares, representing approximately 6.97% of the issued share capital of KH Investment. Save for the above, Aikford has confirmed that it and parties acting in concert with it do not own any other securities in KH Investment (including any convertible securities, warrants or options). Aikford has given an irrevocable undertaking not to accept the Share Offer and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the 35,247,161 KH Shares it holds after the Acquisition but prior to the close of the Offers. As at the Latest Practicable Date, save for the aforesaid, no holder of KH Shares and no holder of CLN has irrevocably committed to accept or not to accept the Offers.

### **REASONS FOR AND BENEFITS OF THE OFFERS AND THE OFFEROR'S INTENTION FOR THE BUSINESS OF THE KH GROUP**

Aikford has informed KH Investment that as announced by Century City, on 29 and 30 June 2011, Aikford purchased in aggregate 151,000,000 KH Shares, representing approximately 29.9% of the then entire issued share capital of KH Investment, on market with the highest price paid in respect of such purchases being HK\$0.25 per KH Share. On 12 July 2011, KH Investment received a letter from the financial adviser to Century City that it intended to make the Splendor Glow Offer on behalf of Splendor Glow. Pursuant to acceptances of the Splendor Glow Offer, Splendor Glow acquired 112,967,161 KH Shares at the offer price of HK\$0.25 per KH Share. During the offer period in respect of the Splendor Glow Offer, Splendor Glow and parties acting in concert with it acquired on market another 3,280,000 KH Shares at prices within a range from HK\$0.240 to HK\$0.246 per KH Share. As a result of the above transactions, the aggregate shareholding interest of Century City, Splendor Glow and Aikford in KH Investment increased to approximately 52.9% and the percentage of KH Shares held by public shareholders dropped to approximately 18.1% (as set out in KH Investment's announcement dated 21 September 2011) which was below the minimum public float requirement under Rule 11.23(7) of the GEM Listing Rules. Accordingly, the trading in KH Shares had been suspended since 22 September 2011.

Upon the Date of Title Transfer, approximately 25.04% of the issued share capital of KH Investment became beneficially owned by public shareholders of KH Investment and the minimum public float requirement in respect of the KH Shares has been restored. Trading in the KH Shares resumed with effect from 9.00 a.m. on 17 January 2012.

The majority of KH Group's business is related to entertainment related business providing artist management services mostly in the PRC. Among the Culture Landmark Group's principal businesses, the Culture Landmark Group engages in the entertainment business providing services relating to film production and artist management. Culture Landmark considers that the KH Group's business is complimentary to the Culture Landmark Group's entertainment business and that the Acquisition and the Offers also provide an opportunity for Culture Landmark to consolidate its interest in KH Investment by acquiring a major interest in KH Investment.

The Offeror intends to continue the principal business of the KH Group and will conduct a review on the business operations and financial position of the KH Group for the purpose of formulating business plans and strategies for the future business development of the business of the KH Group. The Offeror has no intention to introduce any major changes to the business of the KH Group including re-deployment of the employees or the assets of the KH Group other than in its ordinary course of business.

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## LETTER FROM REORIENT

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The Culture Landmark Directors consider that the terms of the Acquisition and the Offers are fair and reasonable, and the Acquisition and the making of the Offers are in the interests of Culture Landmark and the Culture Landmark Shareholders as a whole.

### **Maintaining the listing status of KH Investment**

The Offeror intends to maintain the listing status of KH Investment on the GEM after closing of the Offers. Depending upon the level of acceptances of the Share Offer, acceptances of the Share Offer may result in the percentage of KH Shares in public hands falling below the prescribed minimum level set out in Rule 11.23(7) of the GEM Listing Rules. The Offeror and Culture Landmark (as guarantor) entered into a placing agreement dated 30 December 2011 with REORIENT pursuant to which subject to among others, completion of the Offers, on a best efforts basis, REORIENT shall on behalf of the Offeror, place to independent investors who are not connected persons of the Offeror and KH Investment up to 104,103,571 KH Shares and any CLN acquired under the Offers at prices to be agreed between the parties. The primary aim of the placing is to maintain the minimum public float of KH Shares as required under the GEM Listing Rules following close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to KH Investment, being 25% of the issued KH Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the KH Shares; or (ii) that there are insufficient KH Shares in public hands to maintain an orderly market; it will consider exercising its discretion to suspend dealings in the KH Shares. The Offeror intends KH Investment to remain listed on the GEM. The directors of the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in KH Shares after the close of the Offers.

### **TAX IMPLICATIONS**

None of the Offeror, Culture Landmark, REORIENT, or any of their respective directors or any other parties involved in the Offers is in a position to advise the Independent KH Shareholders and the CLN Holders on their individual tax implications. The Independent KH Shareholders and the CLN Holders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offers or any part thereof. None of the Offeror, Culture Landmark, REORIENT, the Registrar, the professional advisers to the Offeror and Culture Landmark or any of their respective directors or any other parties involved in the Offers accepts any responsibility for any tax effect on, or liabilities of, the Independent KH Shareholders and the CLN Holders.

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## LETTER FROM REORIENT

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### GENERAL

To ensure equality of treatment of all Independent KH Shareholders, those Independent KH Shareholders who hold the Offer Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Offer Shares whose investments are registered in nominee names to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Offers to their nominees.

All documents and remittances to the Independent KH Shareholders and the CLN Holders will be sent to them by ordinary post at their own risk to their addresses as they appear in the register of members of KH Investment (in the case of the Share Offer) or the register of CLN Holders (in the case of the CLN Offer) or, in the case of joint Independent KH Shareholders, to the Independent KH Shareholder whose name appears first in the branch register of members of KH Investment, as applicable. None of the Offeror, Culture Landmark, KH Investment, REORIENT nor any of their respective directors or professional advisers or any other persons involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

### ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from the Independent Board Committee” as set out on pages 31 to 32 and to Appendix I “Further Terms and Procedures of Acceptance of the Offers” on pages 52 to 62 of this Composite Document which contain the details of the Offers.

You are recommended to read this Composite Document and the accompanying Forms of Acceptance.

Your attention is also drawn to the information set out in the appendices to this Composite Document. In considering what action to take in connection with the Offers, you should consider your own tax or financial position and if you are in any doubt, you should consult your professional advisers.

Yours faithfully

For and on behalf of

**REORIENT Financial Markets Limited**

**John Maguire**

**Allen Tze**

*Head of Corporate Finance*

*Managing Director*



KH INVESTMENT HOLDINGS LIMITED

嘉滙投資控股有限公司\*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8172)

*Executive directors of KH Investment:*

Mr. Cheng Yang (*Chairman*)  
Mr. Kwok Wai Kin, Kenneth  
(*Chief Executive Officer*)  
Mr. Kenneth Ng Kwai Kai  
Mr. Kelvin Leung So Po

*Non-executive director of KH Investment:*

Mr. Donald Fan Tung

*Independent non-executive directors of KH Investment:*

Mr. Yip Tai Him  
Mr. Law Yiu Sang, Jacky  
Ms. Chio Chong Meng

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business in Hong Kong:*

Unit 3407, 34/F  
Shun Tak Centre  
West Tower  
168-200 Connaught Road Central  
Hong Kong

10 February 2012

*To the Independent KH Shareholders and the CLN Holders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY  
REORIENT FINANCIAL MARKETS LIMITED  
ON BEHALF OF NEW ASIA MEDIA DEVELOPMENT LIMITED  
(I) TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL  
OF KH INVESTMENT HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY NEW ASIA MEDIA DEVELOPMENT LIMITED,  
CULTURE LANDMARK INVESTMENT LIMITED AND  
PARTIES ACTING IN CONCERT WITH ANY OF THEM); AND  
(II) TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE LOAN  
NOTES OF KH INVESTMENT HOLDINGS LIMITED**

\* For identification purposes only

### INTRODUCTION

On 16 January 2012, the Joint Announcement was published stating that the Offeror had acquired from the Vendors in aggregate 232,000,000 Sale Shares. The Offeror's shareholding interest in KH Investment has then increased from approximately 29.08% to approximately 74.96% following the Acquisition. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make the Offers i.e. the Share Offer and the CLN Offer. The Offeror is a wholly-owned subsidiary of Culture Landmark, the ordinary shares of which are listed on the Main Board.

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive KH Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng, has been established by KH Investment to advise the Independent KH Shareholders and the CLN Holders in respect of the Offers. Mr. Donald Fan Tung, a non-executive KH Director, is an executive director of Century City (being the listed holding company of the Vendors) and is a director of Aikford and Splendor Glow. As Aikford has given an irrevocable undertaking not to accept the Share Offer, and the Offers are being made as a result of the purchase of KH Shares by the Offeror from the Vendors, Mr. Fan is not a member of the Independent Board Committee and has abstained and will continue to abstain from voting at any KH Board meeting in respect of the Offers. As (i) Mr. Kenneth Ng Kwai Kai and Mr. Kelvin Leung So Po, both executive KH Directors, are also executive directors of Century City, Aikford and Splendor Glow; and (ii) Mr. Cheng Yang, the chairman of KH Investment, is also the chairman of Culture Landmark, Mr. Kenneth Ng Kwai Kai, Mr. Kelvin Leung So Po and Mr. Cheng Yang have abstained and will continue to abstain from voting at any KH Board meeting in respect of the Offers to avoid any possible conflict of interest. KH Investment has appointed KBC Bank N.V. Hong Kong Branch as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offers.

The purpose of this Composite Document is to provide you with, among other things, information relating to the KH Group and the Offers, the recommendation of the Independent Board Committee to the Independent KH Shareholders and the CLN Holders regarding the Offers, and the advice of the Independent Financial Adviser to the Independent Board Committee in relation to the Offers.



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## LETTER FROM THE KH BOARD

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### THE OFFERS

For and on behalf of the Offeror, REORIENT is making the Offers in compliance with the Takeovers Code on the following basis:

#### The Share Offer

For each Offer Share . . . . . HK\$0.35 in cash

According to the letter from REORIENT in this Composite Document, the Offer Price of HK\$0.35 per Offer Share represents:

- (a) a premium of approximately 41.7% over the closing price of HK\$0.247 per KH Share as quoted on the Stock Exchange on the Last Full Trading Day;
- (b) a premium of approximately 40.0% over the average closing price of approximately HK\$0.25 per KH Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Full Trading Day;
- (c) a premium of approximately 42.3% over the average closing price of approximately HK\$0.246 per KH Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Full Trading Day;
- (d) a premium of approximately 1.4% over the closing price of HK\$0.345 per KH Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 51.5% over KH Investment's unaudited consolidated net asset per KH Share of approximately HK\$0.231 based on KH Investment's unaudited consolidated net assets of approximately HK\$116.7 million as at 30 June 2011 and 505,649,726 KH Shares in issue as at the Latest Practicable Date.

As at the Latest Practicable Date, KH Investment had (i) 505,649,726 KH Shares in issue; and (ii) outstanding CLN in the principal amount of HK\$6,200,000 entitling the holders thereof to convert into 12,731,006 new KH Shares at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment).

Save as disclosed, KH Investment has no other options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into KH Shares. The Share Offer will be extended on identical terms to all new KH Shares issued at any time before the Closing Date upon the exercise of the conversion rights attaching to the outstanding CLN.

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## LETTER FROM THE KH BOARD

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### *Highest and lowest prices of the KH Shares*

The highest and lowest market closing prices of the KH Shares as quoted on the Stock Exchange during the six-month period preceding the Last Full Trading Day were HK\$0.35 per KH Share on 6 April 2011 and HK\$0.202 per KH Share on 24 March 2011 and 25 March 2011.

### **The CLN Offer**

For every HK\$1 face value of the CLN ..... HK\$0.7187 in cash

As at the Latest Practicable Date, the total outstanding principal amount of the CLN was HK\$6,200,000 which was convertible into 12,731,006 Conversion Shares at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment). The CLN was held as to HK\$5,800,000 by Goldig Investment Group Limited and as to HK\$400,000 by Mr. Cheung Pui Kay as at the Latest Practicable Date. Each of Goldig Investment Group Limited and Mr. Cheung Pui Kay is a third party independent of the Offeror, Culture Landmark and parties acting in concert with any of them. As at the Latest Practicable Date, Goldig Investment Group Limited held no KH Shares and Mr. Cheung Pui Kay held less than 1.5% of the issued share capital of KH investment. The Offeror is required under Rule 13 of the Takeovers Code to make a comparable offer for all the CLN as part of the Offers. The CLN Offer Consideration is determined using a “see-through” approach where the Offeror effectively offers to pay HK\$0.35 in cash for each Conversion Share in consideration of the surrender by the holders thereof of all their rights in respect of such Conversion Share.

### **Financial resources**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

The maximum cash consideration payable under the Offers is HK\$36,436,337.75 excluding the 35,247,161 KH Shares held by Aikford and HK\$48,772,844.10 taking into account such KH Shares held by Aikford. In addition to the Culture Landmark Group’s available cash (including internal cash resources and cash which the Culture Landmark Group has drawn down on its general banking facilities), REORIENT has provided a loan facility amounting to HK\$31,980,397.75 to the Offeror (as guaranteed by Culture Landmark) to partly finance the Offers. REORIENT is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptances of the Offers.

### **Offer period**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

The Offers will be open for acceptance from the date of this Composite Document on Friday, 10 February 2012 to Friday, 2 March 2012, both dates inclusive.

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## LETTER FROM THE KH BOARD

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### **Closing of the offer period**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

The Offeror will not extend the offer period for the Offers beyond 2 March 2012, being 21 days following the despatch of this Composite Document, unless otherwise required by the Takeovers Code or other regulations.

### **EFFECTS OF ACCEPTING THE OFFERS**

(The paragraphs below have been reproduced from the letter from REORIENT in this Composite Document.)

By accepting the Share Offer, the Independent KH Shareholders will sell their Offer Shares to the Offeror free from all liens, claims, encumbrances and all third party rights and with all rights attached thereto as at the date of the Joint Announcement or subsequently becoming attached to them, including the right to receive all dividends declared, paid or made, if any, on or after the date of the Joint Announcement.

By accepting the CLN Offer, CLN Holders are deemed to have warranted to the Offeror that the CLN are free from all liens, claims, encumbrances and all third party rights and the CLN will be acquired by the Offeror together with all rights attaching thereto as at the date of the Joint Announcement or subsequently becoming attached to them.

### **Compulsory acquisition**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any KH Shares after the close of the Offers.

### **Settlement**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

Settlement of the Offer Price and the CLN Offer Consideration will be made in cash as soon as possible but in any event within ten days of the date on which the relevant documents of title are received by or on behalf of the Offeror to render each such acceptance complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code.

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## LETTER FROM THE KH BOARD

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### **Stamp duty**

(The paragraph below has been reproduced from the letter from REORIENT in this Composite Document.)

Seller's ad valorem stamp duty payable by the Independent KH Shareholders who accept the Share Offer and by the CLN Holders who accept the CLN Offer at a rate of 0.1% of (i) the market value of the Offer Shares or the CLN, as the case may be; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer or the CLN Offer, as the case may be, whichever is higher, will be deducted from the amount payable by the Offeror to the Independent KH Shareholders or the CLN Holders, as the case may be, on acceptance of the Offers.

### **INFORMATION ON THE KH GROUP**

KH Investment is an exempted company incorporated in the Cayman Islands and continued in Bermuda with limited liability. The KH Shares are listed on the GEM (stock code: 8172). The KH Group is principally engaged in (i) artist management; (ii) film distribution and production; and (iii) the provision of infrared thermal imaging and thermography solutions and consultancy services.

The financial information of the KH Group is disclosed in appendix II to this Composite Document.

### **INFORMATION ON THE OFFEROR**

(This section has been reproduced from the letter from REORIENT in this Composite Document.)

The Offeror is a company incorporated in the British Virgin Islands on 5 October 2010 with limited liability and is principally engaged in investment holding. The Offeror is a wholly-owned subsidiary of Culture Landmark. The Culture Landmark Group is principally engaged in property investment, property sub-leasing, licence fee collection business in the PRC, entertainment business, exhibition-related business, hotel operations and restaurant operations.

The total consideration paid by the Offeror to the Vendors in respect of the Acquisition is HK\$81.2 million. To partly finance the Acquisition, Culture Landmark has issued convertible notes to Wingo Consultants Limited, a wholly-owned subsidiary of Eternity, with an aggregate face value of HK\$75 million, as announced by Culture Landmark on 22 December 2011. Eternity is presumed to be a party acting in concert with Culture

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## LETTER FROM THE KH BOARD

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Landmark and the Offeror under class 9 of the persons presumed to be acting in concert under the definitions section of the Takeovers Code. As confirmed by Eternity, some of Eternity's directors (and a company wholly owned by one of them), who were holders of KH Shares, accepted the share offer under the Splendor Glow Offer in respect of an aggregate of 30,044,000 KH Shares at the offer price of HK\$0.25 per KH Share. Eternity has confirmed that as at the Latest Practicable Date, it and parties acting in concert with it (apart from Culture Landmark and its concert parties) do not own any KH Shares or any other securities in KH Investment (including convertible securities, warrants or options). Save as disclosed above, Eternity and parties acting in concert with it (apart from Culture Landmark and its concert parties) have not acquired or dealt in any KH Shares or any options, warrants, derivatives or securities convertible into KH Shares during the period commencing on the date falling six months prior to 16 January 2012 (being the date of the Joint Announcement).

As at the Latest Practicable Date, the Offeror, Culture Landmark and parties acting in concert with any of them held (or had control or direction over) in aggregate 379,030,000 KH Shares representing approximately 74.96% of the KH Shares in issue; and did not hold (or have control or direction over) any other securities in KH Investment (including any convertible securities, warrants or options). Save for the purchase of the Sale Shares by the Offeror from the Vendors pursuant to the Acquisition and the disposal of KH Shares by certain directors of Eternity (and by a company wholly-owned by one of them) under the Splendor Glow Offer as set out in the preceding paragraph, the Offeror, Culture Landmark and parties acting in concert with any of them have not acquired or dealt in any KH Shares or any options, warrants, derivatives or securities convertible into KH Shares during the period commencing on the date falling six months prior to 16 January 2012.

There are no outstanding derivatives in respect of securities of KH Investment that have been entered into by the Offeror, Culture Landmark and parties acting in concert with any of them. Save that Aikford has irrevocably undertaken to the Offeror not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, such KH Shares prior to the close of the Offers, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or KH Investment and which might be material to the Offers. The Offers are unconditional. There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Offers.

The Offeror, Culture Landmark and parties acting in concert with any of them have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of securities in KH Investment.

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## LETTER FROM THE KH BOARD

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### **REASONS FOR AND BENEFITS OF THE OFFERS AND THE OFFEROR'S INTENTION FOR THE BUSINESS OF THE KH GROUP**

(This section has been reproduced from the letter from REORIENT in this Composite Document.)

Aikford has informed KH Investment that as announced by Century City, on 29 and 30 June 2011, Aikford purchased in aggregate 151,000,000 KH Shares, representing approximately 29.9% of the then entire issued share capital of KH Investment, on market with the highest price paid in respect of such purchases being HK\$0.25 per KH Share. On 12 July 2011, KH Investment received a letter from the financial adviser to Century City that it intended to make the Splendor Glow Offer on behalf of Splendor Glow. Pursuant to acceptances of the Splendor Glow Offer, Splendor Glow acquired 112,967,161 KH Shares at the offer price of HK\$0.25 per KH Share. During the offer period in respect of the Splendor Glow Offer, Splendor Glow and parties acting in concert with it acquired on market another 3,280,000 KH Shares at prices within a range from HK\$0.240 to HK\$0.246 per KH Share. As a result of the above transactions, the aggregate shareholding interest of Century City, Splendor Glow and Aikford in KH Investment increased to approximately 52.9% and the percentage of KH Shares held by public shareholders dropped to approximately 18.1% (as set out in KH Investment's announcement dated 21 September 2011) which was below the minimum public float requirement under Rule 11.23(7) of the GEM Listing Rules. Accordingly, the trading in KH Shares had been suspended since 22 September 2011.

Upon the Date of Title Transfer, approximately 25.04% of the issued share capital of KH Investment became beneficially owned by public shareholders of KH Investment and the minimum public float requirement in respect of the KH Shares has been restored. Trading in the KH Shares resumed with effect from 9.00 a.m. on 17 January 2012.

The majority of KH Group's business is related to entertainment related business providing artist management services mostly in the PRC. Among the Culture Landmark Group's principal businesses, the Culture Landmark Group engages in the entertainment business providing services relating to film production and artist management. Culture Landmark considers that the KH Group's business is complimentary to the Culture Landmark Group's entertainment business and that the Acquisition and the Offers also provide an opportunity for Culture Landmark to consolidate its interest in KH Investment by acquiring a major interest in KH Investment.

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## LETTER FROM THE KH BOARD

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The Offeror intends to continue the principal business of the KH Group and will conduct a review on the business operations and financial position of the KH Group for the purpose of formulating business plans and strategies for the future business development of the business of the KH Group. The Offeror has no intention to introduce any major changes to the business of the KH Group including re-deployment of the employees or the assets of the KH Group other than in its ordinary course of business.

The Culture Landmark Directors consider that the terms of the Acquisition and the Offers are fair and reasonable, and the Acquisition and the making of the Offers are in the interests of Culture Landmark and the Culture Landmark Shareholders as a whole.

### **Maintaining the listing status of KH Investment**

(This section has been reproduced from the letter from REORIENT in this Composite Document.)

The Offeror intends to maintain the listing status of KH Investment on the GEM after closing of the Offers. Depending upon the level of acceptances of the Share Offer, acceptances of the Share Offer may result in the percentage of KH Shares in public hands falling below the prescribed minimum level set out in Rule 11.23(7) of the GEM Listing Rules. The Offeror and Culture Landmark (as guarantor) entered into a placing agreement dated 30 December 2011 with REORIENT pursuant to which subject to among others, completion of the Offers, on a best efforts basis, REORIENT shall on behalf of the Offeror, place to independent investors who are not connected persons of the Offeror and KH Investment up to 104,103,571 KH Shares and any CLN acquired under the Offers at prices to be agreed between the parties. The primary aim of the placing is to maintain the minimum public float of KH Shares as required under the GEM Listing Rules following close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to KH Investment, being 25% of the issued KH Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the KH Shares; or (ii) that there are insufficient KH Shares in public hands to maintain an orderly market; it will consider exercising its discretion to suspend dealings in the KH Shares. The Offeror intends KH Investment to remain listed on the GEM. The directors of the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in KH Shares after the close of the Offers.

### **INTENTION OF THE OFFEROR**

The KH Board understands that the Offeror and Culture Landmark intend to continue the principal business of the KH Group after closing of the Offers, and will conduct a review on the business operations and financial position of the KH Group for the purpose

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## LETTER FROM THE KH BOARD

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of formulating business plans and strategies for the future business development of the business of the KH Group. The KH Board understands that neither the Offeror nor Culture Landmark has any intention to introduce any major changes to the business of the KH Group including re-deployment of the employees or the assets of the KH Group other than in its ordinary course of business. The KH Board is willing to render reasonable cooperation with the Offeror which is in the interests of KH Investment and the KH Shareholders as a whole.

### RECOMMENDATIONS

The Independent Board Committee has been established to make recommendation to the Independent KH Shareholders and the CLN Holders as to whether the terms of the Offers are fair and reasonable and as to acceptances of the Offers. The Independent Board Committee has approved the appointment of KBC Bank N.V. Hong Kong Branch as the Independent Financial Adviser which advises the Independent Board Committee in respect of the Offers.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 31 to 32 of this Composite Document, which contains the recommendation of the Independent Board Committee to the Independent KH Shareholders and the CLN Holders in respect of the Offers; and (ii) a letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 33 to 51 of this Composite Document, which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offers and the principal factors considered by it in arriving at its opinions and recommendations. Independent KH Shareholders and CLN Holders are urged to read these letters carefully before taking any action in respect of the Offers.

### ADDITIONAL INFORMATION

You are recommended to read this Composite Document and the Form(s) of Acceptance for information relating to the terms of the Offers, taxation and procedures for acceptance and settlement of the Offers.

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

Yours faithfully,  
By order of the board of directors of  
**KH Investment Holdings Limited**  
**Kwok Wai Kin, Kenneth**  
*Chief Executive Officer*





KH INVESTMENT HOLDINGS LIMITED

嘉匯投資控股有限公司\*

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock code: 8172)**

*To the Independent KH Shareholders and the CLN Holders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY  
REORIENT FINANCIAL MARKETS LIMITED  
ON BEHALF OF NEW ASIA MEDIA DEVELOPMENT LIMITED  
(I) TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL  
OF KH INVESTMENT HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY NEW ASIA MEDIA DEVELOPMENT LIMITED,  
CULTURE LANDMARK INVESTMENT LIMITED AND  
PARTIES ACTING IN CONCERT WITH ANY OF THEM); AND  
(II) TO ACQUIRE ALL OF THE OUTSTANDING CONVERTIBLE LOAN  
NOTES OF KH INVESTMENT HOLDINGS LIMITED**

10 February 2012

We refer to the composite offer and response document dated 10 February 2012 jointly issued by and on behalf of the Offeror, Culture Landmark and KH Investment (the “Composite Document”), of which this letter forms part. Terms used herein shall have the same meanings as those defined in this Composite Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent KH Shareholders and the CLN Holders are concerned. KBC Bank N.V. Hong Kong Branch has been appointed as the Independent Financial Adviser to advise us in this respect, details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from the

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Independent Financial Adviser in this Composite Document. We also wish to draw your attention to the letter from the KH Board in this Composite Document, the letter from REORIENT and the additional information set out in the appendices to this Composite Document.

Taking into account the terms of the Offers and the advice from the Independent Financial Adviser, we consider that the terms of the Offers are fair and reasonable so far as the Independent KH Shareholders and the CLN Holders are concerned and therefore we recommend the Independent KH Shareholders and the CLN Holders to accept the Offers.

Notwithstanding our recommendation, the Independent KH Shareholders and the CLN Holders should consider carefully the terms and conditions of the Offers.

Yours faithfully,

the Independent Board Committee

**Mr. Yip Tai Him**

*Independent non-executive  
director*

**Mr. Law Yiu Sang, Jacky**

*Independent non-executive  
director*

**Ms. Chio Chong Meng**

*Independent non-executive  
director*

*The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee in respect of the Offers, which has been prepared for the purpose of inclusion in this Composite Document.*



39/F Central Plaza  
18 Harbour Road  
Hong Kong

10 February 2012

*To the Independent Board Committee*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFERS BY  
REORIENT FINANCIAL MARKETS LIMITED ON BEHALF OF  
NEW ASIA MEDIA DEVELOPMENT LIMITED  
(I) TO ACQUIRE ALL OF THE  
ISSUED SHARES IN THE SHARE CAPITAL OF  
KH INVESTMENT HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY NEW ASIA MEDIA DEVELOPMENT LIMITED,  
CULTURE LANDMARK INVESTMENT LIMITED AND  
PARTIES ACTING IN CONCERT WITH ANY OF THEM); AND  
(II) TO ACQUIRE ALL OF THE  
OUTSTANDING CONVERTIBLE LOAN NOTES OF  
KH INVESTMENT HOLDINGS LIMITED**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in connection with the unconditional mandatory cash offers by REORIENT on behalf of New Asia Media Development Limited (the Offeror) to acquire (i) all the KH Shares not already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them at the Offer Price; and (ii) the CLN at the CLN Offer Consideration. Details of the Offers are set out in the composite document dated 10 February 2012 (the “Composite Document”), of which this letter forms part. Unless otherwise defined herein, terms used in this letter shall have the same meaning as those defined in the Composite Document.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 30 December 2011, the Offeror, a wholly-owned subsidiary of Culture Landmark, acquired 232,000,000 KH Shares from the Vendors and, as a result, the number of KH Shares held by the Offeror, Culture Landmark and parties acting in concert with any of them would be increased from 147,030,000 KH Shares to 379,030,000 KH Shares (representing approximately 29.08% and 74.96% of the issued share capital of KH Investment as at the Latest Practicable Date, respectively). Under Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory offer to acquire all the issued KH Shares and all the outstanding CLN not already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them.

Pursuant to Rules 2.1 and 2.8 of the Takeovers Code, an independent board committee of KH Investment comprising all of the non-executive KH Directors who have no direct or indirect interest in the Offers is required to be established to advise the Independent KH Shareholders and the CLN Holders as to whether the Offers are fair and reasonable. Since Mr. Donald Fan Tung (“Mr. Fan”), a non-executive KH Director, is an executive director of Century City, the holding company of the Vendors, and a director of Aikford and Splendor Glow, and Aikford has given an irrevocable undertaking not to accept the Share Offer, and the Offers are made as a result of the purchase of the KH Shares by the Offeror from the Vendors, Mr. Fan has not become a member of the Independent Board Committee and has abstained from voting at any KH Board meeting in respect of the Offers. As such, the Independent Board Committee comprising only all the independent non-executive KH Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng, has been established by KH Investment to advise the Independent KH Shareholders and the CLN Holders in respect of the Offers and whether the Independent KH Shareholders and the CLN Holders should accept the Offers. We, KBC Bank N.V. Hong Kong Branch, have been appointed by KH Investment to advise the Independent Board Committee as to whether (i) the Offers are fair and reasonable and (ii) the Independent KH Shareholders and CLN Holders should accept the Offers.

In formulating our recommendation, we have reviewed, among other things, (i) the Composite Document; (ii) the Joint Announcement; and (iii) the annual reports of KH Investment for the years ended 31 December 2009 and 2010 as well as its interim report for the six months ended 30 June 2011 and the third quarterly report for the nine months ended 30 September 2011 (collectively, the “Financial Reports”). We have assumed that all information, opinions and representations contained or referred to in the Composite Document are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the KH Directors and the management of KH Investment and they have confirmed, after having made all reasonable enquiries and careful decisions, that to the best of their information, knowledge and belief,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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opinions expressed in the Composite Document (other than that relating to the Offeror, Culture Landmark and parties acting in concert with any of them, the terms and conditions of the Offers and the intention of the Offeror regarding KH Investment) have been arrived at after due and careful consideration and there are no other facts or representation not contained in the Composite Document the omission of which would make any statement contained in the Composite Document, including this letter, misleading. In addition, we have also assumed that all information, statements and representations made or referred to in the Composite Document, which have been provided to us by KH Investment, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Composite Document. The directors of the Offeror and Culture Landmark also jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the KH Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the KH Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement contained in the Composite Document misleading. In the event there are material changes to the information and representation provided and made to us after the Latest Practicable Date and up to date throughout the Offer Period, the Independent KH Shareholders and the CLN Holders will be notified as soon as possible.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Offers and to provide a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by KH Investment; nor have we conducted any independent in-depth investigation into the business and affairs of KH Investment and its respective associates.

We have not considered the tax implications on the Independent KH Shareholders or the CLN Holders regarding their acceptance or non-acceptance of the Offers since these are particular to their own individual circumstances. In particular, the Independent KH Shareholders or the CLN Holders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, they should consult their own professional advisers.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee, we have taken into account the following factors and reasons:

### 1. Background of the Offers

On 30 December 2011, the Offeror, a wholly-owned subsidiary of Culture Landmark, acquired 232,000,000 KH Shares from the Vendors for consideration of HK\$81,200,000 (equivalent to HK\$0.35 per Sale Share). Following the Acquisition, the Offeror, Culture Landmark and parties acting in concert with any of them hold an aggregate of 379,030,000 KH Shares (including the Sale Shares). Based on the total number of 505,649,726 KH Shares in issue as at the Latest Practicable Date, the equity interest of the Offeror, Culture Landmark and the parties acting in concert with any of them in KH Investment would be increased from approximately 29.08% to approximately 74.96%. The Offeror is therefore required to make an unconditional mandatory offer to acquire all the issued KH Shares and all the outstanding CLN not already owned or agreed to be acquired by the Offeror, Culture Landmark and parties acting in concert with any of them under the Takeovers Code.

As at the Latest Practicable Date, KH Investment had a total number of 505,649,726 KH Shares in issue and, save for the CLN which has an outstanding principal amount of HK\$6.2 million, which is required to mandatorily convert into 12,731,006 Conversion Shares at the prevailing conversion price (the “Conversion Price”) of HK\$0.487 per KH Share (subject to adjustment) upon the maturity of the CLN, KH Investment had no other outstanding securities, options, derivatives or warrants which are convertible or exchangeable into KH Shares and KH Investment had not entered into any agreement for the issue of such securities, options, derivatives or warrants of KH Investment as at the Latest Practicable Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the shareholding structure of KH Investment immediately before and after the Acquisition and as at the Latest Practicable Date:

	<b>Immediately before the Acquisition</b>		<b>Immediately after the Acquisition and as at the Latest Practicable Date</b>	
	<i>Number of KH Shares</i>	<i>Approx.</i>	<i>Number of KH Shares</i>	<i>Approx.</i>
Aikford	154,280,000	30.51%	35,247,161	6.97%
				<i>(Note 1)</i>
Splendor Glow	112,967,161	22.34%	—	—
Sub-total	267,247,161	52.85%	35,247,161	6.97%
The Offeror, Culture Landmark and parties acting in concert with any of them	147,030,000	29.08%	379,030,000	74.96%
Public shareholders	91,372,565	18.07%	91,372,565	18.07%
				<i>(Note 1)</i>
<b>Total</b>	<b>505,649,726</b>	<b>100.00%</b>	<b>505,649,726</b>	<b>100.00%</b>

*Notes:*

1. since the Date of Title Transfer, Aikford has become a public shareholder of KH Investment pursuant to the GEM Listing Rules.
2. none of the existing KH Directors holds any interest in KH Shares as at the Latest Practicable Date.
3. each of the CLN Holders, namely Goldig Investment Group Limited (“Goldig Investment”) and Mr. Cheung Pui Kay, is a third party independent of the Offeror, Culture Landmark, their connected persons and parties acting in concert with any of them. As at the Latest Practicable Date, Goldig Investment did not hold any KH shares and Mr. Cheung Pui Kay held less than 1.5% of the issued share capital of KH Investment.

As at the Latest Practicable Date, Aikford, one of the Vendors, held 35,247,161 KH Shares, representing approximately 6.97% of the issued share capital of KH Investment. Save for the above, Aikford has confirmed that it and the parties acting in concert with it do not own any other securities in KH Investment (including any convertible securities, warrants or options). In addition, Aikford has also given an irrevocable undertaking not to accept the Share Offer and not to dispose of,

transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the KH Shares it holds prior to the close of the Offers. As at the Latest Practicable Date, no Independent KH Shareholders and no CLN Holder has irrevocably committed to accept or not to accept the Share Offer and the CLN Offer, respectively.

**2. Background and business prospects of the KH Group**

*Historical financial performance of the KH Group*

KH Group is principally engaged in (i) provision of artist management services; (ii) film production and distribution; and (iii) provision of infrared thermal imaging and thermography solutions and consultancy services. Set out below is a summary of the audited financial information of KH Investment for the two years ended 31 December 2009 and 2010 and the unaudited financial information of KH Investment for the nine months ended 30 September 2011:

	<b>For the year ended 31 December</b>		<b>For the nine months ended 30 September</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
<b>Turnover</b>			
<i>Continuing operations</i>			
— Artist management	7,198	21,371	30,112
— Film production and distribution	—	—	100
— Infrared consultancy services	—	419	282
	7,198	21,790	30,494
<i>Discontinued operations</i>			
— Distribution of high-end apparel and accessories	8,801	—	—
— Rental income from serviced apartment	8,224	—	—
	24,223	21,790	30,494



# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		For the nine months ended 30 September
	2009	2010	2011
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
<b>Segment results</b>			
<i>Continuing operations</i>			
— Artist management	(2,307)	(483)	N/A
— Film production and distribution	(1,441)	(7,450)	
— Infrared consultancy services	—	(3,877)	
	(3,748)	(11,810)	
<i>Discontinued operations</i>			
— Distribution of high-end apparel and accessories	(23,592)	8,014	
— Rental income from serviced apartment	(16,826)	5,461	
	(44,166)	1,665	
Profit/(loss) after taxation for the period from continuing operations	(27,171)	(136,966)	(3,935)
Profit/(loss) after taxation from discontinued operations for the year <i>(Note 1)</i>	53,270	84,513	N/A
Profit/(loss) attributable to the KH Shareholders	26,099	(52,453)	(3,935)

*Source: Financial Reports*

*Note 1:* balance mainly represented the profit (including gain on disposal) derived from the KH Group's businesses in distribution of high-end apparel and accessories and rental income from serviced apartment which were classified as discontinued operations in KH Investment's annual report for the year ended 31 December 2010.

Prior to 2009, the KH Group's revenue was mainly derived from the distribution of high-end apparel and accessories. During 2009, the KH Group implemented a series of restructuring to the effect that it gradually disposed of its apparel distribution business and diversified into the businesses of service apartment operations, artist management and film production, through (i) the acquisition of

the artist management business from China Star Entertainment Limited (“China Star Entertainment”, a company listed on the Main Board of the Stock Exchange) in July 2009; (ii) the acquisition of the film production and distribution business from Brilliant Arts Multi-Media Holdings Limited (a company listed on the Main Board of the Stock Exchange and now known as Zhi Cheng Holdings Limited) in October 2009; (iii) the acquisition from China Star Investment Holdings Limited (a company listed on the Main Board of the Stock Exchange) of a properties investment business with principal assets comprising high-end serviced apartments and car parking spaces located in Beijing, the PRC in December 2008 (of which 193 residential units and 186 car parking spaces (the “Disposed Properties”) were subsequently disposed of by the KH Group in August 2009) and (iv) the disposal of an aggregate of 81% equity interest of a major operating subsidiary (the “Apparel Subsidiary”) which was engaged in the distribution of high-end apparel and accessories in 2009. According to KH Investment’s annual report for the year ended 31 December 2009, KH Group recorded a revenue of approximately HK\$24.22 million, of which approximately HK\$8.80 million, HK\$8.22 million and HK\$7.20 million were derived from the distribution of high-end apparel and accessories, rental income from the serviced apartments in the PRC and service income from artist management, respectively. The net profit after taxation of approximately HK\$26.10 million for the year ended 31 December 2009 was mainly attributable to the gain on discount of approximately HK\$105.39 million from the acquisition of the aforesaid properties investment business and the gain of approximately HK\$49.83 million from the disposal of the Apparel Subsidiary in 2009, as well as the tax credit of approximately HK\$34.38 million mainly resulted from the release of the deferred tax liabilities relating to the disposal of the Disposed Properties located in Beijing, the PRC during 2009.

During 2010, the KH Group further (i) diversified its business into infrared consultancy business through the acquisition of a company engaged in infrared thermal imaging and thermography solutions and consultancy services in Hong Kong and the PRC in July 2010; and (ii) strengthened its film production business through the investment of approximately HK\$30 million for the formation of an evenly-owned joint venture with China Star Entertainment in December 2010. In addition, during February and December 2010, the KH Group further disposed of its interest in the remaining investment properties in Beijing, the PRC and the remaining 19% equity interest in the Apparel Subsidiary, respectively. For the year ended 31 December 2010, the KH Group recorded (i) revenue of approximately HK\$21.79 million, comprising approximately HK\$21.37 million and HK\$0.42 million derived from artist management services and infrared consultancy services, respectively; and (ii) turned around from a net profit position to a net loss after taxation of approximately HK\$52.45 million (comprising a net loss after taxation from its

continuing operations and a net profit after taxation from discontinued operations of approximately HK\$136.97 million and HK\$84.51 million, respectively). The loss incurred by the KH Group's continuing operations in 2010 was attributable to, among other things the loss on early redemption of convertible loan notes and promissory notes in the aggregate amount of approximately HK\$108.91 million.

For the nine months ended 30 September 2011, both the KH Group's revenue and financial results recorded significant improvement when compared with those of the year ended 31 December 2010, with revenue having been increased by approximately 40% to approximately HK\$30.49 million and loss after taxation having been reduced to approximately HK\$3.94 million. The KH Group's film production and distribution business is yet to generate significant revenue and/or profit to the KH Group and, as disclosed in the third quarterly report of 2011, two films of the KH Group are currently in their pre-production phases and are expected to be released for exhibition in the PRC and Hong Kong in 2012.

Based on KH Investment's interim report for the six months ended 30 June 2011, as at 30 June 2011, KH Group had consolidated unaudited net assets of approximately HK\$116.7 million, comprising unaudited total assets of approximately HK\$136.9 million (which mainly comprising cash and bank balances of approximately HK\$105.2 million, intangible assets and goodwill in the aggregate amount of approximately HK\$15.38 million as well as deposits, prepayments and other receivables of approximately HK\$14.13 million) and unaudited total liabilities of approximately HK\$20.22 million (which mainly comprising receipts in advance of approximately HK\$8.23 million, accruals and other payables of approximately HK\$7.34 million and the liability component of the CLN of approximately HK\$4.64 million). Save for the CLN which had an outstanding principal amount of HK\$6.2 million, the KH Group did not have any other borrowings as at 30 June 2011. Based on the total of 505,649,726 KH Shares as at the Latest Practicable Date and the net asset value of HK\$116.68 million and net tangible assets of approximately HK\$101.30 million as at 30 June 2011, the net asset value and net tangible assets per KH Share amounted to approximately HK\$0.23 and HK\$0.20, respectively.

#### ***Intention of the Offeror and prospects of the KH Group***

The Offeror is a wholly-owned subsidiary of Culture Landmark. The Culture Landmark Group is principally engaged in property investment, property sub-leasing, license fee collection business in the PRC, entertainment business, exhibition-related business, hotel operations and restaurant operations. As disclosed in the Composite Document, given that majority of the KH Group's business is related

to entertainment related business providing artist management services, and the Culture Landmark Group's entertainment business involves the provision of services relating to film production and artist management, Culture Landmark has considered that the KH Group's business is complimentary to the Culture Landmark Group's entertainment business and the Acquisition would provide an opportunity for Culture Landmark to consolidate its interests in KH Investment by acquiring a major interest in KH Investment. The Offeror intends to continue the principal business of the KH Group, and will conduct a review on the business operations and financial position of the KH Group for the purpose of formulating business plans and strategies for the future business development of the business of the KH Group. The Offeror has no intention to introduce any major changes to the business of the KH Group including, re-deployment of the employees or the assets of the KH Group other than in its ordinary course of business.

Although the KH Group's revenue has recorded a significant growth with a substantial reduction in its net loss after taxation during the nine months ended 30 September 2011 and it is the intention of Culture Landmark to continue the development of the KH Group's entertainment related businesses, the future success of the KH Group's business is still dependent on whether the KH Group could create synergies among its artist management and film production businesses to generate profit. In addition, as illustrated from above, majority of the KH Group's revenue was derived from artist management business (accounting for over 98% of the KH Group's revenue for the year ended 31 December 2010 and the nine months ended 30 September 2011) and the future performance of which is subject to, among other things, the trend of the media and entertainment industry that may change from time to time. Furthermore, there is no guarantee that the KH Group will be able to retain the existing artists and contract new artists which can attract customers in the future. Although the KH Group has been able to capitalise on the substantial experience and network of China Star Entertainment (a film production company in Hong Kong) through the formation of a joint venture for the development of its film production and distribution, the KH Group's film production business is yet to generate any significant revenue/profit for the nine months ended 30 September 2011 and the future performance of which has remained uncertain, particularly the film business is in general, largely dependent on the film market and the favour of the audience (which can be ever-changing over time). With respect to the KH Group's infrared consultancy business, although it is disclosed in KH Investment's announcement dated 16 July 2010 that the infrared technology has a wide application including, among others, building condition survey, medical and industrial safety investigation, the future financial performance of which is remained uncertain especially given the fact that it only generated revenue of approximately HK\$0.42 million and

HK\$0.28 million for the year ended 31 December 2010 and the nine months ended 30 September 2011, respectively (representing approximately less than 2% of the KH Group's revenue during the corresponding periods) and is considered relatively insignificant to the overall financial performance of the KH Group.

### **3. Major terms of the Share Offer**

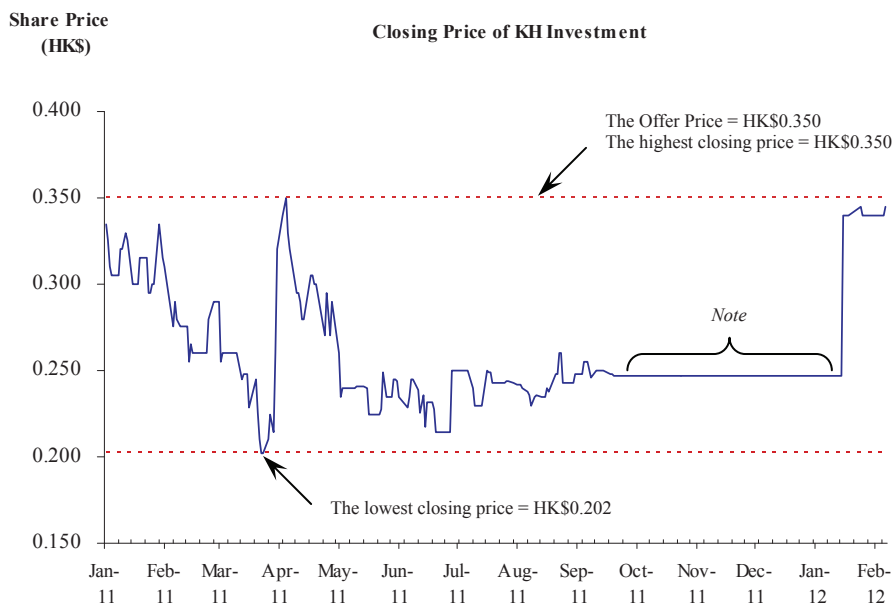
#### *The Offer Price*

The Offer Price is HK\$0.35 per Offer Share, which is the same as the consideration per KH Share under the Acquisition. The Offer Price of HK\$0.35 per Offer Share represents:

- (i) a premium of approximately 41.7% over the closing price of HK\$0.247 per KH Share as quoted on the Stock Exchange on the Last Full Trading Day;
- (ii) a premium of approximately 40.0% over the average closing price of approximately HK\$0.25 per KH Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Full Trading Day;
- (iii) a premium of approximately 42.3% over the average closing price of approximately HK\$0.246 per KH Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Full Trading Day;
- (iv) a premium of approximately 1.4% over the closing price of HK\$0.345 per KH Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 40.0% over the offer price of HK\$0.25 per KH Share under the Splendor Glow Offer;
- (vi) a premium of approximately 52.2% over the net asset value attributable per KH Share of approximately HK\$0.23 as at 30 June 2011 (based on the unaudited consolidated net asset value of the KH Group of approximately HK\$116.68 million as at 30 June 2011 and the 505,649,726 KH Shares in issue as at the Latest Practicable Date); and
- (vii) a premium of approximately 75.0% over the net tangible asset value attributable per KH Share of approximately HK\$0.20 as at 30 June 2011 (based on the unaudited consolidated net tangible asset value of approximately HK\$101.30 million as at 30 June 2011 and the 505,649,726 KH Shares in issue as at the Latest Practicable Date).

*Historical price performance of the KH Shares*

Set out below is the movement of the closing prices of the KH Shares on the Stock Exchange from 3 January 2011 up to the Latest Practicable Date (both dates inclusive) (the “Review Period”):



Source: website of the Stock Exchange

*Note:*

As disclosed in the “Letter from REORIENT” contained in the Composite Document, Aikford has informed KH Investment that on 29 and 30 June 2011, Aikford purchased 151,000,000 KH Shares, representing approximately 29.9% of the then issued share capital of KH Investment. On 12 July 2011, KH Investment also received a letter from the financial adviser to Century City that it intended to make the Splendor Glow Offer. Pursuant to the acceptances of the Splendor Glow Offer, Splendor Glow, a wholly-owned subsidiary of Century City, further acquired 112,967,161 KH Shares at the then offer price of HK\$0.25 per KH Share. In addition, during the offer period in respect of the Splendor Glow Offer, Splendor Glow and parties acting in concert with it acquired on market an additional 3,280,000 KH Shares at prices within the range from HK\$0.240 to HK\$0.246 per KH Share. As a result of the above transactions, the aggregate shareholding interest of Century City, Splendor Glow and Aikford in KH Investment increased to approximately 52.9% and the percentage of KH Shares held by public shareholders dropped to approximately 18.1%, which was below the minimum public float requirement under the GEM Listing Rules. Accordingly, the trading in KH Shares had been suspended since 22 September 2011 and resumed on 17 January 2012 when approximately 25.04% of the issued share capital of KH Investment became beneficially owned by the public shareholders after the Acquisition and the publication of the announcement in relation to the Offers.

As noted from above, during the Review Period, the closing prices of KH Shares were within the range of HK\$0.202 to HK\$0.350 per KH Share. The closing price of the KH Shares had been on a downward trend from approximately HK\$0.335 on 3 January 2011 to HK\$0.202 on 24 and 25 March 2011 after the profit warning announcement of KH Investment published on 10 March 2011. However, on 29 March 2011, after KH Investment had announced that the Offeror had become its substantial shareholder, the closing price of the KH Shares surged from HK\$0.224 on 29 March 2011 to the highest closing price of HK\$0.35 on 6 April 2011. Nevertheless, after 6 April 2011, the closing price of the KH Shares was on a downward trend again and the KH Shares were being traded within the range of HK\$0.35 to HK\$0.214 during the period from 6 April 2011 to 21 September 2011 (the trading day prior to the suspension in the trading of the KH Shares on 22 September 2011). On 17 January 2012, being the first trading day after the resumption of trading in the KH Shares following the publication of the Joint Announcement, the closing price of the KH Share increased to HK\$0.34 from the closing price of HK\$0.247 on the Last Full Trading Date.

We note that the Offer Price (i) is the same as the highest closing price during the Review Period; (ii) represents a premium of approximately 32.1% over the average closing price of KH Share price of HK\$0.265 during the Review Period; and (iii) is generally higher than the closing prices of the KH Shares during the Review Period (save for 6 April 2011 when the closing price of KH Shares was HK\$0.35).

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## *Liquidity of the KH Shares*

The table below illustrates the trading volume of KH Investment during the Review Period:

	Total KH Shares trading volume for the month/period	Average KH Shares daily trading volume for the month/period <i>(Note 1)</i>	Percentage of average daily trading volume of KH Shares to total number of KH Shares in issue as at the Latest Practicable Date <i>(Note 2)</i>	Percentage of average daily trading volume of KH Shares to total number of KH Shares in issue excluding the KH shares held by the Offeror, Culture Landmark and parties acting in concert with any of them as at the Latest Practicable Date <i>(Note 3)</i>
<b>2011</b>	<i>No. of KH Shares</i>	<i>No. of KH Shares</i>	<i>Approximate %</i>	<i>Approximate %</i>
January	18,909,720	900,463	0.18	0.71
February	4,365,847	242,547	0.05	0.19
March	7,282,512	316,631	0.06	0.25
April	88,095,260	4,894,181	0.97	3.87
May	1,702,920	85,146	0.02	0.07
June	158,020,812 (7,020,812*)	7,524,801 (334,324*)	1.49 (0.07*)	5.94 (0.26*)
July	2,499,500	147,029	0.03	0.12
August	8,079,121	351,266	0.07	0.28
1 September to 21 September	2,149,840	153,560	0.03	0.12
22 September 2011 to 16 January 2012 <i>(Note 4)</i>	N/A	N/A	N/A	N/A
17 January 2012 to Latest Practicable Date	10,010,480	715,034	0.14	0.56

\* excluding the 151,000,000 KH Shares acquired by Aikford in June 2011 as disclosed in the KH Investment's announcement date 4 July 2011.

*Source: website of the Stock Exchange*



*Notes:*

1. Average daily trading volume is calculated based on the total trading volume for the month/period and the number of trading days during the relevant month/period (excluding those trading day(s) on which trading on KH Shares on the Stock Exchange had been suspended as indicated on the website of the Stock Exchange (if any)).
2. Based on 505,649,726 KH Shares in issue as at the Latest Practicable Date.
3. Based on 505,649,726 KH Shares in issue less 379,030,000 KH Shares held by the Offeror, Culture Landmark and parties acting in concert with any of them as at the Latest Practicable Date.
4. Trading in the KH Shares on the Stock Exchange was suspended from 22 September 2011 to 16 January 2012 and resumed on 17 January 2012.

As noted from above, during the Review Period except for June 2011, the trading of the KH Shares has been thin and the exceptionally high trading volume of KH Shares in June 2011 was mainly attributed to Aikford having acquired in aggregate 151 million KH Shares on the Stock Exchange on 29 and 30 June 2011. If we exclude the 151 million KH Shares acquired by Aikford in June 2011, during the Review Period, (i) the monthly average daily trading volume of KH Shares in each month to the total number of issued KH Shares as at the Latest Practicable Date would only be in the range of approximately 0.02% to approximately 0.97% and (ii) the monthly average daily trading volume of KH Shares in each month to the total number of issued KH Shares excluding the KH shares held by the Offeror, Culture Landmark and parties acting in concert with any of them as at the Latest Practicable Date would only be in the range of approximately 0.07% to approximately 3.87%. Given the above, we consider that it may be difficult for the Independent KH Shareholders, and particularly those with relatively large shareholdings, to realise their investment in KH Shares in the open market, without having resulted in a downward pressure on the trading price of the KH Shares and the Share Offer provides an alternative exit for the Independent KH Shareholders to realise their investment in the KH Shares.

### ***Comparable companies***

In assessing the fairness and reasonableness of the Offer Price, we have considered performing a price-to-earning multiple (“P/E Ratio”) analysis, which is one of the most widely used and accepted method for valuing a business with recurrent income. Given that the KH Group is at loss-making position for the year ended 31 December 2010 and the nine months ended 30 September 2011, we considered it not feasible to assess the Offer Price based on the P/E Ratio approach. Under the circumstances, we have adopted the price-to-book multiple (the “P/B Ratio”), which is also one of those common trading multiples for analysis purposes. As analysed from above, given

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

that the infrared consultancy business is relatively insignificant to the KH Group’s overall business, we have conducted a search of companies from the website of the Stock Exchange and identified 2 comparable companies (“Comparable Companies”) which are (i) listed on the Stock Exchange; and (ii) principally engaging in and with a majority of their revenue derived from artist management and film production businesses during their recent financial year as described in their latest annual reports. In addition, since the market capitalisation of KH Investment only amounted to approximately HK\$174.45 million (based on the closing price of HK\$0.345 as at the Latest Practicable Date and the 505,649,726 KH Shares in issue as at the Latest Practicable Date) and the value of KH Investment implied by the Share Offer only amounted to approximately HK\$176.98 million (based on the Offer Price of HK\$0.35), we have not included listed companies which have a market capitalisation of more than HK\$200 million as at the Latest Practicable Date for analysis purposes. Based on the above criteria and our search conducted on the website of the Stock Exchange, we consider that the Comparable Companies are fair and representative samples and exhaustive for our comparison.

Company Name	Stock code	Principal activities	Market Capitalisation <i>(Note 1)</i> <i>(HK\$' Million)</i>	Net asset value attributable to shareholders <i>(Note 2)</i> <i>(HK\$' Million)</i>	P/B Ratio							
See Corporation Limited	491	Film and TV production, event production, artiste and model management, music production and investment in securities	82.20	278.73	0.29							
China 3D Digital Entertainment Limited	8078	Artiste management and films and television programme production, distribution and licensing	102.51	123.14	0.83							
<table border="1" style="margin-left: auto;"> <tr> <td style="text-align: right;">Maximum</td> <td style="text-align: center;">0.83</td> </tr> <tr> <td style="text-align: right;">Median</td> <td style="text-align: center;">0.56</td> </tr> <tr> <td style="text-align: right;">Mean</td> <td style="text-align: center;">0.56</td> </tr> <tr> <td style="text-align: right;">Minimum</td> <td style="text-align: center;">0.29</td> </tr> </table>					Maximum	0.83	Median	0.56	Mean	0.56	Minimum	0.29
Maximum	0.83											
Median	0.56											
Mean	0.56											
Minimum	0.29											
The Share Offer			176.98 <i>(Note 3)</i>	116.68	1.52							

Source: website of the Stock Exchange

*Notes:*

1. based on the closing share prices of the Comparable Companies as at the Latest Practicable Date.
2. based on the latest published annual reports of the Comparable Companies as at 30 June 2011.
3. based on the Offer Price of HK\$0.35 per KH Share and the total number of 505,649,726 KH Shares as at the Latest Practicable Date.

As illustrated above, the P/B Ratios as implied by the Offer Price is higher than all of the P/B Ratios of the Comparable Companies. After having taken into account (i) Offer Price is the same as the highest closing price of the KH Shares during the Review Period; (ii) the KH Group was in a loss-making position for the year ended 31 December 2010 and the nine months ended 30 September 2011; (iii) the Offer Price represents a premium over the net asset value of the KH Group based on the unaudited consolidated net asset value of KH Investment as at 30 June 2011; (iv) the P/B Ratios as implied by the Offer Price is higher than those of the Comparable Companies; and (v) the Share Offer provides an alternative exit for the Independent KH Shareholders to realise their investment in the KH Shares, we consider that the Offer Price is fair and reasonable.

#### **4. The CLN Offer**

As disclosed in the Composite Document, as at the Latest Practicable Date, the total outstanding principal amount of the CLN is HK\$6,200,000 which is convertible into 12,731,006 Conversion Shares at the Conversion Price of HK\$0.487 per KH Share (subject to adjustment). In addition, the CLN has also contained provisions which mandatorily required the outstanding CLN to be converted into Conversion Shares upon its maturity in September 2013.

The CLN Offer Consideration is HK\$0.7187 for each HK\$1 face value of the CLN, which is determined using a “see through” approach such that the Offeror will effectively offer to pay the Offer Price of HK\$0.35 for each Conversion Share that the CLN could be converted into.

On the basis for each HK\$1 face value of the CLN will be offered for HK\$0.7187 in cash and the Conversion Price of HK\$0.487 per KH Share, each underlying KH Share which may fall to be allotted and issued upon the exercise of the conversion rights attached to the CLN will be valued at HK\$0.35 under the CLN Offer, which is equivalent to the Offer Price. As such, we consider that the basis of determining the CLN Offer Consideration is acceptable. Having considered the fairness and reasonableness of the Offer Price as analysed above, we consider that the CLN Offer is fair and reasonable in so far as the CLN Holders are concerned.

**5. Maintenance of public float of KH Investment**

The Offeror intends to maintain the listing status of KH Investment on the GEM after closing of the Offers. Depending upon the level of acceptances of the Share Offer, acceptances of the Share Offer may result in the percentage of KH Shares in public hands falling below the prescribed minimum level set out in Rule 11.23(7) of the GEM Listing Rules. The Offeror and Culture Landmark (as guarantor) entered into a placing agreement dated 30 December 2011 with REORIENT pursuant to which subject to among others, completion of the Offers, on a best efforts basis, REORIENT shall on behalf of the Offeror, place to independent investors who are not connected persons of the Offeror and KH Investment up to 104,103,571 KH Shares and any CLN acquired under the Offers at prices to be agreed between the parties. The primary aim of the placing is to maintain the minimum public float of KH Shares as required under the GEM Listing Rules following close of the Offers.

**RECOMMENDATION****The Share Offer**

Having considered the aforesaid principal factors, in particular, (i) the loss-making financial position of the KH Group and the uncertainties faced by the KH Group's entertainment related businesses; (ii) the Offer Price being the highest closing price of the KH Shares during the Review Period and the P/B Ratios as implied by the Offer Price is higher than those of the Comparable Companies; and (iii) the thin trading volume of the KH Shares during the Review Period, we are of the view that the terms of the Share Offer are fair and reasonable and recommend the Independent Board Committee to advise the Independent KH Shareholders to accept the Share Offer.

Although we recommend the Independent Board Committee to advise the Independent KH Shareholders to accept the Share Offer, in the event that the market price of the KH Shares exceed the Offer Price during the Offer Period while the Offers are open and the sale proceeds, net of transactions costs, exceed the amount receivable under the Share Offer, the Independent KH Shareholders should consider not accepting the Share Offer and should seek to dispose of their KH Shares on the market if they are able to do so.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, for those Independent KH Shareholders who may not be able to realise a higher return from disposing their KH Shares in the open market, they are recommended to accept the Share Offer which provides a reasonable alternative exit in the current market conditions to realise all or part of their investment in the KH Shares. Those Independent KH Shareholders who, after considering the information on the Offeror, Culture Landmark and the future development of KH Investment, are attracted by the future prospects of KH Investment following the Offers, should consider retaining some or all of their KH Shares.

### **The CLN Offer**

On the basis of each HK\$1 face value of the CLN will be offered for HK\$0.7187 in cash and the Conversion Price of HK\$0.487 per KH Share, each underlying KH Share which may fall to be allotted and issued upon the exercise of the conversion rights attached to the CLN will be valued at HK\$0.35 under the CLN Offer, which is equivalent to the Offer Price, we are of the view that the CLN Offer Consideration is acceptable and recommend the Independent Board Committee to advise the CLN Holders to accept the CLN Offer. Although we recommend the Independent Board Committee to advise the CLN Holders to accept the CLN Offer, those CLN Holders who, after considering the information on the Offeror and the future development of KH Investment, (i) are attracted by the future prospects of KH Investment following the CLN Offer, and (ii) have confident that the market price of KH Share will be higher than the Conversion Price of HK\$0.487 before the maturity date of the CLN, the CLN Holders should consider not accepting the CLN Offer and to convert the CLN and hold their investment in KH Shares. However, the CLN Holders are strongly advised that the decision to accept the CLN Offer or to convert the CLN and hold their investment in the KH Shares is subject to individual circumstances and investment objectives.

Yours faithfully,

For and on behalf of

**KBC Bank N.V. Hong Kong Branch**

**Kenneth Chan**

*Head of Corporate Finance, Greater China*

**Gaston Lam**

*Corporate Finance*

## 1. PROCEDURES FOR ACCEPTANCE

### 1.1 The Share Offer

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your KH Shares is/are in your name, and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of KH Shares in respect of which you intend to accept the Share Offer by post or by hand, to the Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "KH Investment Holdings Limited — Share Offer" on the envelope as soon as possible but in any event not later than 4:00 p.m. on 2 March 2012 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your KH Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your holding of KH Shares (whether in full or in part), you must either:
- (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (ii) arrange for the KH Shares to be registered in your name by KH Investment through the Registrar, and deliver the **WHITE** Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (iii) if your KH Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
  - (iv) if your KH Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If you have lodged transfer(s) of any of your KH Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your KH Shares, you should nevertheless complete and sign the **WHITE** Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or REORIENT or their respective agent(s) to collect from KH Investment or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Acceptance.

- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your KH Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your KH Shares, the **WHITE** Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) Acceptance of the Share Offer will be treated as valid only if the completed **WHITE** Form of Acceptance is received by the Registrar on or before the latest time for acceptance of the Share Offer and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant KH Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant KH Shares; or



- (ii) from a registered KH Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the KH Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Acceptance is executed by a person other than the registered KH Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (f) Seller's ad valorem stamp duty payable by the Independent KH Shareholders who accept the Share Offer and calculated at a rate of HK\$1.00 for every HK\$1,000 (or part thereof) (as prescribed under the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong) of the market value of the KH Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Independent KH Shareholders on acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Independent KH Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.
- (g) No acknowledgement of receipt of any **WHITE** Form of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

## 1.2 The CLN Offer

- (a) If you accept the CLN Offer and the certificate(s) of the CLN and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are in your name, you should complete the **PINK** Form of Acceptance in accordance with the instructions printed thereon in respect of the outstanding principal amount of the CLN held by you that you wish to tender to the CLN Offer, which instructions form part of the terms and conditions of the CLN Offer.
- (b) The completed **PINK** Form of Acceptance should be forwarded, together with the relevant certificate(s) of the CLN and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) which you intend to accept the CLN Offer, by post or by hand to the company secretary of KH Investment at Unit 3407, 34/F, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong, marked “KH Investment Holdings Limited — CLN Offer” on the envelope as soon as possible but in any event no later than 4:00 p.m. on Friday, 2 March 2012 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (c) Seller’s ad valorem stamp duty payable by the CLN Holders who accept the CLN Offer and calculated at a rate of HK\$1.00 for every HK\$1,000 (or part thereof) (as prescribed under the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong) of the market value of the CLN or consideration payable by the Offeror in respect of the relevant acceptances of the CLN Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant CLN Holder(s) on acceptance of the CLN Offer. The Offeror will arrange for payment of the seller’s ad valorem stamp duty on behalf of the CLN Holder(s) who accept the CLN Offer and will pay the buyer’s ad valorem stamp duty in connection with the acceptance of the CLN Offer and the transfer of the CLN.
- (d) No acknowledgement of receipt of any **PINK** Form of Acceptance and/or the certificate(s) of the CLN and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

**2. ACCEPTANCE PERIOD AND REVISIONS**

- (a) In order to be valid, Form(s) of Acceptance for the Offers must be received by the Registrar (in case of the Share Offer) and the company secretary of KH Investment (in case of the CLN Offer) in accordance with the instructions printed thereon by 4:00 p.m. on Friday, 2 March 2012 unless extended or revised with the consent of the Executive. The Offeror has stated that it has no intention to extend the Offer Period unless otherwise required under the Takeovers Code or other regulations.
- (b) The Offeror reserves the right to revise the Offers after the despatch of this Composite Document until such day as it may determine and in accordance with the Takeovers Code. If the Offeror revises the terms of the Offers, all Independent KH Shareholders and the CLN Holders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms.
- (c) If the Offers are extended or revised, the announcement of such extension or revision will state the next closing date or the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to the Independent KH Shareholders and the CLN Holders who have not accepted the Offers, and an announcement will be released. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted. The Offeror has stated that it has no intention to extend the Offer Period unless otherwise required under the Takeovers Code or other regulations.
- (d) If the closing date of the Offers is extended, any reference in this Composite Document and in the Form(s) of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers as so extended. The Offeror has stated that it has no intention to extend the Offer Period unless otherwise required under the Takeovers Code or other regulations.
- (e) Any acceptance of the relevant revised Offer(s) shall be irrevocable.

**3. ANNOUNCEMENTS**

- (a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision or extension of the Offers. The Offeror will publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating, among other information required under Rule 19.1 of the Takeovers Code, whether the Offers have been revised or extended and, in each case, whether as to acceptances or in all respects.

The announcement will state the total number of KH Shares and rights over KH Shares or the principal amount of CLN:

- (a) for which acceptances of the Offers have been received;
- (b) held, controlled or directed by the Offeror or its concert parties before the Offer Period; and
- (c) acquired or agreed to be acquired during the Offer Period by the Offeror and any of its concert parties.

The announcement must include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in KH Investment which the Offeror, or any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold.

The announcement must also specify the percentages of the issued share capital of KH Investment and the percentages of voting rights of KH Investment represented by these numbers of KH Shares.

- (a) In computing the total number or principal amount, as the case may be, of KH Shares and CLN represented by acceptances, only valid acceptances that are complete and in good order set out in paragraphs 1.1 and 1.2 of this appendix, and which have been received by the Registrar (in the case of the Share Offer) or the company secretary of KH Investment (in the case of the CLN Offer) no later than 4:00 p.m. on the Closing Date, unless the Offers are extended or revised with the consent of the Executive shall be included. The Offeror has stated that it has no intention to extend the Offer Period unless otherwise required under the Takeovers Code or other regulations.

- (b) As required under the Takeovers Code, all announcements in respect of the Offers which the Executive and the Stock Exchange, if required, have confirmed that they have no further comments thereon, must be made in accordance with the requirements of the Takeovers Code, the Listing Rules and/or the GEM Listing Rules.

#### 4. NO RIGHT OF WITHDRAWAL

The Offers are unconditional. The Independent KH Shareholders and CLN Holders are not entitled to withdraw his/her/its acceptance once the Form(s) of Acceptance has (have) been delivered to the Registrar or the company secretary of KH Investment (as the case may be).

#### 5. SETTLEMENT UNDER THE OFFERS

##### (a) The Share Offer

Provided that a valid **WHITE** Form of Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar before the close of the Share Offer, a cheque for the amount due to each of the Independent KH Shareholders who accept the Share Offer less seller's ad valorem stamp duty in respect of the Offer Shares tendered by him under the Share Offer will be despatched to such Independent KH Shareholder by ordinary post at his own risk as soon as possible but in any event within 10 days of the date of receipt of all the relevant documents by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any Independent KH Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect of the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent KH Shareholder.

**(b) The CLN Offer**

Provided that a valid **PINK** Form of Acceptance and the relevant certificate(s) of the CLN and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the company secretary of KH Investment before the close of the CLN Offer, a cheque for the amount due to the CLN Holders less seller's ad valorem stamp duty in respect of the CLN tendered by him under the CLN Offer will be despatched to such CLN Holder by ordinary post at his own risk as soon as possible but in any event within 10 days of the receipt of all the relevant documents by the company secretary of KH Investment to render such acceptance complete and valid.

Settlement of the consideration to which any CLN Holder is entitled under the CLN Offer will be implemented in full in accordance with the terms of the CLN Offer (save with respect of the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such CLN Holder.

**6. OVERSEAS KH SHAREHOLDERS AND OVERSEAS CLN HOLDERS**

The making of the Offers to Overseas KH Shareholders and Overseas CLN Holders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas KH Shareholders and Overseas CLN Holders who are citizens or residents or nationals of jurisdictions outside Hong Kong should acquaint themselves about and observe any applicable regulatory or legal requirements. It is the responsibility of any such person wishing to accept the Offers to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities, regulatory or legal requirements and the payment of any transfer or cancellation or other taxes due by such Overseas KH Shareholder and/or Overseas CLN Holder in respect of such jurisdiction. The Offeror, Culture Landmark, REORIENT and any of their respective directors and any other persons involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Acceptances of the Offers by any such person will be deemed to constitute a warranty by such person to the Offeror that such person is permitted under all applicable laws to accept the Offers and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

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**7. GENERAL**

- (a) All communications, notices, Forms of Acceptance, share certificate(s), certificate(s) of the CLN, transfer receipt(s), other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Independent KH Shareholders and the CLN Holders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of KH Investment, the Offeror, Culture Landmark, REORIENT and any of their respective directors nor the Registrar or the company secretary of KH Investment or other parties involved in the Offers or any of their respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Forms of Acceptance form part of the terms and conditions of the Offers.
- (c) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Forms of Acceptance will constitute an authority to the Offeror, Culture Landmark, REORIENT or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the KH Shares and/or the CLN in respect of which such person or persons has/have accepted the Offers.
- (f) Acceptance of the Share Offer by any person will be deemed to constitute a warranty by such person to the Offeror and KH Investment:
  - (i) that the Offer Shares tendered for acceptance under the Share Offer are sold by such person free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the date of the Joint Announcement or

subsequently becoming attached to them, including, without limitation, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the date of the Joint Announcement; and

- (ii) that if such KH Shareholder accepting the Share Offer is an Overseas KH Shareholder, he has observed the laws of all relevant jurisdictions in connection therewith, obtained all requisite governmental, exchange control or other consents, complied with other necessary formalities or legal requirements and paid any transfer or other taxes due from him in respect of such jurisdictions, and is permitted under all applicable laws to accept the Share Offer and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws.
- (g) Acceptances of the CLN Offer by the CLN Holders will be deemed to constitute a warranty by such holders to the Offeror that the CLN tendered for acceptance are free from all third party rights, liens, claims, charges, equities, and encumbrances whatsoever and be sold.
- (h) Acceptance of the Share Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of KH Shares in respect of which it is indicated in the **WHITE** Form of Acceptance is the aggregate number of KH Shares held by such nominee for such beneficial owner who is accepting the Share Offer.
- (i) Reference to any of the Offers in this Composite Document and in the Forms of Acceptance shall include any extension or revision thereof.
- (j) All acceptances, instructions, authorities and undertakings given by the Independent KH Shareholders in the **WHITE** Form of Acceptance and by the CLN Holders in the **PINK** Form of Acceptance shall be irrevocable except as permitted under the Takeovers Code.



**1. THREE YEARS FINANCIAL SUMMARY**

The following is a summary of (i) the audited financial results of the KH Group for each of the three financial years ended 31 December 2010; and (ii) the assets and liabilities as at 31 December 2008, 2009 and 2010 as extracted from the audited financial statements of the KH Group for the three financial years ended 31 December 2010. The auditors of KH Investment for the financial year ended 31 December 2008 and the two financial years ended 31 December 2010 were Vision A.S. Limited Certified Public Accountants and HLB Hodgson Impey Cheng, respectively. The said auditors did not issue any qualified opinion on the financial statements of the KH Group for the three financial years ended 31 December 2010. KH Investment had no exceptional or extraordinary items for each of the three years ended 31 December 2010. The KH Group did not record any non-controlling interests for each of the three financial years ended 31 December 2008, 2009 and 2010, all profit/(loss) of the KH Group for each of the three financial years ended 31 December 2008, 2009 and 2010 was attributable to owners of KH Investment.

A special dividend in a total amount of HK\$40,232,000, representing HK\$0.12 per KH Share, was paid out by KH Investment in May 2010 to the then KH Shareholders registered as such on a relevant record date. Save for the dividends paid to such KH Shareholders mentioned above, no other dividends have been paid or declared by KH Investment during each of the three financial years ended 31 December 2008, 2009 and 2010.

	<b>Year ended</b>		
	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>31/12/2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(restated)</i>
<b>(i) Result</b>			
Turnover	21,790	7,198	74,122
Loss before tax	(136,961)	(27,724)	(75,306)
Tax (charge)/credit	(5)	553	—
Loss for the year from continuing operations	(136,966)	(27,171)	(75,306)
Profit for the year from discontinued operations	84,513	53,270	—
(Loss)/profit for the year	(52,453)	26,099	(75,306)
(Loss)/profit attributable to owners of KH Investment	(52,453)	26,099	(75,306)

## APPENDIX II FINANCIAL INFORMATION OF THE KH GROUP

	Year ended		
	31/12/2010	31/12/2009	31/12/2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
<b>(Loss)/earnings per shares</b>			
From continuing and discontinued operations			
Basic and diluted	<u>HK\$(15.19) cents</u>	<u>HK\$37.96 cents</u>	<u>HK\$(284.38) cents</u>
From continuing operations			
Basic and diluted	<u>HK\$(39.66) cents</u>	<u>HK\$(39.52) cents</u>	<u>HK\$(284.38) cents</u>
From discontinued operations			
Basic and diluted	<u>HK\$24.47 cents</u>	<u>HK\$77.49 cents</u>	<u>N/A</u>
<b>(ii) Assets and liabilities</b>			
Total assets	138,064	594,228	27,212
Total liabilities	<u>(22,366)</u>	<u>(418,848)</u>	<u>(71,862)</u>
	<u>115,698</u>	<u>175,380</u>	<u>(44,650)</u>

### 2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF KH INVESTMENT

The following is the full text of the audited consolidated financial statements of KH Investment for the year ended 31 December 2010 extracted from the annual report of KH Investment for the year ended 31 December 2010. Capitalised terms used in this section 2 have the same meanings as defined in the related annual report of KH Investment.

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 31 December 2010*

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>			
Turnover	6	21,790	7,198
Cost of sales		<u>(16,694)</u>	<u>(5,750)</u>
Gross profit		5,096	1,448
Other revenue	8	292	582
Other income	9	836	456
Administrative expenses		(17,713)	(17,375)
Other operating expenses	10	(119,533)	(2,638)
Finance costs	11	<u>(5,939)</u>	<u>(10,197)</u>
<b>Loss before tax</b>	12	(136,961)	(27,724)
<b>Tax (charge)/credit</b>	13	<u>(5)</u>	<u>553</u>
<b>Loss for the year from continuing operations</b>		(136,966)	(27,171)
<b>Discontinued operations</b>	14		
<b>Profit for the year from discontinued operations</b>		<u>84,513</u>	<u>53,270</u>
<b>(Loss)/profit attributable to owners of the Company</b>		<u><u>(52,453)</u></u>	<u><u>26,099</u></u>
<b>(Loss)/earnings per share</b>	16		
From continuing and discontinued operations			
Basic and diluted		<u>HK(15.19) cents</u>	<u>HK37.96 cents</u>
From continuing operations			
Basic and diluted		<u>HK(39.66) cents</u>	<u>HK(39.52) cents</u>
From discontinued operations			
Basic and diluted		<u>HK24.47 cents</u>	<u>HK77.49 cents</u>

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the year ended 31 December 2010*

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>(Loss)/profit for the year</b>	<u>(52,453)</u>	<u>26,099</u>
<b>Other comprehensive income</b>		
Exchange differences arising on translation of foreign operations during the year	<u>(6,068)</u>	<u>(537)</u>
<b>Total comprehensive income for the year</b>	<u><u>(58,521)</u></u>	<u><u>25,562</u></u>
<b>Total comprehensive income attributable to owners of the Company</b>	<u><u>(58,521)</u></u>	<u><u>25,562</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2010*

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>18</i>	204	8,027
Investment properties	<i>19</i>	—	118,619
Intangible assets	<i>20</i>	1,175	7,958
Goodwill	<i>21</i>	14,200	—
Total non-current assets		<u>15,579</u>	<u>134,604</u>
<b>Current assets</b>			
Trade receivables	<i>23</i>	1,439	186,716
Deposits, prepayments and other receivables	<i>24</i>	54,276	13,411
Financial assets at fair value through profit or loss	<i>25</i>	—	1
Properties held for sale	<i>26</i>	—	29,033
Cash and bank balances	<i>27</i>	66,770	230,463
Total current assets		<u>122,485</u>	<u>459,624</u>
<b>Current liabilities</b>			
Bank overdraft	<i>27</i>	32	—
Trade payables	<i>28</i>	325	197
Accruals and other payables	<i>29</i>	9,213	124,225
Interest-bearing bank and other borrowings	<i>30</i>	—	130
Amount due to a shareholder	<i>32</i>	—	155,535
Receipts in advance	<i>33</i>	8,370	42,428
Tax payable		78	15,303
Total current liabilities		<u>18,018</u>	<u>337,818</u>
Net current assets		<u>104,467</u>	<u>121,806</u>
Total assets less current liabilities		<u>120,046</u>	<u>256,410</u>

**APPENDIX II FINANCIAL INFORMATION OF THE KH GROUP**

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Promissory note	34	—	31,831
Convertible loan notes	35	4,348	17,596
Deferred taxation	36	—	31,603
Total non-current liabilities		<u>4,348</u>	<u>81,030</u>
Net assets		<u>115,698</u>	<u>175,380</u>
<b>Equity</b>			
Issued capital	37	5,056	6,763
Reserves		<u>110,642</u>	<u>168,617</u>
Total equity		<u>115,698</u>	<u>175,380</u>

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

**STATEMENT OF FINANCIAL POSITION**

*At 31 December 2010*

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Investments in subsidiaries	22	1,000	—
Interests in jointly controlled entities		—	—
Total non-current assets		<u>1,000</u>	<u>—</u>
<b>Current assets</b>			
Deposits, prepayments and other receivables	24	40,215	—
Amounts due from subsidiaries	22	64,945	143,662
Amounts due from jointly controlled entities		—	2,939
Cash and bank balances	27	32,745	73,056
Total current assets		<u>137,905</u>	<u>219,657</u>
<b>Current liabilities</b>			
Accruals and other payables		<u>2,566</u>	<u>4,256</u>
Net current assets		<u>135,339</u>	<u>215,401</u>
Total assets less current liabilities		<u>136,339</u>	<u>215,401</u>
<b>Non-current liabilities</b>			
Promissory note	34	—	31,831
Convertible loan notes	35	4,348	17,596
Deferred taxation	36	—	24,428
Total non-current liabilities		<u>4,348</u>	<u>73,855</u>
Net assets		<u><u>131,991</u></u>	<u><u>141,546</u></u>
<b>Equity</b>			
Issued capital	37	5,056	6,763
Reserves	40	126,935	134,783
Total equity		<u><u>131,991</u></u>	<u><u>141,546</u></u>

The financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Issued capital	Share premium	Contributed surplus	Convertible loan notes reserve	Share-based payments reserve	Exchange reserve	(Accumulated losses)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	16,446	135,062	—	12,693	98	—	(208,949)	(44,650)
Net profit for the year	—	—	—	—	—	—	26,099	26,099
Other comprehensive income for the year	—	—	—	—	—	(537)	—	(537)
Total comprehensive income for the year	—	—	—	—	—	(537)	26,099	25,562
Issue of convertible loan notes	—	—	—	241,878	—	—	—	241,878
Deferred tax of convertible loan notes	—	—	—	(39,910)	—	—	—	(39,910)
Redemption of convertible loan notes	—	—	—	(101,942)	—	—	4,840	(97,102)
Deferred tax released on redemption of convertible loan notes	—	—	—	14,929	—	—	—	14,929
Capital reduction	(22,564)	—	22,564	—	—	—	—	—
Issue of shares arising on acquisition of subsidiaries	118	2,001	—	—	—	—	—	2,119
Recognition of equity-settled share- based payments	—	—	—	—	4,197	—	—	4,197
Issue of shares upon exercise of share options	519	7,145	—	—	(2,827)	—	—	4,837
Cancellation of share options	—	—	—	—	(98)	—	98	—
Issue of new shares on open offer	12,128	49,066	—	—	—	—	—	61,194
Placing of new shares, net	116	2,210	—	—	—	—	—	2,326
At 31 December 2009 and 1 January 2010	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380
Net loss for the year	—	—	—	—	—	—	(52,453)	(52,453)
Other comprehensive income for the year	—	—	—	—	—	(6,068)	—	(6,068)



	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Convertible loan notes reserve <i>HK\$'000</i>	Share-based payments reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	(Accumulated losses)/ retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Total comprehensive income for the year	—	—	—	—	—	(6,068)	(52,453)	(58,521)
Extension period of convertible loan notes	—	—	—	508	—	—	—	508
Redemption of convertible loan notes	—	—	—	(150,448)	—	—	48,482	(101,966)
Deferred tax released on redemption of convertible loan notes	—	—	—	24,981	—	—	(553)	24,428
Conversion of convertible loan notes	16	851	—	(308)	—	—	—	559
Capital reduction	(5,411)	—	5,411	—	—	—	—	—
Capital reorganisation	—	(252,834)	40,551	—	—	—	212,283	—
Release of exchange reserve upon disposal of subsidiaries	—	—	—	—	—	6,605	—	6,605
Issue of shares arising on acquisition of subsidiaries	592	17,755	—	—	—	—	—	18,347
Recognition of equity-settled share-based payments	—	—	—	—	3,468	—	—	3,468
Issue of shares upon exercise of share options	256	9,390	—	—	(2,101)	—	—	7,545
Lapsed of share options	—	—	—	—	(1,370)	—	1,370	—
Placing of new shares, net	2,840	76,737	—	—	—	—	—	79,577
Dividend paid ( <i>Note 15</i> )	—	—	(40,232)	—	—	—	—	(40,232)
At 31 December 2010	<u>5,056</u>	<u>47,383</u>	<u>28,294</u>	<u>2,381</u>	<u>1,367</u>	<u>—</u>	<u>31,217</u>	<u>115,698</u>

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the year ended 31 December 2010*

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Operating activities</b>		
Loss before tax from continuing operations	(136,961)	(27,724)
Profit before tax from discontinued operations	88,058	19,439
	<u>(48,903)</u>	<u>(8,285)</u>
Adjustments for:		
Finance costs	5,946	21,880
Interest income	(186)	(674)
Depreciation of property, plant and equipment	1,943	10,358
(Gain)/loss on disposal of property, plant and equipment	(102)	122
Impairment loss recognised in respect of intangible assets	6,783	—
Impairment loss recognised in respect of goodwill	3,844	55
(Gain)/loss arising on change in fair value of investment properties	(11,817)	52,395
Gain on period extension in convertible loan notes	(823)	—
Loss on early redemption of convertible loan notes	44,653	2,638
Loss on early redemption of promissory note	64,253	—
Impairment loss recognised in respect of amount due from jointly controlled entities	—	30,892
Write-off of property, plant and equipment	—	8,537
Provision for loss on early termination of licence agreement	—	13,439
Reversal of provision for loss on early termination of licence agreement	(7,361)	—
Equity-settled share option expenses	3,468	4,197
Gain on disposal of subsidiaries	(64,568)	—
Gain on disposal of jointly controlled entities	(10,022)	—
Gain on deemed disposal of subsidiaries	—	(32,758)
Gain on deemed disposal of jointly controlled entities	—	(17,077)
Gain from a bargain purchase	—	(105,848)
Loss on disposal of financial assets at fair value through profit or loss	—	351
	<u>                    </u>	<u>                    </u>

**APPENDIX II FINANCIAL INFORMATION OF THE KH GROUP**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Operating cash flow before movements in working capital	(12,892)	(19,778)
Decrease in inventories	—	6,025
Decrease in trade receivables	185,528	2,120
(Increase)/decrease in deposits, prepayments and other receivables	(42,109)	54,043
Decrease/(increase) in financial assets at fair value through profit or loss	1	(123)
Decrease in derivative financial instruments	—	(2,153)
Increase/(decrease) in trade payables	109	(572)
(Decrease)/increase in accruals and other payables	(27,538)	46,276
Decrease in amount due to shareholders	—	(192,023)
Increase in receipts in advance	5,230	1,362
	<hr/>	<hr/>
Cash from/(used in) operations	108,329	(104,823)
Interest received	186	674
Hong Kong profits tax recovered	—	938
	<hr/>	<hr/>
<b>Net cash from/(used in) operating activities</b>	<b>108,515</b>	<b>(103,211)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the year ended 31 December 2010*

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Investing activities</b>		
Acquisition of subsidiaries	(51)	33,673
Purchases of items of property, plant and equipment	(1,980)	(4,190)
Proceeds on disposal of property, plant and equipment	1,150	—
Proceeds on disposal of investment properties	—	565,266
Proceeds on disposal of subsidiaries	104,125	—
Proceeds on disposal of jointly controlled entities	(634)	—
Proceeds from deemed disposal of subsidiaries	—	1,611
Proceeds from deemed disposal of jointly controlled entities	—	(74)
<b>Net cash from investing activities</b>	<u>102,610</u>	<u>596,286</u>
<b>Financing activities</b>		
Interest paid	(7)	(11,799)
Proceeds from issue of convertible loan notes	—	160,000
Proceeds from placing of new shares	79,577	2,326
Proceeds from issue of new shares upon exercise of share options	7,545	4,837
Proceeds from issue of new shares on open offer	—	61,194
Redemption of promissory note	(100,000)	—
Redemption of convertible loan notes	(160,000)	(138,199)
Repayment of bank loans	(83)	(304,408)
Repayment of amount due to a shareholder	(155,535)	—
Repayment of amounts due to jointly controlled entities	—	(31,917)
Repayment of trust receipt loans	—	(4,319)
Repayment of capital element of finance leases	(47)	(75)
Dividend paid to owners of the Company	(40,232)	—
<b>Net cash used in financing activities</b>	<u>(368,782)</u>	<u>(262,360)</u>

**APPENDIX II FINANCIAL INFORMATION OF THE KH GROUP**

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(157,657)	230,715
Cash and cash equivalents at beginning of year	230,463	1,032
Effect of foreign exchange rate changes	(6,068)	(1,284)
<b>Cash and cash equivalents at end of year</b>	<b>66,738</b>	<b>230,463</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	66,770	230,463
Bank overdraft	(32)	—
	<b>66,738</b>	<b>230,463</b>

The accompanying notes form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended 31 December 2010*

**1. GENERAL INFORMATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. 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 Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$' 000) except otherwise indicated.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and jointly controlled entities are set out in Notes 52 and 41 to the consolidated financial statements respectively.

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

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2010. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 4 (Amendment)	Amendment to HK-Int 4 Lease — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as disclosed below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current or prior accounting period.

**HKFRS 3 (as revised in 2008) Business Combinations**

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of recognised identifiable net assets of the acquiree.
- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.
- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.
- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The impact of adoption of HKFRS 3 (as revised in 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as an expense in profit or loss, whereas previously they would have been accounted as part of the cost of the acquisition. The acquisition costs in the current period were insignificant.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>4</sup>
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>5</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>6</sup>
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets <sup>6</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs but it is not yet in a position to state whether these new and revised HKFRSs would have a 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 the consolidated financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

**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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments and investment properties which are stated at their fair values.

Certain comparative figures have been reclassified to confirm with current year’s presentation.



The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or area where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5 to the consolidated financial statements.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and the Group made up to 31 December each year.

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

All significant intercompany transactions, balances and unrealised gains on transactions are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interest in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

***Changes in the Group's ownership interests in existing subsidiaries******Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010***

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

*Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010*

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

**Business combinations***Business combinations that took place on or after 1 January 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19 respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

***Business combinations that took place prior to 1 January 2010***

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 is expected to benefit from the synergies of the acquisition.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising from 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 first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

**Jointly controlled entities**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination (see the accounting policy above).

When a group entity transacts with a jointly controlled entity of the Group, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

***The Group as lessee***

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for (i) exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; (ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and (iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

From 1 January 2010 onwards, on the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the exchange reserve.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes managed by the PRC government and the Mandatory Provident Fund Scheme (“MPF”) are recognised as expenses when employees have rendered service entitling them to the contributions.

**Share-based payment transactions*****Equity-settled share-based payment transactions***

For grants of share options that are conditional upon specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payments reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

For share options that are vested immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When share options are forfeited after the vesting duty or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained earnings.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### **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, which 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 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 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% — 30%
Motor vehicles	20% — 30%

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 the end of each reporting period.

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 consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### **Intangible assets**

#### ***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### ***Intangible assets acquired in a business combination***

Intangible assets that are acquired in a business combination and are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.



***Derecognition of intangible assets***

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

**Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Properties held for sale**

Completed properties held for sale remaining unsold at the end of the reporting period are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Contingent liabilities acquired in a business combination**

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18.

**Financial instruments**

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

***Financial assets at FVTPL***

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss of financial assets below).

### *Impairment loss of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial assets because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment loss on available-for-sale equity instrument will not be reversed in profit or loss in subsequent periods.

#### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities generally classified into financial liabilities at FVTPL and other financial liabilities.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Financial liabilities at FVTPL*

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

#### *Other financial liabilities*

Other financial liabilities including promissory note, amount due to a shareholder, bank and other borrowings, trade payables, accruals and other payables and bank overdraft are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *Convertible loan notes*

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible loan notes reserve). Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to retained profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

If the conversion option of convertible loan notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loan notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised

as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loan notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

#### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### ***Cash and cash equivalents***

For the purpose of the consolidated statement of cash flows, 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 overdraft which are repayable on demand and form an integral part of the Group's cash management.

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

#### **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.

## **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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 estimations and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimations 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) Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and in the future period.

### **(b) Impairment of trade and other receivables**

The Group's management determines impairment of trade and other receivables on a regular basis. The estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of trade and other receivables at the end of the reporting period.

### **(c) Impairment of goodwill and intangible assets**

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash generating unit to which goodwill and intangible assets has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

**6. TURNOVER**

Turnover represents the net amount received and receivable from goods sold to customers, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Artist management services	21,371	7,198
Infrared consultancy services	419	—
	<u>21,790</u>	<u>7,198</u>
<b>Discontinued operations</b>		
Distribution of high-end apparel and accessories	—	8,801
Rental income	—	8,224
	<u>—</u>	<u>17,025</u>
Total	<u><u>21,790</u></u>	<u><u>24,223</u></u>

**7. SEGMENT INFORMATION**

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

For management purposes, the Group is currently engaged in three operating divisions, namely (i) infrared consultancy services; (ii) artist management; and (iii) film production. Two operations (distribution and service apartment operations) were discontinued in the current year (Note 14). The segmentations are based on the information about the operations of the Group that management uses to make decisions.

Principal activities are as follows:

- (i) Infrared consultancy services: Providing infrared thermal imaging and thermograph solutions and consultancy services
- (ii) Artist management: Service income from provision of artist management
- (iii) Film production: Income from provision of film right
- (iv) Distribution: Distribution of high-end apparel and accessories
- (v) Service apartment operations: Property rental income

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.



(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Continuing operations								Discontinued operations									
	Infrared				Sub-total				Service apartment operations				Sub-total		Consolidated			
	consultancy	service	Artist management	Film production	2010	2009	2010	2009	Distribution	operations	2010	2009	2010	2009	2010	2009		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
HK\$'000																		
Turnover:																		
Sales to external customers	419	—	21,371	7,198	—	—	21,790	7,198	—	8,801	—	8,224	—	17,025	21,790	24,223		
Segment results	(3,877)	—	(483)	(2,307)	(7,450)	(1,441)	(11,810)	(3,748)	8,014	(23,592)	5,461	(16,826)	13,475	(40,418)	1,665	(44,166)		
Unallocated other revenue and income							868	456							74,590	155,251	75,458	155,707
Unallocated expenses							(120,080)	(14,235)							—	(83,711)	(120,080)	(97,946)
(Loss)/profit from operating activities							(131,022)	(17,527)							88,065	31,122	(42,957)	13,595
Finance costs							(5,939)	(10,197)							(7)	(11,683)	(5,946)	(21,880)
(Loss)/profit before tax							(136,961)	(27,724)							88,058	19,439	(48,903)	(8,285)
Tax (charge)/credit							(5)	553							(3,545)	33,831	(3,550)	34,384
(Loss)/profit for the year							(136,966)	(27,171)							84,513	53,270	(52,453)	26,099

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

Segment results represent the (loss)/profit (suffered)/earned by each segment without allocation of central administration cost including directors' emolument, other gains or losses, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

	Continuing operations								Discontinued operations									
	Infrared				Sub-total				Service apartment operations				Sub-total		Consolidated			
	consultancy	service	Artist management	Film production	2010	2009	2010	2009	Distribution	operations	2010	2009	2010	2009	2010	2009		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
HK\$'000																		
Segment assets	15,089	—	17,428	12,353	32,587	9,753	65,104	22,106	—	531	—	498,535	—	499,066	65,104	521,172		
Unallocated assets							72,960	73,055							—	1	72,960	73,056
Total assets							138,064	95,161							—	499,067	138,064	594,228
Segment liabilities	504	—	14,869	11,314	—	2,330	15,373	13,644	—	18,924	—	286,142	—	305,066	15,373	318,710		
Unallocated liabilities							6,993	3,675							—	96,463	6,993	100,138
Total liabilities							22,366	17,319							—	401,529	22,366	418,848

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than other financial assets and current and deferred tax assets. Goodwill is allocated to reportable segments as described in Note 21 to the consolidated financial statements. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segment; and
- all liabilities are allocated to reportable segments other than current and deferred tax liabilities, other financial liabilities, borrowing and convertible loan notes. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

(c) **Other segment information**

	Continuing operations								Discontinued operations											
	Infrared				Sub-total				Distribution				Service apartment operations				Sub-total		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Depreciation of property, plant and equipment	28	—	42	85	215	67	285	152	—	316	1,658	9,890	1,658	10,206	1,943	10,358				
Write-off of property, plant and equipment	—	—	—	—	—	—	—	—	—	763	—	7,774	—	8,537	—	8,537				
Capital expenditure	—	—	—	—	—	—	—	—	—	9	1,980	15,334	1,980	15,343	1,980	15,343				
Impairment loss recognised in respect of intangible assets	—	—	—	—	6,783	—	6,783	—	—	—	—	—	—	—	—	6,783	—			
Impairment loss recognised in respect of goodwill	3,844	—	—	—	—	—	3,844	—	—	55	—	—	—	55	3,844	55				
	<u>3,844</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,844</u>	<u>—</u>	<u>—</u>	<u>55</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>55</u>	<u>3,844</u>	<u>55</u>				

(d) **Geographical information**

The Group operates in two principal geographical areas — the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong.

The Group's revenue from external customers and information about its non-current assets\* by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>				
The PRC	18,584	6,002	—	—
Hong Kong	3,012	250	15,579	9,203
Others	194	946	—	—
	<u>21,790</u>	<u>7,198</u>	<u>15,579</u>	<u>9,203</u>
<b>Discontinued operations</b>				
The PRC	—	8,224	—	125,340
Hong Kong	—	8,801	—	61
	<u>—</u>	<u>17,025</u>	<u>—</u>	<u>125,401</u>
<b>Total</b>	<u>21,790</u>	<u>24,223</u>	<u>15,579</u>	<u>134,604</u>

\* Non-current assets excluded financial instruments.

(e) **Information about major customer**

Included in revenue arising from artist management of approximately HK\$21,371,000 (2009: HK\$7,198,000) are revenues of approximately HK\$7,168,000 (2009: HK\$2,347,000) which arose from service provided to Group's two major customers (the artist management segment). No other single customers contributed 10% or more to the Group's revenue for both 2010 and 2009.

**8. OTHER REVENUE**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Bank interest income	96	42
Sundry income	196	—
Management service income	—	540
	<u>292</u>	<u>582</u>
<b>Discontinued operations</b>		
Bank interest income	90	632
Sundry income	1,901	579
Management service income	—	10
	<u>1,991</u>	<u>1,221</u>
Total	<u><u>2,283</u></u>	<u><u>1,803</u></u>

**9. OTHER INCOME**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Gain on disposal of property, plant and equipment	13	—
Gain on period extension in convertible loan notes	823	—
Gain from a bargain purchase	—	456
	<u>836</u>	<u>456</u>
<b>Discontinued operations</b>		
Reversal of provision for loss on early termination of licence agreement	7,361	—
Gain arising on change in fair value of investment properties	11,817	—
Exchange gain, net	1,035	—
Gain on disposal of property, plant and equipment	89	—
Gain from a bargain purchase	—	105,392
Gain on deemed disposal of subsidiaries	—	32,758
Gain on deemed disposal of jointly controlled entities	—	17,077
	<u>20,302</u>	<u>155,227</u>
Total	<u><u>21,138</u></u>	<u><u>155,683</u></u>

**10. OTHER OPERATING EXPENSES**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Loss on early redemption of convertible loan notes	44,653	2,638
Loss on early redemption of promissory note	64,253	—
Impairment loss recognised in respect of intangible assets	6,783	—
Impairment loss recognised in respect of goodwill	3,844	—
	<u>119,533</u>	<u>2,638</u>
<b>Discontinued operations</b>		
Loss on disposal of jointly controlled entities	—	346
Impairment loss recognised in respect of goodwill	—	55
Impairment loss recognised in respect of amount due from jointly controlled entities	—	30,892
Loss on disposal of property, plant and equipment	—	122
Loss arising on change in fair value of investment properties	—	52,395
Loss arising on change in fair value of financial assets at fair value through profit or loss	—	351
	<u>—</u>	<u>84,161</u>
Total	<u><u>119,533</u></u>	<u><u>86,799</u></u>

**11. FINANCE COSTS**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Effective interest expenses on convertible loan notes	2,023	4,318
Effective interest expenses on promissory note	3,916	5,879
	<u>5,939</u>	<u>10,197</u>
<b>Discontinued operations</b>		
Interest on bank loans and overdraft wholly repayable within five years	1	11,639
Interest on finance leases	6	44
	<u>7</u>	<u>11,683</u>
Total	<u><u>5,946</u></u>	<u><u>21,880</u></u>

**12. LOSS BEFORE TAX**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Auditors' remuneration	550	450
Depreciation of property, plant and equipment	285	152
Minimum lease payments under operating leases on land and buildings	828	—
Staff costs (excluding directors' remuneration)		
Salaries and allowance	2,719	2,036
Equity-settled share option expenses	2,953	1,002
Pension scheme contributions	59	124
	<u>          </u>	<u>          </u>
<b>Discontinued operations</b>		
Cost of inventories sold	—	4,697
Depreciation of property, plant and equipment	1,658	10,206
Minimum lease payments under operating leases on land and buildings	11	5,510
Provision for litigation claims arising on early termination of licence agreement	—	13,439
Staff costs (excluding directors' remuneration)		
Salaries and allowance	1,180	6,516
Pension scheme contributions	37	216
	<u>          </u>	<u>          </u>

**13. TAX CHARGE/(CREDIT)**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Current tax		
Hong Kong Profit Tax	5	—
Deferred tax ( <i>Note 36</i> )	—	(553)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

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

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Continuing operations</b>		
Loss before tax	(136,961)	(27,724)
Tax at the statutory tax rate	(22,599)	(4,574)
Tax effect of expenses not deductible for tax purpose	43,679	2,118
Tax effect of income not taxable for tax purpose	(23,768)	(82)
Tax effect of tax losses not recognised	3,079	1,985
Utilisation of tax losses previously not recognised	(386)	—
Tax charge/(credit) for the year	5	(553)

#### 14. DISCONTINUED OPERATIONS

On 28 May 2010, the Group disposed of (i) its wholly owned subsidiary of Mega Shell Services Limited (“Mega Shell”) and its subsidiaries (collectively referred to the “Mega Shell Group”) and (ii) an amount due to its ultimate holding company (the “Mega Shell Sale Loan”). Upon completion of the disposal, the Mega Shell Group will cease to be subsidiaries of the Company and the business of service apartment operation which is solely carried out by the Mega Shell Group will become a discontinued operation of the Group. Details of the assets and liabilities disposed of and the calculation of the profit or loss on disposal are disclosed in Note 43(a) to the consolidated financial statements.

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity of Amazing Goal International Limited (“Amazing Goal”) and its subsidiaries (collectively referred to the “Amazing Goal Group”) and (ii) an amount due to its ultimate holding company (the “Amazing Goal Sale Loan”). Upon completion of the disposal, the Amazing Goal Group will cease to be jointly controlled entities of the Company and the business of distribution which is solely carried out by the Amazing Goal Group will become a discontinued operation of the Group.

The combined results of the discontinued operations related to the Mega Shell Group and the Amazing Goal Group are set out below. The comparative information of the discontinued operations has been represented to include those operations classified as discontinued in the current year.

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Profit for the year from discontinued operations</b>		
Turnover	—	17,025
Cost of sales	—	(8,108)
Gross profit	—	8,917
Other revenue	1,991	1,221
Other income	20,302	155,227
Selling and distribution costs	—	(342)
Administrative expenses	(8,818)	(49,740)
Other operating expenses	—	(84,161)
Finance costs	(7)	(11,683)
Profit before tax	13,468	19,439
Tax (charge)/credit	(3,545)	33,831
	9,923	53,270
Gain on disposal of the Mega Shell Group	64,568	—
Gain on disposal of the Amazing Goal Group	10,022	—
Tax charge	—	—
Profit for the year from discontinued operations	<u>84,513</u>	<u>53,270</u>
<b>Cash flows from discontinued operations</b>		
Net cash (outflows)/inflows from operating activities	(119,436)	430,859
Net cash inflows from investing activities	1,905	604,811
Net cash outflows from financing activities	(152)	(352,091)
Net cash (outflows)/inflows	<u>(117,683)</u>	<u>683,579</u>

**15. DIVIDEND**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Special dividends for 2009 paid on 25 May 2010 of HK\$0.12 per share (2008: Nil)	<u>40,232</u>	—

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: Nil).

**16. (LOSS)/EARNINGS PER SHARE**

The calculation of the basic and diluted (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year as adjusted for the effect of share consolidation.

**From continuing and discontinued operations**

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

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i> <i>(restated)</i>
<b>(Loss)/earnings</b>		
(Loss)/profit attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	<u>(52,453)</u>	<u>26,099</u>
	<b>2010</b> <i>'000</i>	<b>2009</b> <i>'000</i> <i>(restated)</i>
<b>Number of shares</b>		
Weighted average number of ordinary share for the purposes of basic and diluted (loss)/earnings per share	<u>345,323</u>	<u>68,746*</u>

**From continuing operations**

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i> <i>(restated)</i>
<b>Loss</b>		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	<u>(136,966)</u>	<u>(27,171)</u>

The denominators used are the same as these detailed above of both basis and diluted loss per share.



**From discontinued operations**

Basic and diluted earnings per share for the discontinued operations are HK24.47 cents per share (2009: HK77.49 cents), based on the profit for the year from the discontinued operations of approximately HK\$84,513,000 (2009: HK\$53,270,000) and the denominators used are the same as those detailed above.

\* *The weighted average number of ordinary share for the year ended 31 December 2009 was adjusted retrospectively to reflect the effect of share consolidation in 2010.*

For the year ended 31 December 2010 and 2009, diluted (loss)/earnings per share was not presented because the exercise of share option and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

**17. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION**

The emoluments of each director on a named basis for the years ended 31 December 2010 and 2009 are set out below:

**For the year ended 31 December 2010:**

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits scheme contribution <i>HK\$'000</i>	Share option benefit <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Executive directors</b>					
Lai Hok Lim	120	—	—	198	318
Heung Wah Keung <i>(Note i)</i>	6	—	—	—	6
Wong Chi Chiu <i>(Note ii)</i>	554	—	—	317	871
<b>Independent non-executive directors</b>					
Yip Tai Him	120	—	—	—	120
Law Yiu Sang, Jacky	120	—	—	—	120
Chio Chong Meng <i>(Note iii)</i>	120	—	—	—	120
Total	<u>1,040</u>	<u>—</u>	<u>—</u>	<u>515</u>	<u>1,555</u>

## APPENDIX II FINANCIAL INFORMATION OF THE KH GROUP

For the year ended 31 December 2009:

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits scheme contribution <i>HK\$'000</i>	Share option benefit <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Executive directors</b>					
Lai Hok Lim	120	—	—	235	355
Heung Wah Keung <i>(Note i)</i>	48	—	—	—	48
Gouw San Bo, Elizabeth <i>(Note iv)</i>	—	—	—	—	—
Lee Chan Wah <i>(Note v)</i>	76	—	—	—	76
<b>Non-executive director</b>					
Duncan Chiu <i>(Note iv)</i>	—	—	—	—	—
<b>Independent non-executive directors</b>					
Yip Tai Him	120	—	—	—	120
Law Yiu Sang, Jacky	120	—	—	—	120
Chio Chong Meng <i>(Note iii)</i>	120	—	—	—	120
Total	<u>604</u>	<u>—</u>	<u>—</u>	<u>235</u>	<u>839</u>

Notes:

- i. Mr. Heung Wah Keung was appointed as executive director on 6 August 2009 and resigned on 21 January 2010.
- ii. Mr. Wong Chi Chiu was appointed as executive director on 25 January 2010 and resigned on 1 November 2010.
- iii. Ms. Chio Chong Meng was appointed as independent non-executive director on 1 January 2009.
- iv. Ms. Gouw San Bo, Elizabeth and Mr. Duncan Chiu were retired as executive director and non-executive director on 20 April 2009 respectively.
- v. Mr. Lee Chan Wah was appointed as executive director on 10 November 2008 and resigned on 20 August 2009.

Of the five highest paid individuals, one (2009: one) was director of the Company and his remuneration has been included in the directors' remuneration disclosures above and the disclosure below.

Details of the emoluments of the remaining four (2009: four) non-directors, highest paid employees of Group for the year are as follows:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	2,011	1,598
Share option benefit	92	—
Retirement benefits scheme contributions	36	10
	<u>2,139</u>	<u>1,608</u>

The number of non-director, highest paid individuals whose remuneration fell within the following bands, is as follows:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Nil to HK\$1,000,000	3	4
HK\$1,000,001 — HK\$1,500,000	—	—
HK\$1,500,001 — HK\$2,000,000	1	—
	<u>4</u>	<u>4</u>

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 (2009: Nil).

During the year, share options were granted to directors, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in Note 38 to the consolidated financial statements. The fair value of such options, which has been charged to the consolidated 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 MPF Scheme vest immediately. At the end of the reporting period, 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.

## 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>				
At 1 January 2009	10,794	2,049	1,616	14,459
Acquisition of subsidiaries	710	24,455	3,016	28,181
Addition	39	4,151	—	4,190
Deemed disposal of subsidiaries	(1,601)	(136)	(808)	(2,545)
Deemed disposal of jointly controlled entities	(993)	(84)	(501)	(1,578)
Write-off of property, plant and equipment	(8,239)	(23,463)	—	(31,702)
Exchange alignment	—	126	—	126
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2009 and 1 January 2010	710	7,098	3,323	11,131
Acquisition of a subsidiary	53	222	43	318
Addition	—	1,980	—	1,980
Disposal of subsidiaries	(710)	(9,064)	(1,313)	(11,087)
Disposal of jointly controlled entities	—	—	(307)	(307)
Disposal	—	(2)	(1,288)	(1,290)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2010	<u>53</u>	<u>234</u>	<u>458</u>	<u>745</u>
<b>Accumulated depreciation and impairment:</b>				
At 1 January 2009	10,062	1,422	969	12,453
Acquisition of subsidiaries	136	6,034	535	6,705
Deemed disposal of subsidiaries	(1,421)	(70)	(661)	(2,152)
Deemed disposal of jointly controlled entities	(880)	(42)	(186)	(1,108)
Write-off of property, plant and equipment	(7,969)	(15,196)	—	(23,165)
Charged for the year	361	9,603	394	10,358
Exchange alignment	—	13	—	13
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2009 and 1 January 2010	289	1,764	1,051	3,104
Acquisition of a subsidiary	6	76	5	87
Disposal of subsidiaries	(347)	(3,350)	(347)	(4,044)
Disposal of jointly controlled entities	—	—	(307)	(307)
Disposal	—	(2)	(240)	(242)
Charged for the year	62	1,618	263	1,943
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2010	<u>10</u>	<u>106</u>	<u>425</u>	<u>541</u>
<b>Net book value:</b>				
<b>At 31 December 2010</b>	<u>43</u>	<u>128</u>	<u>33</u>	<u>204</u>
At 31 December 2009	<u>421</u>	<u>5,334</u>	<u>2,272</u>	<u>8,027</u>

The net book value of the Group's property, plant and equipment held under finance lease included in the total amounts of motor vehicles at 31 December 2010 amounted to Nil (2009: approximately HK\$323,000).

### 19. INVESTMENT PROPERTIES

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
At 1 January	118,619	—
Acquisition of subsidiary ( <i>Note 42(b)</i> )	—	920,564
Gain/(loss) arising on change in fair value	11,817	(163)
Exchange alignments	—	5,061
Disposal	—	(806,843)
Disposal of subsidiaries ( <i>Note 43(a)</i> )	(130,436)	—
	<u>          </u>	<u>          </u>
At 31 December	<u>          </u>	<u>118,619</u>

The fair values of the Group's investment properties at the end of reporting period have been arrived at on the basis of a valuation carried out on that date by Messrs. Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group. Messrs. Grant Sherman Appraisal Limited is a member of the Hong Kong Institute of Valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

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.

The carrying amount of investment properties shown above comprises:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Outside Hong Kong, held under Long-term leases	<u>          </u>	<u>118,619</u>

### 20. INTANGIBLE ASSETS

	<b>Franchise rights</b> <i>HK\$'000</i>	<b>Film rights</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost:</b>			
At 1 January 2009	5,000	—	5,000
Acquisition of subsidiaries ( <i>Note 42(d)</i> )	—	7,958	7,958
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2009 and 1 January 2010	5,000	7,958	12,958
Derecognised on disposal of jointly controlled entities	(5,000)	—	(5,000)
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2010	<u>          </u>	<u>7,958</u>	<u>7,958</u>

	<b>Franchise rights</b> <i>HK\$'000</i>	<b>Film rights</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Accumulated amortisation and impairment:</b>			
At 1 January 2009, 31 December 2009 and 1 January 2010	5,000	—	5,000
Impairment loss recognised during the year	—	6,783	6,783
Derecognised on disposal of jointly controlled entities	(5,000)	—	(5,000)
	<u>—</u>	<u>6,783</u>	<u>6,783</u>
At 31 December 2010	<u>—</u>	<u>6,783</u>	<u>6,783</u>
<b>Carrying amount:</b>			
At 31 December 2010	<u>—</u>	<u>1,175</u>	<u>1,175</u>
At 31 December 2009	<u>—</u>	<u>7,958</u>	<u>7,958</u>

**Impairment test of intangible assets**

For the purpose of impairment testing, franchise rights and film rights have been allocated to the cash generating units of distribution and film production respectively.

**Film production**

The film rights allocated to film production business have indefinite useful lives and no amortisation has been made.

For the year ended 31 December 2010, the directors of the Company reassessed the recoverable amount of film rights allocated to film production business with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professional valuer, and an impairment loss of approximately HK\$6,783,000 was recognised.

The recoverable amount of the film right allocated to film production business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 16.40% per annum was applied when assessing the recoverability of the film right.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using a zero growth rate which does not exceed the long term average growth rate for the market in which film rights operates. There are a number of assumptions and estimations involved for the preparation of cash flow projections. Key assumptions include gross margin, growth rate and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the management's forecast. The discount rate used is pre-tax and reflect specific risks relating to the industry.

The impairment loss has been included in the "other operating expenses" line item in the consolidated income statement.

## 21. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position, arising from the acquisition of a subsidiary and a jointly controlled entity, are as follows:

	2010 HK\$'000	2009 HK\$'000
<b>Cost:</b>		
At 1 January	55	—
Arising from acquisition of a jointly controlled entity ( <i>Note i</i> )	—	55
Arising from acquisition of a subsidiary ( <i>Note 42(a)</i> )	18,044	—
Derecognised on disposal of jointly controlled entities	(55)	—
	<u>18,044</u>	<u>55</u>
At 31 December	18,044	55
<b>Accumulated impairment loss:</b>		
At 1 January	55	—
Impairment loss recognised during the year	3,844	55
Derecognised on disposal of jointly controlled entities	(55)	—
	<u>3,844</u>	<u>55</u>
At 31 December	3,844	55
<b>Carrying amount:</b>		
At 31 December	<u>14,200</u>	<u>—</u>

*Note:*

- (i) On 2 November 2009, a jointly controlled entity of the Group acquired the remaining 50% interest in LOC Limited from a third party. The consideration for the acquisition was in form of cash, with US\$1 paid at the acquisition. The goodwill arising from the acquisition were amounted to approximately HK\$55,000.

**Impairment test of goodwill**

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount of goodwill (before recognition of impairment loss) at the end of the reporting period was allocated to cash generating units as follows:

	2010 HK\$'000	2009 HK\$'000
Infrared consultancy services	18,044	—
Distribution	—	55
	<u>18,044</u>	<u>55</u>

**Infrared consultancy services**

For the year ended 31 December 2010, the directors of the Company reassessed the recoverable amount of goodwill allocated to infrared consultancy services business with reference to the valuation performed by Asset Appraisal Limited, an independent firm of professional valuer, and an impairment loss of approximately HK\$3,844,000 was recognised. The impairment mainly represented the increase in fair value of the consideration shares issued on the completion date of the acquisition of a subsidiary during the year.

The recoverable amount of the goodwill allocated to infrared consultancy services business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 17.71% per annum was applied when assessing the recoverability of the goodwill.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using an average growth rate of 1.05 times per annum which is the projected long term average growth rate for the infrared consultancy services market. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash generating unit.

### Distribution

The recoverable amount of the goodwill allocated to distribution business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. A discount rate of 14% per annum was applied when assessing the recoverability of the goodwill.

There are a number of assumptions and estimations involved for the preparation of the cash flow projection. Key assumptions included gross margin and discount rate which are determined by the management of the Group based on past performance and its expectation for market development. Gross margin are budgeted gross margin. The discount rate used is pre-tax and reflect specific risks relating to the industry.

The impairment loss has been included in the “other operating expenses” line item in the consolidated income statement.

## 22. INTERESTS IN SUBSIDIARIES

### The Company

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Unlisted shares at cost	1,000	—
Impairment in value	—	—
	<u>1,000</u>	<u>—</u>
Amounts due from subsidiaries	64,945	143,662
	<u>65,945</u>	<u>143,662</u>

Details of the Company’s subsidiaries at 31 December 2010 are set out in Note 52 to the consolidated financial statements.



**23. TRADE RECEIVABLES**

An aged analysis of the Group's trade receivables at the end of the reporting period is as follow:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
0 — 90 days	911	186,716
91 — 180 days	40	—
181 — 365 days	488	—
	<u>1,439</u>	<u>186,716</u>
Impairment loss recognised	<u>—</u>	<u>—</u>
	<u><u>1,439</u></u>	<u><u>186,716</u></u>

Notes:

- (i) The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers. The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers. The credit terms of trade receivables are generally on 30 to 180 days.
- (ii) Included in the trade receivables balances are debtors with an aggregate carrying amount of approximately HK\$488,000 (2009: Nil) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The aged analysis of trade receivables which are past due but not impaired was as follow:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
181 — 365 days	<u>488</u>	<u>—</u>

- (iii) The movement of the allowance for impairment loss of trade and retention receivables was as follows:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
At 1 January	—	490
Bad debt written off	<u>—</u>	<u>(490)</u>
At 31 December	<u><u>—</u></u>	<u><u>—</u></u>

**24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Deposits	53,861	9,055
Prepayments	290	2,167
Other receivables	<u>125</u>	<u>2,189</u>
	<u><u>54,276</u></u>	<u><u>13,411</u></u>

At 31 December 2010, deposits amounted to HK\$40,000,000 represented the deposit paid by the Company for acquisition of Sinofocus Media (Holdings) Limited as announced by the Company on 1 December 2010 (Note 51(i)).

**25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Equity investment listed in Hong Kong, at fair value	<u>—</u>	<u>1</u>

The fair value of listed securities in Hong Kong is determined based on the quoted market bid prices available on the relevant stock exchanges.

**26. PROPERTIES HELD FOR SALE**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Properties held for sale	<u>—</u>	<u>29,033</u>

Properties held for sale solely comprised of certain units of apartments held by 北京莎瑪房地產開發有限公司, an indirectly wholly owned subsidiary of Mega Shell, of which sale and purchase agreements were entered into and full consideration have been received by 北京莎瑪房地產開發有限公司 in respect of these units of apartments (Note 33). However, the transfers of legal titles of these units of apartments have not yet been completed at the date of disposal of Mega Shell (Note 43(a)).

**27. CASH AND CASH EQUIVALENT**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Cash and bank balances:				
Renminbi	—	155,747	—	—
US Dollars	2	—	—	—
Hong Kong Dollars	<u>66,768</u>	<u>74,716</u>	<u>32,745</u>	<u>73,056</u>
	<u>66,770</u>	<u>230,463</u>	<u>32,745</u>	<u>73,056</u>
Bank overdraft:				
Hong Kong Dollars	<u>(32)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>66,738</u>	<u>230,463</u>	<u>32,745</u>	<u>73,056</u>

Cash at bank/(bank overdraft) earns/(suffers) interest at floating rates based on daily bank deposit rates.

**28. TRADE PAYABLES**

An aged analysis of the Group's trade payables at the end of the reporting period is as follow:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
0 — 90 days	4	197
91 — 180 days	159	—
181 — 365 days	<u>162</u>	<u>—</u>
	<u>325</u>	<u>197</u>

## 29. ACCRUALS AND OTHER PAYABLES

	2010 HK\$'000	2009 HK\$'000
Accruals	4,092	104,009
Other payables	5,121	20,216
	<u>9,213</u>	<u>124,225</u>

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity of interest reprice date whichever is earlier	2010 HK\$'000	Effective interest rate (%)	Maturity of Interest reprice date whichever is earlier	2009 HK\$'000
<b>Current</b>						
Finance lease payables — Note 31	—	—	—	2.75-3.25	2010	47
Bank loans — unsecured	—	—	—	6.25	2010	83
			<u>—</u>			<u>130</u>
				<b>2010</b> HK\$'000		<b>2009</b> HK\$'000

Analysed into:

Bank loans repayable:

Within one year or on demand

	—	83
--	---	----

Other borrowings repayable:

Within one year or on demand

	—	47
--	---	----

	<u>—</u>	<u>130</u>
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## 31. FINANCIAL LEASE PAYABLES

The Group leases its motor vehicles for its business. The leases are classified as finance leases.

At the end of the reporting period, the total future minimum lease payments under finance lease and the present value were as follows:

	Minimum lease payments		Present value lease payments	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Amount payable:				
Within one year	—	53	—	47
Total minimum finance lease payments	—	53	<u>—</u>	<u>47</u>
Future finance charges	—	(6)		
Total net finance lease payables	—	47		
Portion classified as current liabilities	—	(47)		
Long term portion	<u>—</u>	<u>—</u>		

**32. AMOUNT DUE TO A SHAREHOLDER**

Amount due to a shareholder was unsecured, interest-free and has been fully repaid during the year ended 31 December 2010.

**33. RECEIPTS IN ADVANCE**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Trade deposits received	8,370	3,094
Deposit received on sales of properties	—	39,334
	<u>8,370</u>	<u>42,428</u>

At 31 December 2009, receipts in advance amounted to approximately HK\$39,334,000 represented the full amount of considerations received from sales of certain units of apartment (Note 26). Since the transfers of legal titles of these units of apartments have not yet been completed at the date of disposal of Mega Shell (Note 43(a)), no revenue could be recognised for the year ended and the total amount was recorded as receipts in advance at 31 December 2009.

**34. PROMISSORY NOTE**

In April 2009, the Group issued a promissory note with principal amount of HK\$100,000,000 as a part of consideration in acquisition of Shinhan-Golden Faith International Development Limited (“Shinhan-Golden”) and World East Investments Limited (“World East”). Details were set out in Note 42(b) to the consolidated financial statements. The effective interest rate is 30.97%.

On 26 May 2010, the Group early redeemed the entire promissory note and a loss on early redemption of promissory note of approximately HK\$64,253,000 is recognised during the year 2010.

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
At 1 January	31,831	—
Issue of promissory note, fair value	—	25,952
Effective interest expenses	3,916	5,879
Redemption of promissory note	<u>(35,747)</u>	<u>—</u>
At 31 December	<u>—</u>	<u>31,831</u>

**35. CONVERTIBLE LOAN NOTES**

- (a) On 11 June 2008, the Company issued convertible loan note with a principal amount of HK\$6.2 million to an independent third party, JL Investments Capital Limited, for a term of one year with a coupon rate of 2% per annum (the “JL Convertible Note”). The JL Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the JL Convertible Note is 7.29%.

During the year 2008, the amount of HK\$3,000,000 of JL Convertible Note was converted into ordinary shares of the Company.

On 3 February 2009, the Company early redeemed the entire JL Convertible Note and a gain on early redemption of convertible loan note of approximately HK\$173,000 was recognised during the year ended 31 December 2009.

- (b) On 16 July 2008, the Company issued convertible loan note with a principal amount of HK\$7 million to Far East Holdings International Limited, for a term of three years with a coupon rate of 2% per annum (the “FE Convertible Note”). The FE Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.025 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the FE Convertible Note is 7.29%.

On 3 February 2009, the Company early redeemed the entire FE Convertible Note and a gain on redemption of convertible loan note of approximately HK\$1,767,000 was recognised during the year ended 31 December 2009.

- (c) On 25 September 2008, the Company issued convertible loan note with a principal amount of HK\$35 million to Goldig Investment Group Limited with a term of three years and zero coupon rate (the “Goldig Convertible Note”). The Goldig Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.125 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the Goldig Convertible Note is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK\$28 million of the Goldig Convertible Note and a gain on early redemption of convertible loan note of approximately HK\$11,719,000 was recognised during the year ended 31 December 2009.

Pursuant to the Company’s circular dated 12 August 2009, the Company and the bondholders of the Goldig Convertible Note entered into the deed of amendments to modify the terms and conditions of the remaining of HK\$7 million of the Goldig Convertible Note. Where the maturity date shall be the fifth anniversary of the date of issue instead of the third anniversary of the date of issue, and the mandatory conversion of any outstanding amount of the Goldig Convertible Note into new conversion shares at HK\$0.239.

On 23 December 2010, an amount of HK\$0.8 million of Goldig Convertible Note was converted into ordinary shares of the Company.

- (d) On 29 January 2009, the Company issued convertible loan note with a principal amount of HK\$60 million to China Star Entertainment Limited, for a term of 10 years with zero coupon rate (the “CS Convertible Note”). The CS Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CS Convertible Note is 34.9%.

On 26 May 2010, the Company early redeemed the entire CS Convertible Note and a loss on early redemption of convertible loan note of approximately HK\$17,669,000 is recognised during the year ended 31 December 2010.

- (e) On 8 April 2009, the Company issued convertible loan note with a principal amount of HK\$100 million to Eternity Investment Limited (formerly known as China Star Investment Holdings Limited) as part of consideration for the acquisition of Shinhan-Golden and World East, for a term of 10 years with zero coupon rate (the “CSI Convertible Note”). The CSI Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.5 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the CSI Convertible Note is 31.34%.

On 26 May 2010, the Company early redeemed the entire CSI Convertible Note and a loss on early redemption of convertible loan note of approximately HK\$26,984,000 is recognised during the year ended 31 December 2010.

- (f) On 28 April 2009, the Company issued convertible loan note with a principal amount of HK\$100 million to Xing Lin Medical Information Technology Company Limited (formerly known as Brilliant Arts Multi-Media Holding Limited), for a term of 10 years with zero coupon rate (the “BA Convertible Note”). The BA Convertible Note is convertible into shares of the Company at the initial conversion price of HK\$0.521 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the BA Convertible Note is 27.8%.

On 2 October 2009, the Company early redeemed the entire BA Convertible Note and a loss on early redemption of convertible loan note of approximately HK\$16,296,000 is recognised during the year ended 31 December 2009.

The movement of the liability component of the convertible loan notes recognised in the statement of financial position of the Group and the Company are calculated as follows:

	2010 HK\$'000	2009 HK\$'000
Liability component at 1 January	17,596	33,731
Convertible loan notes issued during the year	—	18,122
Extension of period	(1,331)	—
Conversion during the year	(559)	—
Redemption during the year	(13,381)	(38,459)
Effective interest expenses	2,023	4,318
Interest paid	—	(116)
	<u>4,348</u>	<u>17,596</u>
Liability component at 31 December	<u>4,348</u>	<u>17,596</u>
Current liabilities	—	—
Non-current liabilities	<u>4,348</u>	<u>17,596</u>
	<u>4,348</u>	<u>17,596</u>

### 36. DEFERRED TAXATION

The movements in the Group's deferred tax liabilities/(assets) during the year are as follows:

#### The Group

	Revaluation of investment properties HK\$'000	Convertible loan notes HK\$'000	Total HK\$'000
At 1 January 2009	—	—	—
Addition through acquisition of subsidiaries (Note 42(b))	55,363	—	55,363
Issue of convertible loan notes (Note 40)	—	39,910	39,910
Credited to consolidated income statement	(41)	(553)	(594)
Release on redemption of convertible loan notes (Note 40)	—	(14,929)	(14,929)
Release on disposal of investment properties	(48,147)	—	(48,147)
	<u>7,175</u>	<u>24,428</u>	<u>31,603</u>
At 31 December 2009 and 1 January 2010	7,175	24,428	31,603
Release on redemption of convertible loan notes (Note 40)	—	(24,428)	(24,428)
Charged to consolidated income statement	3,545	—	3,545
Release on disposal of subsidiaries (Note 43(a))	(10,720)	—	(10,720)
	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2010	<u>—</u>	<u>—</u>	<u>—</u>

## The Company

	<b>Convertible loan notes</b> <i>HK\$'000</i>
At 1 January 2009	—
Issue of convertible loan notes ( <i>Note 40</i> )	39,910
Credited to consolidated income statement	(553)
Release on redemption of convertible loan notes ( <i>Note 40</i> )	(14,929)
	<hr/>
At 31 December 2009 and 1 January 2010	24,428
Release on redemption of convertible loan notes ( <i>Note 40</i> )	(24,428)
	<hr/>
At 31 December 2010	—
	<hr/> <hr/>

At 31 December 2010, the Group has estimated unused tax losses of approximately HK\$74,622,000 (2009: HK\$71,929,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset was recognised during the year (2009: Nil) due to the unpredictability of future profit streams.

## 37. SHARE CAPITAL

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Authorised:		
3,000,000,000 ordinary shares of HK\$0.01 each	30,000	30,000
	<hr/>	<hr/>
Issued and fully paid:		
505,649,726 ordinary shares of HK\$0.01 each (2009: 676,330,271 ordinary shares of HK\$0.01 each)	5,056	6,763
	<hr/>	<hr/>

A summary of the movements of the Company's issued capital and share premium account is as follows:

	<i>Notes</i>	<b>Number of shares in issue</b>	<b>Issued capital</b> <i>HK\$'000</i>
At 1 January 2009, ordinary shares of HK\$0.05 each		328,926,613	16,446
Open offer of new shares	<i>(i)</i>	686,601,997	12,128
Share consolidation (10 into 1)	<i>(ii)</i>	(414,447,533)	—
Capital reduction	<i>(ii)</i>	—	(22,564)
Issue of shares arising on acquisition of subsidiaries	<i>(iii)</i>	11,769,194	118
Placing of new shares	<i>(iv)</i>	11,560,000	116
Issue of shares upon exercise of share option	<i>(v)</i>	51,920,000	519
		<hr/>	<hr/>
At 31 December 2009 and 1 January 2010, ordinary shares of HK\$0.01 each		676,330,271	6,763
Share consolidation (5 into 1)	<i>(vi)</i>	(541,064,217)	—
Capital reduction	<i>(vi)</i>	—	(5,411)
Placing of new shares	<i>(vii)</i>	284,000,000	2,840
Issue of shares arising on acquisition of subsidiaries	<i>(viii)</i>	59,183,672	592
Conversion of convertible loan notes	<i>(ix)</i>	1,600,000	16
Issue of shares upon exercise of share option	<i>(x)</i>	25,600,000	256
		<hr/>	<hr/>
At 31 December 2010, ordinary shares of HK\$0.01 each		505,649,726	5,056
		<hr/>	<hr/>

*Notes:*

For the year ended 31 December 2009

- (i) On 31 January 2009, 131,570,645 ordinary shares of HK\$0.05 each at a price of HK\$0.05 each were issued by the Company by way of open offer; and
- On 2 July 2009, 555,031,352 ordinary shares of HK\$0.01 each at a price of HK\$0.1 each were issued by the Company by way of open offer.
- (ii) Pursuant to an ordinary resolution passed in a special general meeting on 6 April 2009, every ten issued shares of the Company were consolidated into one consolidated share of HK\$0.50 each. The consolidated shares of HK\$0.50 each were then reduced to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.49 on each issued consolidated share.
- (iii) On 8 April 2009, 11,769,194 ordinary shares of the Company with par value of HK\$0.01 each at a price of HK\$0.18 each were issued as part of consideration on acquisition of Shinhan-Golden and World East. Details of the acquisition were set out in Note 42(b) to the consolidated financial statements.
- (iv) On 14 May 2009, the Company placed 11,560,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.205 per share.
- (v) In 2009, 51,920,000 ordinary shares of the Company with par value of HK\$0.01 each were issued upon exercise of share options by the share option holders.

For the year ended 31 December 2010

- (vi) Pursuant to an ordinary resolution passed in a special general meeting on 15 January 2010, every five issued shares of the Company of HK\$0.01 each were consolidated into one consolidated share of HK\$0.05 each. The consolidated shares of HK\$0.05 each were then reduced to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued consolidated share. The credit of approximately HK\$5,411,000 arising from the reduction of issued share capital will be transferred to the contributed surplus account of the Company and be applied to offset against the accumulated losses permitted by the laws of Bermuda and the Bye-laws. Immediately after the capital consolidation, the number of issued shares of the Company was reduced to 135,266,054 shares of HK\$0.01 each and the paid-up capital was reduced to approximately HK\$1,352,000.
- (vii) On 25 January 2010, the Company completed the first tranche placing of 100,000,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.30 per share with the net proceeds from the placing amounted to approximately HK\$29,680,000;
- On 5 February 2010, the Company completed the second tranche placing of 100,000,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.30 per share with the net proceeds from the placing amounted to approximately HK\$29,670,000; and
- On 30 December 2010, the Company completed the placing of 84,000,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.255 per share with the net proceeds from the placing amounted to approximately HK\$20,227,000.
- (viii) On 9 August 2010, 59,183,672 ordinary shares of the Company with par value of HK\$0.01 each at a price of HK\$0.31 were issued as part of consideration on acquisition of Infrared Engineering & Consultants Limited. Details of acquisition were set out in Note 42(a) to the consolidated financial statements.



- (ix) On 23 December 2010, Goldig Convertible Notes with principal amount of HK\$800,000 was converted into 1,600,000 ordinary shares at a conversion price of HK\$0.50 per share.
- (x) In 2010, 25,600,000 ordinary shares of the Company with par value of HK\$0.01 each were issued upon exercise of share options by the share option holders.

### 38. 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.

On 3 July 2007, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 2,970,000 shares under the Scheme at an exercise price of HK\$0.219 per share and adjusted to HK\$3.784 per share after share consolidation and capital reorganisation.

On 3 September 2009, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 62,400,000 shares under the Scheme at an initial exercise price of HK\$0.091 per share and adjusted to HK\$0.455 per share after capital reorganisation.

On 13 November 2009, the Company granted share options to certain of its directors and employees to subscribe for an aggregate of 18,720,000 shares under the Scheme at an initial exercise price of HK\$0.1 per share and adjusted to HK\$0.5 per share after capital reorganisation.

On 18 May 2010, the Company granted share options to certain of its consultants to subscribe for an aggregate of 8,400,000 shares under the Scheme at an exercise price of HK\$0.202 per share.

On 2 June 2010, the Company granted share options to certain of its directors, employees and consultants to subscribe for an aggregate of 31,450,000 shares under the Scheme at an exercise price of HK\$0.325 per share.

On 3 December 2010, the Company granted share options to certain of its consultants to subscribe for an aggregate of 2,040,000 shares under the Scheme at an exercise price of HK\$0.347 per share.

During the year ended the Company's share options granted under the Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price HKD	Exercise period	Outstanding at 31											
				Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	December 2009 and 1 January 2010	Adjustment for capital reorganisation	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2010	
3 July 2007	Directors	3.784*	3 July 2007 to 5 March 2012	114,567	—	—	—	(114,567)	—	—	—	—	—	—	—
	Employees	3.784*	3 July 2007 to 5 March 2012	57,284	—	—	—	(57,284)	—	—	—	—	—	—	—
3 September 2009	Directors	0.091	3 September 2009 to 2 September 2010	—	6,240,000	(6,240,000)	—	—	—	—	—	—	—	—	—
	Employees	0.455*	3 September 2009 to 2 September 2010	—	12,480,000	(6,240,000)	—	—	6,240,000	(4,992,000)	—	—	(1,248,000)	—	—
	Consultants	0.455*	3 September 2009 to 2 September 2010	—	43,680,000	(26,960,000)	—	—	16,720,000	(13,376,000)	—	—	(3,344,000)	—	—
13 November 2009	Employees	0.5*	13 November 2009 to 12 November 2010	—	6,240,000	—	—	—	6,240,000	(4,992,000)	—	—	(1,248,000)	—	—
	Consultants	0.5*	13 November 2009 to 12 November 2010	—	12,480,000	(12,480,000)	—	—	—	—	—	—	—	—	—
18 May 2010	Consultants	0.202	18 May 2010 to 17 May 2011	—	—	—	—	—	—	—	8,400,000	(6,300,000)	—	2,100,000	—
2 June 2010	Directors	0.325	2 June 2010 to 1 June 2011	—	—	—	—	—	—	—	5,450,000	(2,100,000)	—	3,350,000	—
	Employees	0.325	2 June 2010 to 1 June 2011	—	—	—	—	—	—	—	2,100,000	(2,100,000)	—	—	—
	Consultants	0.325	2 June 2010 to 1 June 2011	—	—	—	—	—	—	—	23,900,000	(15,100,000)	—	8,800,000	—
3 December 2010	Consultants	0.347	3 December 2010 to 2 December 2011	—	—	—	—	—	—	—	2,040,000	—	—	2,040,000	—
	Total			171,851	81,120,000	(51,920,000)	—	(171,851)	29,200,000	(23,360,000)	41,890,000	(25,600,000)	(5,840,000)	16,290,000	—
	Exercisable at the end of the year								29,200,000					16,290,000	
	Weighted average exercise price			HKD3.784	HKD0.43	HKD0.42	—	HKD3.784	HKD0.46	HKD0.46	HKD0.30	HKD0.29	HKD0.46	HKD0.31	

\* The exercise prices and numbers of share options which remained outstanding at the end of the reporting period have been adjusted due to completion of open offer and capital reorganisation during the year.

The fair value of options granted under the Scheme measured at the date of grant during the year ended was approximately HK\$3,468,000. The following significant assumptions were used to derive the fair values using the Black-Scholes Model:

<b>Date of granted</b>	<b>18 May 2010</b>	<b>2 June 2010</b>	<b>3 December 2010</b>
Total number of share options	8,400,000	31,450,000	2,040,000
Option value	0.0440	0.0945	0.0624
Option life	1 year	1 year	0.5 year
Expected tenor	0.49 year	0.5 year	0.5 year
Exercise price	0.202	0.325	0.347
Stock price at the date of grant	0.18	0.325	0.33
Volatility	105.73%	116.01%	78.854%
Risk free rate	0.17%	0.34%	0.339%

### 39. EMPLOYEE AWARD PLAN

The Company's employee award plan (the "Plan") was adopted by the Board of Director 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 on 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 a cash payment under the award if the award price exceeds the vesting 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:

$$(\text{Vesting Price} - \text{Award price}) \times \text{Award Number}$$

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.

No grantee was entitled to any payment under the award during the year ended 31 December 2010.

### 40. RESERVES

#### The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 29\* to the consolidated financial statements.

\* This refers to page 29 of the annual report of KH Investment for the year ended 31 December 2010. The amounts of the Group's reserves and the movements therein for the current year and prior year are set out on pages 70 and 71 in this Composite Document.

## The Company

	Share premium <i>HK\$ '000</i>	Contributed surplus <i>HK\$ '000</i> <i>(Note i)</i>	Convertible loan notes reserve <i>HK\$ '000</i> <i>(Note ii)</i>	Share-based payments reserve <i>HK\$ '000</i> <i>(Note iii)</i>	(Accumulated losses)/ retained profits <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 January 2009	135,062	—	12,693	98	(193,341)	(45,488)
Net loss for the year	—	—	—	—	(23,880)	(23,880)
Total comprehensive income for the year	—	—	—	—	(23,880)	(23,880)
Issue of convertible loan notes	—	—	241,878	—	—	241,878
Deferred tax of convertible loan notes <i>(Note 36)</i>	—	—	(39,910)	—	—	(39,910)
Redemption of convertible loan notes	—	—	(101,942)	—	4,840	(97,102)
Deferred tax released on redemption of convertible loan notes <i>(Note 36)</i>	—	—	14,929	—	—	14,929
Capital reduction	—	22,564	—	—	—	22,564
Issue of shares arising on acquisition of subsidiaries	2,001	—	—	—	—	2,001
Recognition of equity-settled share-based payments	—	—	—	4,197	—	4,197
Issue of shares upon exercise of share options	7,145	—	—	(2,827)	—	4,318
Cancellation of share options	—	—	—	(98)	98	—
Issue of new shares on open offer	49,066	—	—	—	—	49,066
Placing of new shares, net	2,210	—	—	—	—	2,210
At 31 December 2009 and 1 January 2010	195,484	22,564	127,648	1,370	(212,283)	134,783
Net loss for the year	—	—	—	—	(1,789)	(1,789)
Total comprehensive income for the year	—	—	—	—	(1,789)	(1,789)
Extension period of convertible loan notes	—	—	508	—	—	508
Redemption of convertible loan notes	—	—	(150,448)	—	48,482	(101,966)
Deferred tax released on redemption of convertible loan notes <i>(Note 36)</i>	—	—	24,981	—	(553)	24,428
Conversion of convertible loan notes	851	—	(308)	—	—	543
Capital reduction	—	5,411	—	—	—	5,411
Capital reorganisation	(252,834)	40,551	—	—	212,283	—
Issue of shares arising on acquisition of subsidiaries	17,755	—	—	—	—	17,755
Recognition of equity-settled share-based payments	—	—	—	3,468	—	3,468
Issue of shares upon exercise of share options	9,390	—	—	(2,101)	—	7,289
Lapsed of share options	—	—	—	(1,370)	1,370	—
Placing of new shares, net	76,737	—	—	—	—	76,737
Dividend paid <i>(Note 15)</i>	—	(40,232)	—	—	—	(40,232)
At 31 December 2010	47,383	28,294	2,381	1,367	47,510	126,935

*Notes:*

- (i) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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 it is, or would after the payment be, unable to pay its liabilities as they become due or the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

- (ii) The convertible loan notes reserve represents the value of the unexercised equity component of convertible loan notes issued by the Company.
- (iii) The share-based payments reserve of the Company and the Group arises on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in Note 4 to the consolidated financial statements.

**41. JOINTLY CONTROLLED ENTITIES**

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity of Amazing Goal and its subsidiaries and (ii) the Amazing Goal Sale Loan for a consideration of HK\$1. A gain on disposal of approximately HK\$10,022,000 arose from this disposal.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the above joint ventures up to the date of disposal.

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Non-current assets	—	61
Current assets	—	469
Current liabilities	—	(26,302)
Net liabilities	<u>—</u>	<u>(25,772)</u>
<b>Discontinued operations</b>		
Turnover	—	8,801
Cost of sales	—	(4,697)
Other revenue and income	8,520	50,043
Selling and distribution expenses	—	(342)
Administrative expenses	(507)	(27,088)
Other operating expenses	—	(875)
Finance costs	(7)	(311)
Profit/(loss) before tax	8,006	(25,531)
Tax charge	—	—
Profit/(loss) for the year	<u>8,006</u>	<u>(25,531)</u>

The Group has the following significant interests in joint ventures:

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Amazing Goal	British Virgin Island (“BVI”)	US\$100	19%	—	Investment holding
GL Retailing (Hong Kong) Limited (Formerly known as Golife (Hong Kong) Limited)	Hong Kong	HK\$500,000	—	19%	Distribution of high-end apparel and accessories
Golife (Trading) Limited	Hong Kong	HK\$300,000	—	19%	Distribution of high-end jewellery and accessories
CR Hong Kong (Trading) Limited	Hong Kong	HK\$300,000	—	19%	Distribution of high-end apparel and accessories
Golife (Management) Limited	Hong Kong	HK\$10,000	—	19%	Provision of management services
GOL (International) Limited	BVI	US\$1	—	19%	Dormant
Peak Choice Limited	BVI	US\$1	—	19%	Investment in securities
Sunfame Limited	BVI	US\$100	—	19%	Dormant
Profit First Investments Limited	BVI	US\$1	—	19%	Investment holding
Better Point Limited	BVI	US\$1	—	19%	Investment holding

## 42. ACQUISITIONS OF SUBSIDIARIES

During the year ended 31 December 2010, the Group acquired the following subsidiaries from independent third parties.

## (a) Acquisition of Infrared Engineering &amp; Consultants Limited (“Infrared”)

On 9 August 2010, the Group acquired the entire issued share capital and the outstanding loan of Infrared for total consideration of approximately HK\$18,347,000. The fair value of identifiable assets and liabilities of Infrared at the date of acquisition immediately before the acquisition were as follows:

	Fair value HK\$'000
Property, plant and equipment	231
Trade receivables	251
Deposits, prepayments and other receivables	193
Amount due from shareholders	218
Cash and bank balances	27
Bank overdraft	(78)
Trade payables	(216)
Accruals and other payables	(31)
Tax payable	(74)
	<hr/>
Net assets acquired	521
Sale loan	(218)
Goodwill	18,044
	<hr/>
Total consideration	18,347
	<hr/> <hr/>
Consideration satisfied by:	
Fair value of shares issued ( <i>Note i</i> )	18,347
	<hr/> <hr/>
Net cash outflow in respect of acquisition of a subsidiary:	
Cash and bank balances acquired	27
Bank overdraft acquired	(78)
	<hr/>
	(51)
	<hr/> <hr/>

*Note:*

- (i) 59,183,672 ordinary shares of the Company with par value of HK\$0.01 each were issued. The fair value of issued ordinary shares of the Company was determined with reference to the published price available at the date of acquisition of HK\$0.31 per share, amounted to approximately HK\$18,347,000.

During the year ended 31 December 2009, the Group acquired the following subsidiaries from independent third parties.

**(b) Acquisition of Shinhan-Golden and World East**

On 8 April 2009, the Group acquired the entire issued share capital and the Mega Shell Sale Loan for total consideration of HK\$135,744,000. The identifiable assets and liabilities of Shinhan-Golden and World East at the date of acquisition immediately before the acquisition were as follows:

	<b>Shinhan- Golden</b>	<b>World East</b>	<b>Elimination on current account</b>	<b>Fair value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	20,123	7	—	20,130
Investment properties	920,564	—	—	920,564
Amount due from				
Shinhan-Golden	—	386,166	(386,166)	—
Investment in associate	—	3,896	(3,896)	—
Properties held for sale	28,969	—	—	28,969
Trade receivables	184	—	—	184
Prepayments, deposits and				
other receivables	1,689	4,971	—	6,660
Cash and bank balances	51,434	—	—	51,434
Amount due to Mega Shell	(47,199)	(745)	—	(47,944)
Amount due to China Star				
Investment Holding				
Limited	—	(375,535)	—	(375,535)
Trade payables and accruals	(13,252)	(217)	—	(13,469)
Receipts in advance	(39,645)	—	—	(39,645)
Amount due to World East	(386,166)	—	386,166	—
Bank loans, secured	(302,794)	—	—	(302,794)
Non-controlling interest	(3,896)	—	3,896	—
Deferred taxation	(55,363)	—	—	(55,363)
Net assets acquired	174,648	18,543	—	193,191
Sale loan				47,944
Gain from a bargain purchase				(105,391)
				<u>135,744</u>



HK\$'000

Consideration satisfied by:	
Fair value of shares issued ( <i>Note i</i> )	2,119
Fair value of promissory note ( <i>Note ii</i> )	25,952
Fair value of convertible loan notes ( <i>Note 35(e)</i> )	100,000
Cash	6,847
Transaction cost directly attributable to this acquisition	826
	<hr/>
Total consideration	135,744
	<hr/> <hr/>
Net cash inflow in respect of acquisition of a subsidiary:	
Cash consideration paid	(6,847)
Transaction cost paid	(826)
Cash and bank balances acquired	51,434
	<hr/>
	43,761
	<hr/> <hr/>

*Notes:*

- (i) As part of the consideration for the acquisition, 11,769,194 ordinary shares of the Company with par value of HK\$0.01 each were issued. The fair value of issued ordinary shares of the Company was determined with reference to the published price available at the date of acquisition of HK\$0.18 per share, amounted to approximately HK\$2,119,000.
- (ii) The face value of promissory note in amount of HK\$100,000,000 would be paid by the Company with a fixed term of five years and will not carry any interest. The fair value of promissory note in amount of HK\$25,952,000 was based on the calculation of the discounted cash flow method with discount rate 30.97%.

## (c) Acquisition of China Star Management Limited (“CSM”) and Anglo Market International Limited (“AMI”)

On 31 July 2009, the Group acquired the entire issued share capital of CSM and AMI for total consideration of HK\$3,137,971. The identifiable assets and liabilities of the CSM and AMI at the date of acquisition immediately before the acquisition were as follows:

	CSM	AMI	Elimination on current account	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	79	—	—	79
Amount due from AMI	643	—	(643)	—
Deposits paid	8,556	521	—	9,077
Trade receivables	912	648	—	1,560
Prepayments, deposits and other receivables	956	158	—	1,114
Cash and bank balance	321	395	—	716
Amount due to Imperial Services Limited	(4,954)	(25)	—	(4,979)
Amount due to CSM	—	(643)	643	—
Trade payables and accruals	(1,851)	(700)	—	(2,551)
Receipts in advance	(296)	(1,125)	—	(1,421)
Net assets acquired	4,366	(771)	—	3,595
Gain from a bargain purchase				(457)
Total consideration				<u>3,138</u>
Consideration satisfied by:				
Cash				<u>3,138</u>
Net cash outflow in respect of the acquisition of subsidiaries:				
Cash consideration paid				(3,138)
Cash and bank balances acquired				<u>716</u>
				<u>(2,422)</u>

**(d) Acquisition of Creative Formula Limited (“Creative Formula”)**

On 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of HK\$8.2 million. The identifiable assets and liabilities of Creative Formula at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	<b>Fair value</b> <i>HK\$'000</i>
Property, plant and equipment	1,267
Intangible assets	7,958
Other prepayments	26
Cash and bank balance	535
Accruals	(1,585)
	<hr/>
Net assets acquired	8,201
	<hr/> <hr/>
Consideration satisfied by:	
Cash consideration	8,201
	<hr/> <hr/>
Net cash outflow in respect of the acquisition of a subsidiary:	
Cash consideration paid	(8,201)
Cash and bank balances acquired	535
	<hr/>
	(7,666)
	<hr/> <hr/>

## 43. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

## (a) Disposal of Mega Shell

On 28 May 2010, the Group disposed of a wholly owned subsidiary of Mega Shell and its subsidiaries and Mega Shell Sale Loan for a consideration of RMB119,570,000 (equivalent to approximately HK\$136,029,000). A gain on disposal of approximately HK\$64,568,000 arose from this disposal was recognised in the consolidated income statement. Summary of the effect of the disposal of the subsidiaries is as follows:

	<i>HK\$'000</i>
Property, plant and equipment	7,043
Investment properties	130,436
Prepayments and other receivables	1,436
Properties held for sale	29,033
Cash and bank balances	31,904
Other payable and accruals	(69,773)
Amount due to the ultimate holding company	(10,916)
Receipts in advance	(39,288)
Tax payable	(15,215)
Deferred taxation	(10,720)
	<hr/>
Net assets disposed of	53,940
Mega Shell Sale Loan	10,916
Release of translation reserve	6,605
	<hr/>
	71,461
Gain on disposal	64,568
	<hr/>
Total consideration	136,029
	<hr/> <hr/>
Satisfied by:	
Cash consideration received	136,029
	<hr/> <hr/>
Net cash inflow in respect of disposal of subsidiaries:	
Cash consideration received	136,029
Cash and cash equivalents disposed of	(31,904)
	<hr/>
	104,125
	<hr/> <hr/>

The subsidiaries disposed of during the year did not contribute significantly to the Group's result and cash flows.

**(b) Deemed disposal of Amazing Goal, a then subsidiary of the Company**

In July 2009, the Group's interest in Amazing Goal decreased from 100% to 50% following the allotment and issuance of 50 shares of Amazing Goal at a price of US\$1 each to Chung Chiu (PTC) Limited ("Chung Chiu") pursuant to a subscription agreement. Gain on deemed disposal of partial interest in Amazing Goal as a subsidiary amounted to approximately HK\$32,758,000.

After the transactions mentioned above, Amazing Goal became a jointly controlled entity of the Group.

Detail of the net assets at the disposal date was as follows:

	<i>HK\$'000</i>
Property, plant and equipment	393
Inventories	952
Other investment	1
Trade receivables	269
Deposits, prepayments and other receivables	3,067
Trade payables	(1,019)
Accruals and other payables	(11,443)
Amount due to the Company	(22,193)
Tax payable	(294)
Bank overdraft	(1,611)
Interest-bearing borrowings	(880)
	<hr/>
Gain on deemed disposal of subsidiaries	(32,758)
	<hr/> <hr/>

**44. MATERIAL RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following material transactions with related parties during the year:

**(a) Related entities**

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Management fee charged by a related company	<i>(i)</i>	2,400	4,800
Acquisition of subsidiaries from related companies	<i>(ii)</i>	—	147,094
Dividend paid to a related company	<i>(iii)</i>	2,542	—
Repayment of convertible loan notes and promissory note to related companies	<i>(iv)</i>	260,000	—
Repayment loan to a related company	<i>(v)</i>	155,535	—
		<hr/> <hr/>	<hr/> <hr/>

*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) On 8 April 2009, the Group acquired the entire issued share capital and the outstanding shareholders' loan of Shinhan-Golden and World East for total consideration of approximately HK\$135,755,000. On 31 July 2009, the Group acquired the entire issued share capital of CSM and AMI for approximately HK\$3,138,000, and on 8 October 2009, the Group acquired the entire issued share capital of Creative Formula for total consideration of approximately HK\$8,201,000.
- (iii) On 5 May 2010, a special dividend of approximately HK\$2,542,000 was distributed to Eternity Investment Limited ("Eternity") (formerly known as China Star Investment Holdings Limited), a company which Mr. Heung Wah Keung, a director of the Company, was beneficial/interested in it.
- (iv) The Group repaid convertible loan notes and promissory note amounted to HK\$100,000,000 and HK\$100,000,000 respectively to Eternity and convertible loan notes amounted to HK\$60,000,000 to China Star Entertainment Limited during the year.
- (v) The Group repaid a shareholder's loan of approximately HK\$155,535,000 to Eternity during the year.

**(b) Compensation of key management personnel**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Salaries and other benefits	1,732	1,674
Provident fund convertors	1	10
	<u>1,733</u>	<u>1,684</u>

**45. OPERATING LEASE ARRANGEMENT****The Group as lessee**

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. Leases for retail shops were no longer exist due to discontinued operations of distribution business.

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases falling due is as follows:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Within one year	224	—
In the second to fifth years, inclusive	—	—
	<u>224</u>	<u>—</u>

**46. COMMITMENTS**

The Group and the Company did not have any significant commitments at the end of the reporting period (2009: Nil).

**47. CONTINGENT LIABILITIES**

The Group and the Company did not have any significant contingent liabilities at the end of the reporting period (2009: Nil).

**48. FINANCIAL INSTRUMENTS**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	—	1
Loans and receivables (including cash and cash equivalents)	122,195	428,423
	<u>122,195</u>	<u>428,424</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	22,289	371,942
	<u>22,289</u>	<u>371,942</u>
<b>Fair value estimation</b>		

The fair value of financial assets and financial liabilities with standard terms and conditions and trade in active liquid market are determined with reference to quoted market bid prices and ask prices respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument (i.e., without modification of repackaging);
- Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the fair value hierarchy:

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2010	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2009				
Financial assets at fair value through profit or loss	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

#### 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise convertible loan notes, promissory note, amount due to a shareholder, interest-bearing bank and other borrowings, trade payables and bank overdraft. 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 and other receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest 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 summarised below. The Group's accounting policies in relation to derivatives are set out in Note 4 to the consolidated financial statements.

##### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank borrowings, bank overdraft and bank balances with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the end of the reporting period, the Group has no significant exposure to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.



**Foreign currency risk**

The Group operates mainly in both the PRC and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

	Assets		Liabilities	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi	—	340,481	—	39,334

**Sensitivity analysis**

The Group is mainly exposed to the effects of fluctuation in Renminbi. At 31 December 2010, if there is a 50 basis points higher/lower in the Hong Kong dollars against the Renminbi with other variables held constant, the Group's translation reserve would be increase or decrease by Nil (2009: approximately HK\$1,506,000).

**Liquidity risk**

The Group 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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdraft, bank loans, finance leases, other interest-bearing loans, promissory note and convertible loan notes.

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Total carrying amount
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2010</b>							
<b>Non-derivative financial liabilities</b>							
Convertible loan notes	13.86%	—	—	6,211	—	6,211	4,348
Accruals and other payables	—	9,213	—	—	—	9,213	9,213
Trade payables	—	325	—	—	—	325	325
Bank overdraft	—	32	—	—	—	32	32
		<u>9,570</u>	<u>—</u>	<u>6,211</u>	<u>—</u>	<u>15,781</u>	<u>13,918</u>

	Weighted average effective interest rate	Within 1 year or on demand <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 5 years <i>HK\$'000</i>	More than 5 years <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Total carrying amount <i>HK\$'000</i>
31 December 2009							
<b>Non-derivative financial liabilities</b>							
Convertible loan notes	13.61%-13.86%	—	—	12,579	359,757	372,336	17,596
Promissory note	13.86%	—	—	158,905	—	158,905	31,831
Amount due to a shareholder	—	155,535	—	—	—	155,535	155,535
Interest-bearing bank and other borrowings	2.75%-6.25%	130	—	—	—	130	130
Accruals and other payables	—	124,225	—	—	—	124,225	124,225
Trade payables	—	197	—	—	—	197	197
		<u>280,087</u>	<u>—</u>	<u>171,484</u>	<u>359,757</u>	<u>811,328</u>	<u>329,514</u>

### Credit risk

At 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivable are disclosed in Note 23 to the consolidated financial statements.

### Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices.
- (ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except for the liability component of convertible loan notes which recorded amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values:

	31 December 2010		31 December 2009	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Promissory note	—	—	31,831	23,892
Convertible loan notes	4,348	4,570	17,596	53,679

*Note:* The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

## 50. 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 maximise 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 new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by the total of borrowings and equity. Borrowings include interest-bearing borrowings and convertible loan notes. Equity includes all share capital and reserves at the end of the reporting period.

	2010 HK\$'000	2009 HK\$'000
Borrowings:		
Interest-bearing bank and other borrowings	—	130
Convertible loan notes, liability components	4,348	17,596
	<u>4,348</u>	<u>17,726</u>
Equity:		
Total equity	<u>115,698</u>	<u>175,380</u>
Gearing ratio	<u>3.76%</u>	<u>10.1%</u>

**51. EVENTS AFTER THE REPORTING PERIOD**

The following events have occurred subsequent to 31 December 2010:

- (i) On 16 November 2010, the Company entered into a sale and purchase agreement with an independent third party in relation to a very substantial acquisition to acquire (i) the entire issued share capital of Sinofocus Media (Holdings) Limited (“Sinofocus”), a wholly owned subsidiary of Media China Corporation Limited (“Media China”) which is listed on the main board of the Stock Exchange, which is engaged in television advertising in the PRC and (ii) the aggregate outstanding shareholder’s loan owing by Sinofocus to Media China. The deposit of HK\$40,000,000 has been paid by the Company in cash upon signing of the sale and purchase agreement (Note 24) and the remaining consideration of HK\$42,000,000 shall be payable by the Company in cash upon the completion. The acquisition is not yet completed on the date when the consolidated financial statements are authorised for issue.
- (ii) On 8 December 2010, the Company, China Star Entertainment (BVI) Limited (“China Star (BVI)”), a wholly owned subsidiary of China Star Entertainment Limited which is listed on the main board Stock Exchange, and China Star Film Group Limited (the “JV Company”) entered into a joint venture agreement (the “JV Agreement”) relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, the Company agreed to further subscribe and the JV Company agreed to further issue and allot 29 shares of the JV Company at a price of HK\$1,000,000 per share for a total consideration of HK\$29,000,000. The JV Company shall be owned as to 50% by the Company and as to 50% by China Star (BVI). The formation of the JV Company was completed on 7 January 2011.
- (iii) On 3 January 2011, the Company granted 38,740,000 share options to certain of its directors, consultants and employees to subscribe for an aggregate of 38,740,000 shares under the Scheme at an exercise price of HK\$0.335 per share. The share options are exercisable for the period from 3 January 2011 to 2 January 2012.

## 52. PARTICULARS OF INTERESTS IN SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
China Star Film Group Limited	BVI	HK\$ 1,000,000	100%	—	Investment holding
Dance Star Group Limited	BVI	US\$ 1	100%	—	Investment holding
Mega Shell	BVI	US\$ 1	100%	—	Investment holding
Premium Dignity Investments Limited	BVI	US\$ 1	100%	—	Investment holding
AMI	BVI	US\$ 1	—	100%	Artist management
China Star Film Production Limited	Hong Kong	HK\$ 1	—	100%	Film production
CSM	Hong Kong	HK\$ 290,000	—	100%	Artist management
Creative Formula	Hong Kong	HK\$ 10,000,000	—	100%	Film production
Infrared	Hong Kong	HK\$ 2	—	100%	Infrared consultancy services
Shinhan-Golden	BVI	US\$ 10,000,000	—	100%	Investment holding
World East	BVI	US\$ 1	—	100%	Investment holding
北京莎瑪房地產開發有限公司	The PRC	US\$ 15,000,000	—	100%	Property management

## 53. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

### 3. UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The following financial information is extracted from the interim report of KH Investment for the six months ended 30 June 2011. KH Investment had no exceptional or extraordinary items for the six months ended 30 June 2011. The KH Group did not record any non-controlling interests for the six months ended 30 June 2011, all loss of the KH Group for the six months ended 30 June 2011 was attributable to owners of the KH Group.

Capitalised terms used in this section 3 have the meanings as defined in the related interim report of KH Investment.

*For the six months ended 30 June 2011*

#### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended		For the six months ended	
		30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000
	<i>Notes</i>				
<b>Continuing operations</b>					
Turnover	4	12,081	9,676	21,511	12,603
Cost of sales		<u>(9,474)</u>	<u>(7,566)</u>	<u>(16,849)</u>	<u>(9,697)</u>
Gross profit		2,607	2,110	4,662	2,906
Other revenue and income	5	67	983	90	1,006
Administrative expenses		(1,705)	(9,023)	(5,892)	(12,937)
Other operating expenses	6	—	(108,906)	—	(108,906)
Finance costs	7	<u>(148)</u>	<u>(2,153)</u>	<u>(292)</u>	<u>(5,633)</u>
Profit/(loss) before tax	8	821	(116,989)	(1,432)	(123,564)
Tax credit	9	<u>—</u>	<u>235</u>	<u>—</u>	<u>235</u>
Profit/(loss) for the period from continuing operations		<u>821</u>	<u>(116,754)</u>	<u>(1,432)</u>	<u>(123,329)</u>

	<i>Notes</i>	For the three months ended		For the six months ended	
		30 June 2011 (Unaudited) <i>HK\$'000</i>	30 June 2010 (Unaudited) <i>HK\$'000</i>	30 June 2011 (Unaudited) <i>HK\$'000</i>	30 June 2010 (Unaudited) <i>HK\$'000</i>
<b>Discontinued operations</b>					
Profit for the period from discontinued operations	10	—	58,429	—	66,229
<b>Profit/(loss) attributable to owners of the Company</b>		821	(58,325)	(1,432)	(57,100)
<b>Dividend</b>		—	40,232	—	40,232
<b>Dividend per share</b>		—	HK12 cents	—	HK12 cents
<b>Earnings/(loss) per share</b>	11				
From continuing and discontinued operations — Basic and diluted		HK0.16 cent	HK(17.40) cents	HK(0.28) cent	HK(18.90) cents
From continuing operations — Basic and diluted		HK0.16 cent	HK(34.82) cents	HK(0.28) cent	HK(40.82) cents
From discontinued operations — Basic and diluted		N/A	HK17.42 cents	N/A	HK21.92 cents

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

	For the three months ended		For the six months ended	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit/(loss) for the period</b>	821	(58,325)	(1,432)	(57,100)
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations during the period	—	(3,151)	—	(6,068)
<b>Total comprehensive income for the period</b>	<u>821</u>	<u>(61,476)</u>	<u>(1,432)</u>	<u>(63,168)</u>
<b>Total comprehensive income attributable to owners of the Company</b>	<u>821</u>	<u>(61,476)</u>	<u>(1,432)</u>	<u>(63,168)</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	12	193	204
Intangible assets		1,175	1,175
Goodwill		14,200	14,200
Total non-current assets		<u>15,568</u>	<u>15,579</u>
<b>Current assets</b>			
Film in progress		1,314	—
Trade receivables	13	671	1,439
Deposits, prepayments and other receivables		14,130	54,276
Cash and bank balances		105,215	66,770
Total current assets		<u>121,330</u>	<u>122,485</u>
<b>Current liabilities</b>			
Bank overdraft		—	32
Trade payables	14	—	325
Accruals and other payables		7,339	9,213
Receipts in advance		8,230	8,370
Tax payable		15	78
Total current liabilities		<u>15,584</u>	<u>18,018</u>
Net current assets		<u>105,746</u>	<u>104,467</u>
Total assets less current liabilities		<u>121,314</u>	<u>120,046</u>
<b>Non-current liabilities</b>			
Convertible loan notes	15	4,639	4,348
Total non-current liabilities		<u>4,639</u>	<u>4,348</u>
Net assets		<u>116,675</u>	<u>115,698</u>
<b>Equity</b>			
Issued capital	16	5,056	5,056
Reserves		111,619	110,642
Total equity		<u>116,675</u>	<u>115,698</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES  
IN EQUITY**

	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Convertible loan notes reserve (Unaudited) <i>HK\$'000</i>	Share-based payments reserve (Unaudited) <i>HK\$'000</i>	Exchange reserve (Unaudited) <i>HK\$'000</i>	(Accumulated losses)/ retained profits (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2010	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380
Net loss for the period	—	—	—	—	—	—	(57,100)	(57,100)
Other comprehensive income for the period	—	—	—	—	—	(6,068)	—	(6,068)
Total comprehensive income for the period	—	—	—	—	—	(6,068)	(57,100)	(63,168)
Extension period of convertible loan notes	—	—	—	508	—	—	—	508
Capital reduction	(5,411)	—	5,411	—	—	—	—	—
Placing new shares, net	2,000	57,350	—	—	—	—	—	59,350
Capital reorganisation	—	(252,834)	40,551	—	—	—	212,283	—
Dividend, paid	—	—	(40,232)	—	—	—	—	(40,232)
Redemption of convertible loan notes	—	—	—	(150,448)	—	—	48,483	(101,965)
Deferred tax released on redemption of convertible loan notes	—	—	—	24,192	—	—	—	24,192
Recognition of equity- settled share-based payments	—	—	—	—	3,341	—	—	3,341
Release of exchange reserve upon disposal of a subsidiaries	—	—	—	—	—	6,605	—	6,605
At 30 June 2010	<u>3,352</u>	<u>—</u>	<u>28,294</u>	<u>1,900</u>	<u>4,711</u>	<u>—</u>	<u>25,754</u>	<u>64,011</u>

	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Convertible loan notes reserve (Unaudited) <i>HK\$'000</i>	Share-based payments reserve (Unaudited) <i>HK\$'000</i>	Exchange reserve (Unaudited) <i>HK\$'000</i>	(Accumulated losses)/ retained profits (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2011	5,056	47,383	28,294	2,381	1,367	—	31,217	115,698
Net loss for the period	—	—	—	—	—	—	(1,432)	(1,432)
Other comprehensive income for the period	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	—	—	(1,432)	(1,432)
Recognition of equity- settled share-based payments	—	—	—	—	2,409	—	—	2,409
Lapsed of share options	—	—	—	—	(1,240)	—	1,240	—
At 30 June 2011	5,056	47,383	28,294	2,381	2,536	—	31,025	116,675

### UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
Net cash from/(used in) operating activities	38,502	(5,145)
Net cash used in investing activities	(24)	(2,116)
Net cash used in financing activities	(1)	(136,893)
Net increase/(decrease) in cash and cash equivalents	38,477	(144,154)
Cash and cash equivalents at beginning of period	66,738	230,463
Effect of foreign exchange rate changes	—	(6,068)
Cash and cash equivalents at end of period	105,215	80,241
Analysis of balances of cash and cash equivalents	105,215	80,241
Cash and bank balances	105,215	80,241

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. General information**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the GEM of the Stock Exchange since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and jointly controlled entity are provision of artists management services, film production and film distribution and provision of infrared thermal imaging and thermography solutions and consultancy services.

**2. Basis of preparation and consolidation**

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

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments and investment properties which are stated at their fair values.

Certain comparative figures have been reclassified to conform with current year's presentation.

The preparation of unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in annual financial statements for the year ended 31 December 2010.

All significant intercompany transactions, balances and unrealised gains on transactions within the Group have been eliminated on consolidation.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the results and financial position of the Group.

### 3. Segment information

Segment information is presented by way of two formats: (a) the primary segment reporting format by business segment and (b) the secondary reporting format by geographical segment.

#### a. *Business Segment*

For management purposes, the Group is currently organised into three operating divisions, namely, infrared consultancy services, artist management and film production. Two operations (distribution and service apartment operation) were discontinued in the last year. These divisions are the basis on which the Group reports its primary segment information.

Infrared consultancy services:	Providing infrared thermal imaging and thermograph solutions and consultancy services
Artist management:	Service income from provision of artist management
Film production:	Income from provision of film right
Distribution:	Distribution of high-end apparel and accessories
Service apartment operation:	Property rental income

	Continuing operations						Discontinued operations						Total				
	Infrared consultancy services		Artist management		Film production		Sub-total		Distribution		Service apartment operation		Sub-total		Total		
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010		
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	254	—	21,157	12,603	100	—	12,603	—	—	—	—	—	—	21,511	12,603		
Capital expenditure	—	—	24	—	—	—	—	—	—	—	1,980	—	1,980	24	1,980		
Unallocated capital expenditure	—	—	—	—	—	—	286	—	—	—	—	—	—	—	—	286	
Segment assets	14,652	15,089	20,330	17,428	32,746	32,587	65,104	—	—	—	—	—	—	67,708	65,104		
Unallocated assets	—	—	69,190	72,960	—	—	72,960	—	—	—	—	—	—	69,190	72,960		
Total assets	14,652	15,089	20,330	17,428	32,746	32,587	138,064	—	—	—	—	—	—	136,898	138,064		

## b. Geographical Segment

	Continuing Operations						Discontinued Operations					
	Hong Kong		The PRC		USA		Sub-Total		The PRC		Total	
	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000	For the six months ended 30 June 2011 (Unaudited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000
Turnover	5,533	795	15,978	11,615	—	193	21,511	12,603	—	—	21,511	12,603
Capital expenditure	24	286	—	—	—	—	24	286	—	1,980	24	2,266
	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 30 June 2011 (Unaudited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000
Non-current assets	15,568	15,579	—	—	—	—	15,568	15,579	—	—	15,568	15,579

## 4. Turnover

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Continuing operations</b>				
Infrared consultancy services	77	—	254	—
Film right income	100	—	100	—
Artists management services	11,904	9,676	21,157	12,603
	<u>12,081</u>	<u>9,676</u>	<u>21,511</u>	<u>12,603</u>

## 5. Other revenue and income

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Continuing operations</b>				
Bank interest income	56	19	73	30
Sundry income	11	964	17	976
	<u>67</u>	<u>983</u>	<u>90</u>	<u>1,006</u>
<b>Discontinued operations</b>				
Bank interest income	—	1	—	91
Gain on disposal of property, plant and equipment	—	82	—	89
Sundry income	—	1,861	—	1,866
	<u>—</u>	<u>1,944</u>	<u>—</u>	<u>2,046</u>
	<u>67</u>	<u>2,927</u>	<u>90</u>	<u>3,052</u>



## 6. Other operating expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Loss on early redemption of promissory note	—	64,252	—	64,252
Loss on early redemption of convertible loan notes	—	44,654	—	44,654
	<u>—</u>	<u>108,906</u>	<u>—</u>	<u>108,906</u>

## 7. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Continuing operations</b>				
Effective interest expenses on convertible loan notes	148	667	291	1,717
Effective interest expenses on promissory note	—	1,486	—	3,916
Interest on bank loans and overdrafts wholly repayable within five years	—	—	1	—
	<u>148</u>	<u>2,153</u>	<u>292</u>	<u>5,633</u>
<b>Discontinued operations</b>				
Interest on bank loans and overdrafts wholly repayable within five years	—	—	—	1
Interest on finance leases	—	2	—	6
	<u>—</u>	<u>2</u>	<u>—</u>	<u>7</u>
	<u>148</u>	<u>2,155</u>	<u>292</u>	<u>5,640</u>

## 8. Profit/(loss) before tax

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Continuing operations</b>				
Depreciation of property, plant and equipment	19	101	35	189
Minimum lease payments under operating leases on land and buildings	53	261	107	304
Staff costs including directors' remuneration	755	910	1,507	1,932
Equity-settled share option expenses	—	—	2,409	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Discontinued operations</b>				
Depreciation of property, plant and equipment	—	807	—	1,658
Minimum lease payments under operating leases on land and buildings	—	216	—	235
Staff costs including directors' remuneration	—	679	—	910
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 9. Tax credit

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Continuing operations</b>				
Deferred tax	—	235	—	235
	—	235	—	235
<b>Discontinued operations</b>				
Deferred tax	—	(3,545)	—	(3,545)
	—	(3,545)	—	(3,545)
	—	(3,310)	—	(3,310)

No provision for Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses bought forward during the period under review (2010: Nil).

## 10. Discontinued operations

On 28 May 2010, the Group disposed of (i) its wholly owned subsidiary of Mega Shell Services Limited (“Mega Shell”) and its subsidiaries (collectively referred to the “Mega Shell Group”) and (ii) an amount due to its ultimate holding company (the “Mega Shell Sale loan”). Upon completion of the disposal, the Mega Shell Group will cease to be subsidiaries of the Company and the business of service apartment operation which is solely carried out by the Mega Shell Group, will become a discontinued operation of the Group.

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity of Amazing Goal International Limited (“Amazing Goal”) and its subsidiaries (collectively referred to the “Amazing Goal Group”) and (ii) an amount due to its ultimate holding company (the “Amazing Goal Sale Loan”). Upon completion of the disposal, the Amazing Goal Group will cease to be jointly controlled entities of the Company and the business of distribution which is solely carried out by the Amazing Goal Group, will become a discontinued operation of the Group.

The combined results of the discontinued operations related to the Mega Shell Group and the Amazing Goal Group are set out below.

	For the three months ended		For the six months ended	
	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000
Other revenue and income	—	1,944	—	2,046
Gain arising on change in fair values of investment properties	—	—	—	11,816
Administrative expenses	—	(4,536)	—	(8,649)
Finance costs	—	(2)	—	(7)
(Loss)/profit before tax	—	(2,594)	—	5,206
Tax	—	(3,545)	—	(3,545)
Gain on disposal of the Mega Shell Group	—	(6,139)	—	1,661
Profit for the period from discontinued operations	—	58,429	—	66,229

#### 11. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to owners of the Company for the three months ended 30 June 2011 of approximately HK\$0.8 million (2010: loss attributable to owners of the Company of approximately HK\$58.3 million) and loss attributable to owners of the Company for the six months ended 30 June 2011 of approximately HK\$1.4 million (2010: loss attributable to owners of the Company of approximately HK\$57.1 million) and the weighted average of 505,649,726 shares in issue during the three months ended 30 June 2011 (2010: 335,266,054 shares) and the weighted average of 505,649,726 shares in issue during the six months ended 30 June 2011 (2010: 302,116,882 shares).

For the three months and six months ended 30 June 2011 and 2010, diluted earnings/(loss) per share was not presented as the exercise of share option and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

**12. Property, plant and equipment**

	(Unaudited) <i>HK\$'000</i>
Net book value at 1 January 2011	204
Additions	24
Disposal	—
Depreciation for the period	(35)
	<hr/>
Net book value at 30 June 2011	193
	<hr/> <hr/>

**13. Trade receivables**

An aged analysis of the trade receivables is as follows:

	<b>At 30 June 2011 (Unaudited) <i>HK\$'000</i></b>	<b>At 31 December 2010 (Audited) <i>HK\$'000</i></b>
0 — 90 days	141	911
91 — 180 days	—	40
181 — 365 days	42	488
Over 365 days	488	—
	<hr/>	<hr/>
	671	1,439
	<hr/> <hr/>	<hr/> <hr/>

**14. Trade payables**

An aged analysis of the trade payables is as follows:

	<b>At 30 June 2011 (Unaudited) <i>HK\$'000</i></b>	<b>At 31 December 2010 (Audited) <i>HK\$'000</i></b>
0 — 90 days	—	4
91 — 180 days	—	159
181 — 365 days	—	162
Over 365 days	—	—
	<hr/>	<hr/>
	—	325
	<hr/> <hr/>	<hr/> <hr/>

## 15. Convertible loan notes

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Liability component at 1 January	4,348	17,596
Extension of period	—	(1,331)
Conversion during the period	—	(559)
Redemption during the period	—	(13,381)
Effective interest expenses	291	2,023
	<u>4,639</u>	<u>4,348</u>

## 16. Share capital

	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
At 1 January 2011 and 30 June 2011, ordinary shares of HK\$0.01 each	3,000,000,000	30,000
Issued and full paid:		
At 1 January 2010 and 30 June 2011, ordinary shares of HK\$0.01 each	505,649,726	5,056

## 17. Operating lease arrangement

The Group leases office premises under operating lease arrangement. Leases for office premises are negotiated for the term in 2 years.

At the financial position date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Within one year	89	224
In the second to fifth years, inclusive	—	—
	<u>89</u>	<u>224</u>

**INTERIM DIVIDEND**

The KH Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

**4. UNAUDITED QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011**

The following financial information is extracted from the third quarterly report of KH Investment for the nine months ended 30 September 2011. KH Investment had no exceptional or extraordinary items for the nine months ended 30 September 2011. The KH Group did not record any non-controlling interests for the nine months ended 30 September 2011, all loss of the KH Group for the nine months ended 30 September 2011 was attributable to owners of KH Investment. A special dividend in a total amount of HK\$40,232,000, representing HK\$0.12 per KH Share, was paid out by KH Investment in May 2010 to the then KH Shareholders registered as such on a relevant record date. Capitalised terms used in this section 4. bear the meanings as defined in the related quarterly report of KH Investment.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended		For the nine months ended	
		30 September 2011 (Unaudited) HK\$'000	30 September 2010 (Unaudited) HK\$'000	30 September 2011 (Unaudited) HK\$'000	30 September 2010 (Unaudited) HK\$'000
<b>Continuing Operations</b>					
Turnover	3	8,983	5,828	30,494	18,431
Cost of sales		<u>(6,808)</u>	<u>(4,565)</u>	<u>(23,657)</u>	<u>(14,262)</u>
Gross profit		2,175	1,263	6,837	4,169
Other revenue and income	4	4	69	94	1,075
Administrative expenses		(4,529)	(1,256)	(10,421)	(14,193)
Other operating expenses	5	—	—	—	(108,906)
Finance costs	6	<u>(153)</u>	<u>(152)</u>	<u>(445)</u>	<u>(5,785)</u>
Loss before tax	7	(2,503)	(76)	(3,935)	(123,640)
Tax credit	8	<u>—</u>	<u>—</u>	<u>—</u>	<u>235</u>
Loss for the period from continuing operations		<u>(2,503)</u>	<u>(76)</u>	<u>(3,935)</u>	<u>(123,405)</u>
<b>Discontinued Operations</b>					
(Loss)/profit for the period from discontinued operations	9	<u>—</u>	<u>(77)</u>	<u>—</u>	<u>66,152</u>
<b>Loss attributable to the owners of the Company</b>		<u><u>(2,503)</u></u>	<u><u>(153)</u></u>	<u><u>(3,935)</u></u>	<u><u>(57,253)</u></u>
<b>Dividend</b>		<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>40,232</u></u>



	For the three months ended		For the nine months ended	
	30 September 2011 (Unaudited) <i>Notes</i>	30 September 2010 (Unaudited) <i>HK\$'000</i>	30 September 2011 (Unaudited) <i>HK\$'000</i>	30 September 2010 (Unaudited) <i>HK\$'000</i>
<b>(Loss)/earning per share</b>	<i>10</i>			
From continuing and discontinued operations				
— Basic and diluted	<u>HK(0.50) cent</u>	<u>HK(0.04) cent</u>	<u>HK(0.78) cent</u>	<u>HK(17.61) cents</u>
From continuing operations				
— Basic and diluted	<u>HK(0.50)cent</u>	<u>HK(0.02) cent</u>	<u>HK(0.78) cent</u>	<u>HK(37.95) cents</u>
From discontinued operations				
— Basic and diluted	<u>N/A</u>	<u>HK(0.02) cent</u>	<u>N/A</u>	<u>HK20.34 cents</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

	For the three months ended		For the nine months ended	
	30 September	30 September	30 September	30 September
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the period</b>	(2,503)	(153)	(3,935)	(57,253)
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations during the period	—	—	—	(6,068)
<b>Total comprehensive income for the period</b>	<u>(2,503)</u>	<u>(153)</u>	<u>(3,935)</u>	<u>(63,321)</u>
<b>Total comprehensive income attributable to owners of the Company</b>	<u>(2,503)</u>	<u>(153)</u>	<u>(3,935)</u>	<u>(63,321)</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. General information**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the GEM of the Stock Exchange since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The unaudited condensed consolidated income statement and unaudited condensed consolidated statement of comprehensive income (the "Unaudited Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and jointly controlled entity are provision of artists management services, film production and film distribution and provision of infrared thermal imaging and thermography solutions and consultancy services.

**2. Basis of preparation and consolidation**

The Unaudited Consolidated Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the Unaudited Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the Unaudited Consolidated Results is the historical cost convention, as modified for the revaluation of certain financial instruments and investment properties which are stated at their fair values.

Certain comparative figures have been reclassified to conform with current year's presentation.

The preparation of Unaudited Consolidated Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2010.

All significant transactions and balances within the Group have been eliminated on consolidation.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the results and financial position of the Group.

## 3. Turnover

	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Continuing operations</b>				
Infrared consultancy services	28	29	282	29
Film right income	—	—	100	—
Artists management services	8,955	5,799	30,112	18,402
	<u>8,983</u>	<u>5,828</u>	<u>30,494</u>	<u>18,431</u>

## 4. Other revenue and income

	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Continuing operations</b>				
Bank interest income	4	44	77	74
Sundry income	—	25	17	1,001
	<u>4</u>	<u>69</u>	<u>94</u>	<u>1,075</u>
<b>Discontinued operations</b>				
Bank interest income	—	—	—	91
Gain on disposal of property, plant and equipment	—	—	—	89
Sundry income	—	—	—	1,866
	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,046</u>
	<u>4</u>	<u>69</u>	<u>94</u>	<u>3,121</u>

## 5. Other operating expenses

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Loss on early redemption of promissory note	—	—	—	64,252
Loss on early redemption of convertible loan notes	—	—	—	44,654
	<u>—</u>	<u>—</u>	<u>—</u>	<u>108,906</u>

## 6. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Continuing operations</b>				
Effective interest expenses on convertible loan notes	153	152	444	1,869
Effective interest expenses on promissory note	—	—	—	3,916
Interest on bank loans and overdrafts wholly repayable within five years	—	—	1	—
	<u>153</u>	<u>152</u>	<u>445</u>	<u>5,785</u>
<b>Discontinued operations</b>				
Interest on bank loans and overdrafts wholly repayable within five years	—	—	—	1
Interest on finance leases	—	—	—	6
	<u>—</u>	<u>—</u>	<u>—</u>	<u>7</u>
	<u>153</u>	<u>152</u>	<u>445</u>	<u>5,792</u>

## 7. Loss before tax

	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Continuing operations</b>				
Depreciation of property, plant and equipment	18	81	53	270
Minimum lease payments under operating leases on land and buildings	54	231	161	535
Impairment loss of film in progress	1,390	—	1,390	—
Staff costs including directors' remuneration	773	926	2,280	2,858
Equity-settled share option expenses	—	—	2,409	3,341
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Discontinued operations</b>				
Depreciation of property, plant and equipment	—	—	—	1,658
Minimum lease payments under operating leases on land and buildings	—	—	—	235
Staff costs including directors' remuneration	—	33	—	943
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 8. Tax credit

	For the three months ended 30 September		For the nine months ended 30 September	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Continuing operations</b>				
Deferred tax	—	—	—	(235)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	—	—	—	(235)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Discontinued operations</b>				
Deferred tax	—	—	—	3,545
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	—	—	—	3,545
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	—	—	—	3,310
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

No provision of Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period under review (2010: Nil).

### 9. Discontinued operations

On 28 May 2010, the Group disposed of (i) its wholly owned subsidiary, Mega Shell Services Limited (“Mega Shell”), and its subsidiaries (collectively referred to the “Mega Shell Group”) and (ii) an amount due to its ultimate holding company (the “Mega Shell Sale Loan”). Upon completion of the disposal, the Mega Shell Group ceased to be subsidiaries of the Company and the business of service apartment operation which was solely carried out by the Mega Shell Group, became a discontinued operation of the Group.

On 13 December 2010, the Group disposed of (i) its 19% owned jointly controlled entity, Amazing Goal International Limited (“Amazing Goal”), and its subsidiaries (collectively referred to the “Amazing Goal Group”) and (ii) an amount due to its ultimate holding company (the “Amazing Goal Sale Loan”). Upon completion of the disposal, the Amazing Goal Group ceased to be jointly controlled entities of the Company and the business of distribution which was solely carried out by the Amazing Goal Group, became a discontinued operation of the Group.

The combined results of the discontinued operations related to the Mega Shell Group and the Amazing Goal Group are set out below.

	For the three months ended		For the nine months ended	
	30 September 2011 (Unaudited) HK\$'000	30 September 2010 (Unaudited) HK\$'000	30 September 2011 (Unaudited) HK\$'000	30 September 2010 (Unaudited) HK\$'000
Other revenue and income	—	—	—	2,046
Gain arising on change in fair values of investment properties	—	—	—	11,816
Administrative expenses	—	(77)	—	(8,726)
Finance costs	—	—	—	(7)
(Loss)/profit before tax	—	(77)	—	5,129
Tax	—	—	—	(3,545)
	—	(77)	—	1,584
Gain on disposal of the Mega Shell Group	—	—	—	64,568
(Loss)/profit for the period from discontinued operations	—	(77)	—	66,152

### 10. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss attributable to owners of the Company for the three months ended 30 September 2011 of approximately HK\$2.5 million (2010: approximately HK\$0.2 million) and loss attributable to owners of the Company for the nine months ended 30 September 2011 of approximately HK\$3.9 million (2010: approximately HK\$57.3 million) and the weighted average of 505,649,726 shares in issue during the three months ended 30 September 2011 (2010: 369,360,995 shares) and the weighted average of 505,649,726 shares in issue during the nine months ended 30 September 2011 (2010: 325,144,202 shares).

Diluted (loss)/earnings per share was the same as basic (loss)/earnings per share for the three months and nine months ended 30 September 2011 and 2010 as the exercise of share option and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

## 11. Reserves

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Convertible loan notes reserve (Unaudited) HK\$'000	Share-based payments reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	(Accumulated losses)/ retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2010	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380
Net loss for the period	—	—	—	—	—	—	(57,253)	(57,253)
Other comprehensive income for the period	—	—	—	—	—	(6,068)	—	(6,068)
Total comprehensive income for the period	—	—	—	—	—	(6,068)	(57,253)	(63,321)
Extention period of convertible loan notes	—	—	—	508	—	—	—	508
Capital reduction	(5,411)	—	5,411	—	—	—	—	—
Placing new shares, net	2,000	57,350	—	—	—	—	—	59,350
Capital reorganisation	—	(252,834)	40,551	—	—	—	212,283	—
Dividend, paid	—	—	(40,232)	—	—	—	—	(40,232)
Redemption of convertible loan notes	—	—	—	(150,448)	—	—	48,483	(101,965)
Deferred tax released on redemption of convertible loan notes	—	—	—	24,192	—	—	—	24,192
Recognition of equity-settled share-based payments	—	—	—	—	3,341	—	—	3,341
Release of exchange reserve from the disposal of a subsidiary	—	—	—	—	—	6,605	—	6,605
Issue of shares from the acquisition of a subsidiary	592	17,755	—	—	—	—	—	18,347
At 30 September 2010	<u>3,944</u>	<u>17,755</u>	<u>28,294</u>	<u>1,900</u>	<u>4,711</u>	<u>—</u>	<u>25,601</u>	<u>82,205</u>
At 1 January 2011	<u>5,056</u>	<u>47,383</u>	<u>28,294</u>	<u>2,381</u>	<u>1,367</u>	<u>—</u>	<u>31,217</u>	<u>115,698</u>
Net loss for the period	—	—	—	—	—	—	(3,935)	(3,935)
Other comprehensive income for the period	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	—	—	(3,935)	(3,935)
Recognition of equity-settled share-based payments	—	—	—	—	2,409	—	—	2,409
Lapse of share options	—	—	—	—	(3,776)	—	3,776	—
At 30 September 2011	<u>5,056</u>	<u>47,383</u>	<u>28,294</u>	<u>2,381</u>	<u>—</u>	<u>—</u>	<u>31,058</u>	<u>114,172</u>



## 5. INDEBTEDNESS STATEMENT

### Borrowing

As at the close of business on 31 December 2011, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this Composite Document, the KH Group had outstanding borrowings of approximately HK\$5,000,000 which comprised the liability component of the CLN of approximately HK\$5,000,000. The aggregate principal amount of the CLN amounted to HK\$6,200,000. As at 31 December 2011, the KH Group's banking facilities of HK\$200,000 was secured by personal guarantees of two directors of a wholly-owned subsidiary.

### Disclaimer

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the KH Group did not have, at 31 December 2011, any loan capital issued and outstanding or agreed to be issued, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptances credits or hire purchase commitments, guarantees or any material contingent liabilities as at the close of business on 31 December 2011. The KH Directors confirmed that there had been no material change in the indebtedness of the KH Group since 31 December 2011.

## 6. IMPAIRMENT OF GOODWILL

The management of KH Investment observes that there is possible impairment of the goodwill arising from the acquisition of the infrared consultancy business as detailed on KH Investment's announcement dated 16 July 2010, which has a carrying value of approximately HK\$14.2 million as at 30 June 2011. The management of KH Investment however does not consider the potential impairment, even to the full extent of the carrying value, will adversely impact on the business performance of the KH Group as the impairment will be non-cash in nature.

## 7. PROVISIONS

The management of KH Investment notes (i) an impairment loss of approximately HK\$1.4 million incurred for a film which has been terminated in 2011 which was disclosed in KH Investment's 2011 third quarterly report for the nine months ended 30 September 2011 and (ii) a potential provision on the deposits paid to several artists in the amount of approximately HK\$5 million (which only accounted for less than 5% of the KH Group's consolidated net asset value of approximately HK\$116.68 million as at 30 June 2011) as estimated by KH Investment as at the Latest Practicable Date. The management of KH Investment however does not consider that such provisions will bear any adverse financial influence on KH Group.

## 8. MATERIAL CHANGE

The KH Directors confirm that there was no material change in the financial or trading position or outlook of the KH Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of KH Investment were made up, up to and including the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of providing information with regards to the Offers, the Offeror, Culture Landmark and parties acting in concert with any of them and the KH Group. The KH Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror, Culture Landmark and parties acting in concert with any of them, the terms and conditions of the Offers and the intention of the Offeror regarding KH Investment) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror, Culture Landmark and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained in this Composite Document misleading.

## 2. SHARE CAPITAL

### (a) Share capital

As at the Latest Practicable Date, the authorised and issued share capital of KH Investment are as follows:

<i>Authorised:</i>	<i>HK\$</i>
3,000,000,000 KH Shares	30,000,000.00
<i>Issued and fully paid:</i>	
505,649,726 KH Shares	5,056,497.26

All the existing KH Shares rank *pari passu* in all respects with one another, including all rights as to dividends, voting rights and interests in capital.

The KH Shares are listed and traded on the GEM. No KH Shares are listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the KH Shares being, or proposed to be sought, on any other stock exchange.

No KH Shares have been issued and allotted since 31 December 2010, the date to which the latest published audited consolidated accounts of the KH Group were made up.

**(b) Options, warrants and conversion rights**

As at the Latest Practicable Date, KH Investment had (i) 505,649,726 KH Shares in issue; and (ii) the outstanding CLN of HK\$6,200,000 entitling the holders thereof to convert into 12,731,006 Conversion Shares at the prevailing conversion price of HK\$0.487 per KH Share (subject to adjustment).

Save as disclosed above, as at the Latest Practicable Date KH Investment has no other options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into KH Shares.

**3. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVE OF KH INVESTMENT**

As at the Latest Practicable Date, none of the KH Directors nor the chief executive of KH Investment had or was deemed to have any interests or short positions in the KH Shares, underlying KH Shares or debentures of KH Investment or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to KH Investment 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the KH Directors had any interest in the shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into shares of KH Investment.

#### 4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS OF KH INVESTMENT

So far as is known to the KH Directors or chief executive of KH Investment, as at the Latest Practicable Date, the following persons had, or were deemed to have, interests or short positions in the KH Shares or underlying KH Shares which would fall to be disclosed to KH Investment and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or, who were expected, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the KH Group:

##### Long position in the KH Shares

Name of KH Shareholder	Capacity	Interest in KH Shares	Total interest in KH Shares	Percentage of the issued share capital of KH Investment
New Asia Media Development Limited	Beneficial owner	379,030,000	379,030,000	74.96%
Culture Landmark Investment Limited	Held by controlled corporation	379,030,000	379,030,000	74.96%
Aikford Financial Services Limited	Beneficial owner	35,247,161	35,247,161	6.97%
Century City Holdings Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Century City BVI Holdings Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Century City International Holdings Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Grand Modern Investments Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Century Digital Holdings Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Net Community Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Secure Way Technology Limited	Held by controlled corporation	35,247,161	35,247,161	6.97%
Lo Yuk Sui	Held by controlled corporation	35,247,161	35,247,161	6.97%

Save as disclosed above, as at the Latest Practicable Date, the KH Directors were not aware of any other person who had, or was deemed to have, interests and/or short positions in the KH Shares or underlying KH Shares (including any interests in options in respect of such capital), which would fall to be disclosed to KH Investment and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was expected, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of KH Group.

## 5. INTERESTS IN THE OFFEROR

Mr. Cheng Yang is the Chairman of the KH Board. He is also the Chairman of Culture Landmark. He owned 1,786,980,000 Culture Landmark Shares, representing approximately 14.92% of the entire issued share capital of Culture Landmark as at the Latest Practicable Date. Save as disclosed above, as at the Latest Practicable Date, none of KH Investment, nor any of the KH Directors and the chief executive of KH Investment had any interest in the shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into shares of Culture Landmark or the Offeror.

## 6. DEALINGS IN SECURITIES OF KH INVESTMENT

During the Relevant Period,

- (a) none of the KH Directors had any dealings or dealt for value in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of KH Investment, the Offeror or Culture Landmark;
- (b) no subsidiaries of KH Investment, pension funds of any member of the KH Group or advisers to KH Investment as specified in class (2) of the definition of associate under the Takeovers Code owned or controlled or had any dealings in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of KH Investment, the Offeror or Culture Landmark;
- (c) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, including any arrangement involving rights over shares, any indemnity agreement, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing, existed between any person and KH Investment or any person who is an associate of KH Investment by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;

- (d) no relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in KH Investment, the Offeror or Culture Landmark were managed on a discretionary basis by fund managers connected with KH Investment and none of them has dealt with such relevant securities;
- (e) none of the KH Directors are registered KH Shareholders or CLN Holders entitled to the Offers; and
- (f) none of KH Investment or the KH Directors borrowed or lent any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of KH Investment, Culture Landmark or the Offeror.

## 7. DEALINGS IN SECURITIES OF THE OFFEROR

During the Relevant Period, none of KH Investment and the KH Directors had any dealings in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

## 8. ARRANGEMENTS AFFECTING KH DIRECTORS

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation) would be given to any KH Director as compensation for loss of office or otherwise in connection with the Offers.
- (b) there was no agreement or arrangement between any KH Director and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.
- (c) no material contracts have been entered into by Culture Landmark or the Offeror in which any KH Director has a material personal interest.
- (d) Save as disclosed below, as at the Latest Practicable Date, there is no service contract with KH Investment or any of its subsidiaries or associated companies in force for the KH Directors (i) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before 16

January, 2012 (being the date of commencement of the Offer Period); (ii) which is a continuous contract with a notice period of 12 months or more; or (iii) which is fixed term contract with more than 12 months to run irrespective of the notice period:

<b>Name of KH Directors under service/ employment contracts</b>	<b>Date of service/ employment contracts</b>	<b>Expiry date of service/ employment contracts (if any)</b>	<b>Annual remuneration payable under service/ employment contracts</b>	<i>Note</i>
Kwok Wai Kin, Kenneth	3 October 2011	Recurring	HK\$1,420,000	1

*Note:*

1. A continuous service contract was entered into between China Media and Films Holdings Ltd., a wholly-owned subsidiary of KH Investment, and Mr. Kwok Wai Kin, Kenneth in respect of his appointment as an executive KH Director and the chief executive officer of KH Investment, subject to retirement and re-election at the annual general meeting of KH Investment in accordance with its bye-laws, pursuant to which he is entitled to receive a basic monthly salary of HK\$100,000 and an annual bonus equivalent to no less than 1 time of his monthly remuneration for and after each full calendar year's continues service. For service of less than one full calendar year, the bonus shall be pro-rated accordingly. Mr. Kwok is also entitled to an annual director's fee of HK\$120,000, which is determined by the remuneration committee of KH Investment with reference to his duties and responsibilities in KH Investment.

## 9. MATERIAL CONTRACTS

The following contracts were entered into by the KH Group (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by KH Investment or any of its subsidiaries) during the period of two years immediately preceding the date of commencement of the Offer Period and are or may be material:

- (a) the conditional sale and purchase agreement dated 8 February 2010 entered into between KH Investment and Keen Modern Limited, in relation to the sale and purchase of the entire issued share capital of Mega Shell Services Limited, a wholly-owned subsidiary of KH Investment, and all debts, liabilities and obligations owing or incurred by Mega Shell Services Limited to KH Investment as at the date of completion at an aggregate consideration of approximately RMB119.57 million;

- (b) the conditional sale and purchase agreement dated 9 February 2010 entered into between KH Investment and Massive Wealth Holdings Limited in relation to an acquisition of the entire issued share capital of Citi Island Company Limited which is principally engaged in design, management and implementation of integrated information system and advanced energy saving technology which aims for wise and modern management of the city's public services in the PRC at a total consideration of HK\$1.8 billion, subject to adjustment;
- (c) the termination agreement dated 13 April 2010 entered into between KH Investment and Massive Wealth Holdings Limited to terminate the conditional sale and purchase agreement in (b) above;
- (d) the supplemental agreement dated 22 April 2010 entered into between KH Investment and Keen Modern Limited in relation to the extension of the long stop date of the conditional sale and purchase agreement in (a) above to 31 May 2010;
- (e) the conditional sale and purchase agreement dated 16 July 2010 entered into between Premium Dignity Investments Limited, a wholly-owned subsidiary of KH Investment, Mr. Ko Wing Hong and Mr. Yuen Po Cheung, in relation to the acquisition of the entire issued share capital of Infrared Engineering & Consultants Limited and all of debts, liabilities and obligations owing or incurred by Infrared Engineering & Consultants Limited to the vendors as at the date of completion at an aggregate consideration of approximately HK\$14.50 million;
- (f) the conditional sale and purchase agreement dated 16 November 2010 entered into between KH Investment and Media China Corporation Limited (stock code: 419) in relation to the acquisition of the entire issued share capital of Sinofocus Media (Holdings) Limited at a total consideration of HK\$82 million;
- (g) the joint venture agreement dated 8 December 2010 entered into between KH Investment, China Star Entertainment (BVI) Limited and China Star Film Group Limited in relation to the formation of a joint venture company, namely China Star Film Group Limited, to be owned as to 50% by KH Investment and as to 50% by China Star Entertainment (BVI) Limited. Pursuant to the joint venture agreement, each of KH Investment and China Star Entertainment (BVI) Limited shall contribute HK\$30 million to the joint venture company as capital;



- (h) the conditional sale and purchase agreement dated 13 December 2010 entered into between KH Investment and Chung Chiu (PTC) Limited in relation to disposal of 19% of the issued share capital of Amazing Goal International Limited and sales debts to KH Investment at a consideration of HK\$1;
- (i) the placing agreement dated 16 December 2010 entered into between REORIENT (formerly called Mansion House Securities (F.E) Limited) and KH Investment in relation to the placing of 84,000,000 new shares of HK\$0.01 each of KH Investment, on a fully underwritten basis, at a placing price of HK\$0.255 per new KH Share; and
- (j) the termination agreement dated 15 April 2011 entered into between KH Investment and Media China Corporation Limited to terminate the conditional sale and purchase agreement mentioned in (f) above.

Save as disclosed above, there are no other contracts, not being contracts entered into in the ordinary course of business of the KH Group, having been entered into by the KH Group after the date two years before the commencement of the Offer Period.

Save as disclosed above, as at the Latest Practicable Date, there is no agreement, arrangement, understanding or negotiation about any acquisition of assets involving the KH Group, and no assets injections have been agreed or are under negotiation.

## 10. LITIGATION

As at the Latest Practicable Date, save as disclosed below, no member of the KH Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known by the KH Directors to be pending or threatened against any member of the KH Group.

### **Pending litigation**

On 30 May 2011, China Star Management Limited (“CSM”), an indirect wholly-owned subsidiary of KH Investment, issued a writ of summons against Tang’s Workshop Limited (“**Tang’s Workshop**”).

CSM claimed to recover the services rendered or work done and materials supplied to Tang’s Workshop for the sum of HK\$127,500. At the Latest Practicable Date, final judgement of this court proceedings has not yet been granted.

**11. EXPERT AND CONSENT**

The following is the qualification of the expert who has given opinion or advice which are contained in this Composite Document:

KBC Bank N.V. Hong Kong Branch

KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee in relation to the Offers

KBC Bank N.V. Hong Kong Branch has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, KBC Bank N.V. Hong Kong Branch did not have any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited consolidated accounts of the KH Group were made up, acquired or disposed of by or leased to any member of the KH Group or are proposed to be acquired or disposed of by or leased to any member of the KH Group.

As at the Latest Practicable Date, KBC Bank N.V. Hong Kong Branch did not have any shareholding in any member of the KH Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the KH Group.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal office and place of business of KH Investment in Hong Kong at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong; (ii) on the website of the Securities and Futures Commission ([www.sfc.hk](http://www.sfc.hk)); and (iii) KH Investment's website at [www.golife.com.hk](http://www.golife.com.hk) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum of continuance and bye-laws of KH Investment;
- (b) the annual reports of KH Investment for the years ended 31 December 2009 and 2010, the interim report of KH Investment for the six months ended 30 June 2011 and the quarterly report of KH Investment for the nine months ended 30 September 2011;
- (c) the letter from the KH Board, the text of which is set out on pages 21 to 30 of this Composite Document;
- (d) the letter from REORIENT, the text of which is set out on pages 10 to 20 of this Composite Document;
- (e) the letter of recommendation from the Independent Board Committee to the Independent KH Shareholders and the CLN Holders, the text of which is set out on pages 31 to 32 of this Composite Document;
- (f) the letter of advice from KBC Bank N.V. Hong Kong Branch to the Independent Board Committee, the text of which is set out on pages 33 to 51 of this Composite Document;
- (g) the irrevocable undertaking given by Aikford on 30 December 2011 not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the 35,247,161 KH Shares it holds after the Acquisition but prior to the close of the Offers;
- (h) the service contract of the KH Director referred to in the section headed "Arrangements Affecting KH Directors" in this appendix;

- (i) the written consent referred to in the section headed “Expert and consent” in this appendix; and
- (j) the material contracts referred to in the section headed “Material contracts” in this appendix.

### 13. MISCELLANEOUS

- (a) The registered office of KH Investment is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is Unit 3407, 34/F, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (b) The KH Directors are Mr. Cheng Yang (Chairman), Mr. Kwok Wai Kin, Kenneth (Chief Executive Officer), Mr. Kenneth Ng Kwai Kai and Mr. Kelvin Leung So Po being the executive directors, Mr. Donald Fan Tung being the non-executive director, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng being the independent non-executive directors.
- (c) The company secretary of KH Investment is Mr. Chan Wai.
- (d) The Registrar of KH Investment is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (e) The registered address of KBC Bank N.V. Hong Kong Branch is 39/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (f) This Composite Document has been prepared in both English and Chinese languages. In case of any inconsistency, the English text of this document shall prevail over the Chinese text.

## 1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Independent KH Shareholders and the CLN Holders with regard to the Offeror and the Offers.

The information contained in this Composite Document relating to the Offeror and its intention has been supplied by the Offeror. The directors of the Offeror and Culture Landmark jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the KH Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the KH Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement contained in this Composite Document misleading.

## 2. MARKET PRICES

The table below shows the closing price of the KH Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Full Trading Day; and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing price per Share HK\$</b>
29 July 2011	0.244
31 August 2011	0.243
21 September 2011 (being the Last Full Trading Day)	0.247
31 January 2012	0.340
8 February 2012 (being the Latest Practicable Date)	0.345

*Note:* From 22 September 2011 to 16 January 2012, trading in KH Shares on the Stock Exchange was suspended.

The highest and lowest closing prices of the KH Shares during the Relevant Period were HK\$0.345 per KH Share on 26 January 2012 and 8 February 2012 and HK\$0.23 per KH Share on 10 August 2011.

### 3. DISCLOSURE OF INTERESTS OF THE OFFEROR AND ITS DIRECTORS

The Offeror is a wholly-owned subsidiary of Culture Landmark. As at the Latest Practicable Date, the Culture Landmark Board comprised Mr. Cheng Yang, Mr. Zheng Yuchun, Mr. Liu Yu Mo, Mr. Li Weipeng, Mr. Tong Jingguo, Mr. Yang Rusheng and Mr. So Tat Keung; and the board of directors of the Offeror comprised Mr. Cheng Yang, Mr. Zheng Yuchun and Ms. Hui Ching.

As at the Latest Practicable Date, the Offeror, Culture Landmark and parties acting in concert with any of them held 379,030,000 KH Shares, representing approximately 74.96% of the entire issued share capital of KH Investment. Save for the aforesaid, the Offeror or its directors, Culture Landmark and parties acting in concert with any of them do not own or control any other interests in the share capital or voting rights of KH Investment or in the convertible securities, warrants, options or derivatives of KH Investment.

### 4. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF KH INVESTMENT AND ARRANGEMENTS IN RELATION TO DEALINGS

- (a) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror, Culture Landmark or any person acting in concert with any of them and any other person.
- (b) Aikford which owns 35,247,161 KH Shares has irrevocably undertaken to the Offeror not to accept the Share Offer and not to transfer those KH Shares it holds during the Offer Period in respect of the Share Offer. Save for the above, as at the Latest Practicable Date, no person had irrevocably committed himself/herself/itself to accept or not to accept the Offers. During the Relevant Period, Aikford under the Acquisition disposed of 119,032,839 KH Shares at consideration of HK\$0.35 per KH Share pursuant to the bought and sold notes entered into on 30 December 2011 and acquired KH Shares as follows:

Date	Number of KH Shares	Consideration per KH Share <i>HK\$</i>
22 August 2011	20,000	0.2400
	40,000	0.2430
	1,640,000	0.2440
	380,000	0.2450
	200,000	0.2460
1 September 2011	1,000,000	0.2440

- (c) During the Relevant Period, neither the Offeror, Culture Landmark nor any parties acting in concert with any of them has borrowed or lent any KH Shares or convertible securities, warrants, options or derivatives of KH Investment.
- (d) Save as disclosed below, none of the Offeror or its directors, Culture Landmark and parties acting in concert with any of them have dealt in any KH Shares or convertible securities, warrants or derivatives of KH Investment during the Relevant Period.
  - (i) On 30 December 2011, the Offeror acquired in aggregate 232,000,000 Sale Shares from the Vendors at a consideration of HK\$0.35 per KH Share pursuant to the Acquisition; and
  - (ii) On 7 September 2011, Mr. Lei Hong Wei, Mr. Cheung Kwok Wai, Elton and Mr. Chan Kin Wah, Billy (all being executive directors of Eternity) and Grow Dragon Limited, a company wholly owned by Mr. Cheung Kwok Fan (the non-executive director of Eternity), who were all holders of KH Shares, accepted the share offer under the Splendor Glow Offer in respect of an aggregate of 30,044,000 KH Shares at the offer price of HK\$0.25 per KH Share.

## 5. MISCELLANEOUS

As at the Latest Practicable Date,

- (a) Save that Aikford has irrevocably undertaken to the Offeror not to accept the Share Offer and not to transfer those KH Shares it holds during the Offer Period in respect of the Share Offer, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror, Culture Landmark or any person acting in concert with any of them and any KH Director, recent KH Director, KH Shareholder or recent KH Shareholder which had any connection with or dependent upon the Offers;
- (b) no material contracts had been entered into by the Offeror in which any KH Director has a material personal interest;
- (c) there was no agreement or arrangement to which the Offeror or Culture Landmark is a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers;

- (d) As at the Latest Practicable Date, 379,030,000 KH Shares owned by the Offeror are deposited in the Offeror's securities account opened with REORIENT (the "Subject KH Shares"). The Subject KH Shares and any KH Shares acquired by the Offeror under the Offers will be pledged to REORIENT for any amount it may borrow from REORIENT to finance the Share Offer. Any loan drawn on the aforesaid facility shall be paid by the Offeror on the date falling 90 days after the closing of the Offers, failing which REORIENT may sell the pledged securities to recover any amount owed by the Offeror. Save for the above, there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons; and
- (e) no benefit had been or would be given to any KH Directors as compensation for loss of office or otherwise in connection with the Offers.

## 6. EXPERT AND CONSENT

The following is the qualification of the expert whose letter/opinion is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
REORIENT Financial Markets Limited	a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities and the financial adviser to Culture Landmark and the Offeror in respect of the Offers

REORIENT has given and has not withdrawn its written consent to the issue of this Composite Document with copy of its letter and the references to its name included herein in the form and context in which they are respectively included.



**7. GENERAL**

- (a) The registered office of the Offeror is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal place of business of the Offeror is at Rooms 2501-2505, 25th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. As at the Latest Practicable Date, the entire issued share capital of the Offeror was directly held by Culture Landmark. The head office and principal place of business of Culture Landmark in Hong Kong is situated at, and the correspondence address of the Offeror in Hong Kong is, Rooms 2501-05, 25th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (b) The registered office of REORIENT is at Suites 1102-03, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.
- (c) The registered office of Eternity is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at Unit 3811, Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Hong Kong. The board of directors of Eternity comprises Messrs. Lei Hong Wai, Cheung Kwok Wai, Elton, Chan Kin Wah, Billy, Cheung Kwok Fan, Wan Shing Chi, Ng Heung Yan and Wong Tak Chuen.
- (d) The English texts of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts in the case of inconsistency.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of KH Investment in Hong Kong at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong; (ii) on the website of the Securities and Futures Commission ([www.sfc.hk](http://www.sfc.hk)); and (iii) KH Investment's website at <http://www.golife.com.hk> during the period from the date of this Composite Document onwards until the end of the Offer Period:

- (a) the memorandum and articles of association of the Offeror;

- (b) the letter from REORIENT as set out on pages 10 to 20 of this Composite Document;
- (c) the written consent referred to in the paragraph headed “Expert and consent” in this appendix; and
- (d) the irrevocable undertaking given by Aikford on 30 December 2011 not to accept the Share Offer in respect of the 35,247,161 KH Shares held by it and not to dispose of, transfer or encumber, or agree to dispose of, transfer or encumber, whether directly or indirectly, the 35,247,161 KH Shares it holds after the Acquisition but prior to the close of the Offers.