



美亞娛樂資訊集團有限公司
MEI AH ENTERTAINMENT GROUP LTD.



Annual Report 2005

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Corporate Information

DIRECTORS

Executive Directors

Mr. LI Kuo Hsing (*Chairman*)

Mr. TONG Hing Chi

Mr. CHAU Kei Leung

Non-Executive Directors

Dr. YOU Jing Feng

Mr. CHAN Ngan Piu

Independent Non-Executive Directors

Mr. CHEUNG Yui Kai, Warren

(“Warren CHEUNG”)

Mr. CHEUNG Ming Man

Ms. WANG Huarong

COMPANY SECRETARY

Mr. CHAN Lun Ho

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5/F., Mei Ah Centre

28 Chun Choi Street

Tseung Kwan O Industrial Estate

Kowloon

Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking
Corporation Limited

Bank of China (Hong Kong) Limited

Industrial and Commercial Bank of
China (Asia) Limited

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants, Hong Kong

22nd Floor, Prince’s Building

Central

Hong Kong

LEGAL ADVISORS

Sidley Austin Brown & Wood

39/F, Two International Finance Center

8 Finance Street

Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited

Rosebank Centre

14 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

AUDIT COMMITTEE

Mr. Warren CHEUNG

Mr. CHEUNG Ming Man

Ms. WANG Huarong

AUTHORISED REPRESENTATIVES

Mr. LI Kuo Hsing

Mr. TONG Hing Chi

website : www.meiah.com

e-mail : meiah@meiah.com

Chairman's Statement

RESULTS AND DIVIDENDS

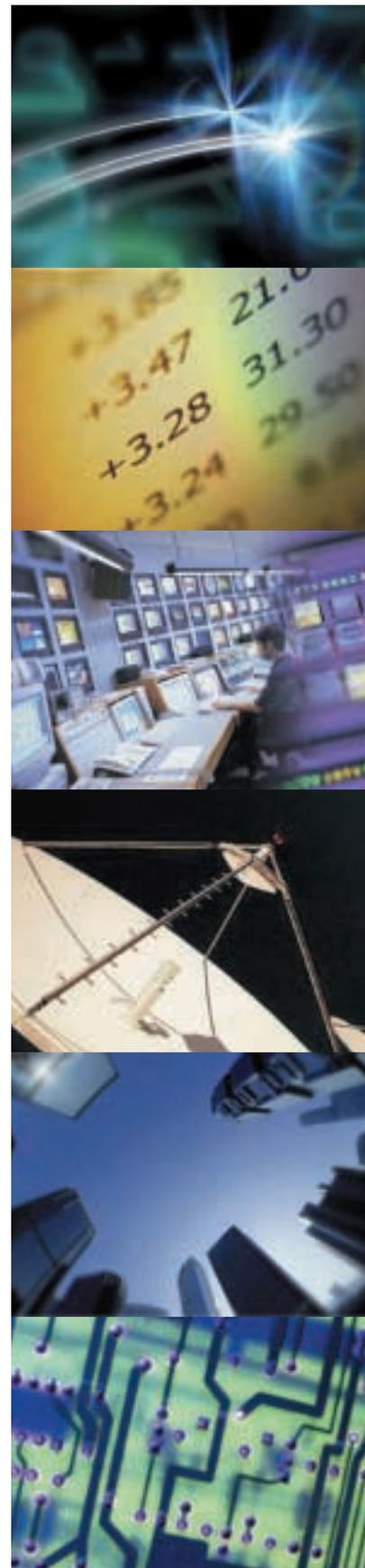
The loss attributable to shareholders of the Group for the year was HK\$29,100,000 (2004: HK\$5,578,000) and the directors do not recommend the payment of any dividend for the year ended 31st March 2005. (2004: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31st March 2005, the Group recorded a consolidated turnover of HK\$147,321,000 (2004: HK\$175,205,000), a decrease of 16% compared with last year. Loss attributable to shareholders during the year was HK\$29,100,000 (2004: HK\$5,578,000), after the provision for obligations in and amounts due from associated companies of HK\$26.7 million.

The Group operates in the following major business segments, the sale and distribution of video products; film exhibition, film rights licensing and sub-licensing; and television operations, which contributed 56% (2004: 76%), 21% (2004: 11%) and 23% (2004: 13%) of the Group's turnover respectively.

Following the conclusion of content supply contracts with pay-TV operators including now TV, HK Broadband and Cable TV in the past years, the contribution of revenues from the Group's television segment has increased from 13% to 23%. Since the launch of its first broadcasting channel (namely MATV1) in 2001, which provides movies from the Group's film library and other programs from its business partners, the Group has continuously explored various sources of revenue streams from its television operations. In 2004, the Group secured contracts with the operators of HK Broadband to provide movie channels and now TV to provide a drama channel. In 2005, additional contracts were also entered into with other television operators locally and overseas, as well as certain mobile phone operators to provide channel contents. Other than films and drama channels, the Group will continue to develop channels comprising other programs. Equipped by the Group's film library and through the Group's experience and network in program sourcing, the Group is confident that it will continue to provide high quality and customised TV programs to the audiences. The Group also believes that its television segment still has huge potential of growth and will continue to bring significant and increasing contribution to the Group. Following the plan of digital TV signal development in Hong Kong and China which allows more broadcasting channels than the existing analogue system, the demand for TV channel contents is expected to increase significantly and the Group believes that it will receive fruitful and encouraging rewards from those new market opportunities and enjoy the prospectus of its television operations.



Chairman's Statement



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Compared with 2004, the Group has allocated an increased amount of resources in the production of films. During the year, five films namely "The Foliage", "My Sweetie", "It had to be you", "Beyond our Ken" and "AV" were released by the Group and two namely "Love Battlefield" and "Hidden Heroes" were released by an associated company. Subsequent to 31st March 2005, two more films, namely "Colour of the Loyalty" and "Dragon Reloaded 2" were produced and released by the Group plus certain number which are being produced and planned. All of these films received appreciable performances and responses from the markets in their theatrical, video discs releases, overseas sub-licensing and pre-sale. In addition, the Group's films also receive encouraging feedback and awards during their participations in a number of film festivals worldwide. Looking forward, the Group will continue to invest and offer its utmost support in Hong Kong's film production industry and aims to produce high quality and welcoming films.

Affected by the overall industrial climate, in particular the increasing popularity of copyright infringement behaviour such as downloading through internet, copying through re-writable disc drives and those shops which offer rental of video discs to customers, the business of sale and distributions of video discs is becoming difficult and accordingly its revenues and results in respect of the segment of sale and distribution of video products were dropped during the year. Nevertheless, the Group will continue to acquire welcomed and popular films and diversify its distribution channels in order to maintain its competitiveness.

In May 2004, the Group disposed of its entire interest in M21 Technology Limited ("M21"), an associated company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited at a consideration of approximately HK\$25 million and brought a gain on disposal of approximately HK\$15.6 million for the year. The directors consider the disposal represented a good opportunity for the Group to realise its investment in M21 and the proceeds also enable the Group to strengthen its working capital and concentrate its financial resources into its three main core businesses as mentioned above.

Following the implementation of stringent cost control measures, the Group's administrative expenses were decreased by 8%. In order to simplify the organisational structure and enhance the efficiency, the Group has recently appointed an agent company to handle the logistic procedures in respect of its sale and distributions of video discs. The Group's working capital and gearing position (details as set out in the paragraph headed "Liquidity and financial resources" below) has also been improved following the continuous repayment of loans raised during the construction of its head quarter in Tseung Kwan O. Looking forward, the Group will exploit every opportunities to generate greatest returns for its shareholders.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2005, the Group has available banking facilities of approximately HK\$65 million, of which approximately HK\$44 million were utilised. Certain of the Group's properties with net book values of HK\$155 million were pledged to banks to secure banking facilities. The Group's gearing ratio of 19% as at 31st March 2005 was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK\$41,765,000 (of which HK\$21,059,000, HK\$5,777,000, HK\$13,070,000 and HK\$1,859,000 are repayable within one year, in the second year, in the third to fifth year and after the fifth year respectively) and the shareholders' funds of approximately HK\$220,104,000. The Group's borrowings and bank balances are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign currency fluctuations.

At 31st March 2005, the Group had contingent liabilities in respect of guarantees given to banks for facilities of associated companies amounting to approximately HK\$5.3 million, and commitments in respect of film production, acquisition of film rights and others amounting to approximately HK\$17 million. The commitments will be financed by the Group's internal resources and banking facilities.

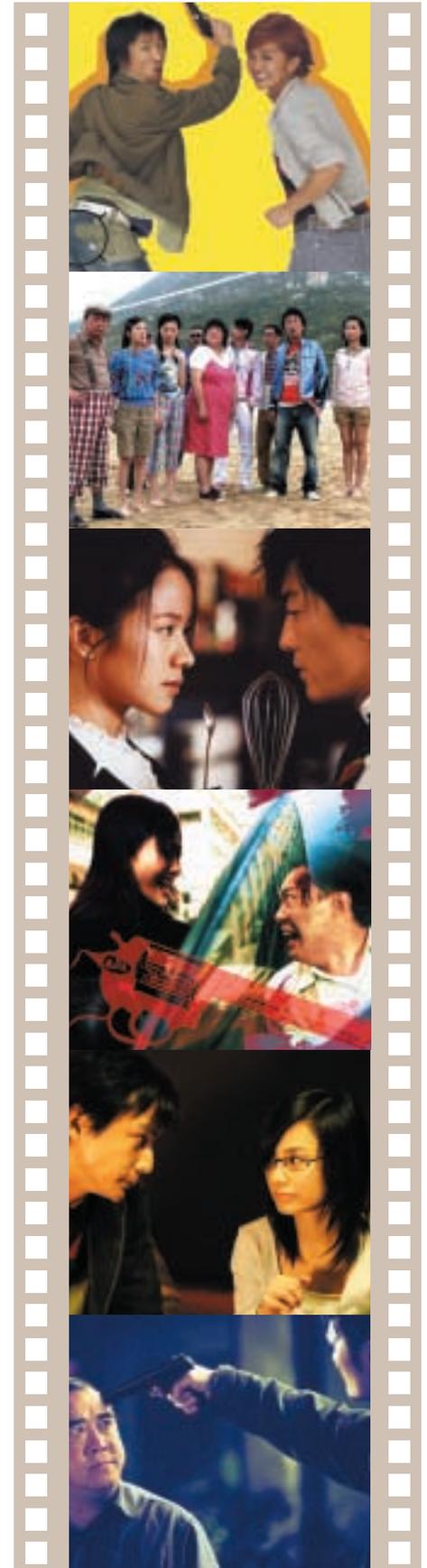
EMPLOYEES

At 31st March 2005, the Group employed 59 (2004: 59) staff. Remuneration is reviewed annually. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund. The Group also has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

Li Kuo Hsing

Chairman

Hong Kong, 28th July 2005



Directors' and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. LI Kuo Hsing, aged 46, is the founder, Chairman and a major shareholder of the Group, and a recognised leader of the Hong Kong entertainment industry. With over 22 years of experience in the home video and media entertainment industry, he is responsible for the corporate strategy and development of the Group. He has also been responsible for film production, the selection and acquisition of film and program titles since the establishment of the Group in 1984. He is the Vice Chairman of the Federation of Motion Film Producers of Hong Kong Limited since 1998 and appointed Member of the Election Committee for the Performing Arts sub-sector of the Legislative Council Election.

Mr. TONG Hing Chi, aged 50, is the Managing Director of the Group, responsible for the Group's overall general and financial administration. He has also been involved in the Group's corporate strategy and development since he joined the Group in 1992. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 18 years of experience in the home video entertainment industry in Hong Kong and overseas. Mr. TONG has been the Vice Chairman of Hong Kong, Kowloon & New Territories Motion Picture Industry Association Limited ("MPIA") since 2001. Mr. TONG is also the Chairman of M21 Technology Limited, a company listed on the GEM of the Stock Exchange, and a non-executive director of New Spring Holdings Limited, which is listed on the Main Board of the Stock Exchange.

Mr. CHAU Kei Leung, aged 41, is responsible for the selection and acquisition of films and programs and the formulation of sales and marketing strategies. He is also responsible for the sub-licensing of film rights to overseas video distributors and TV operators in Hong Kong and overseas. He joined the Group in 1987 and has over 17 years of experience in the home video entertainment industry.

NON-EXECUTIVE DIRECTORS

Dr. YOU Jing Feng, aged 44, was appointed as an executive director of the Company in August 2001. He resigned from the executive directorship and was appointed as a non-executive director of the Company in October 2003. He currently also serves as Director at Investment Banking Division of CITIC Capital. He has 14 years of extensive experience in market development and capital markets at Procter & Gamble Co., Morgan Stanley, CITIC Capital and the Group. Dr. YOU obtained his PhD. degree at Harvard University and MBA degree with high honors from University of Chicago.

Mr. CHAN Ngan Piu, aged 70, has over 36 years of experience in the manufacturing sector in Hong Kong and Mainland China. Mr. CHAN joined the Group in 1988.

Directors' and Senior Management's Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Warren CHEUNG, aged 38, has over 13 years of investment banking experience in the Asia Pacific region. He was appointed as an independent non-executive director of the Company in May 2003. He worked with Standard Chartered Asia Limited, ABN AMRO Asia Corporate Finance Limited and Hercules Capital Limited before. He is currently a director of GC Capital (Asia) Limited. Mr. CHEUNG is also a CPA member of CPA Australia and the Hong Kong Institute of Certified Public Accountants.

Mr. CHEUNG Ming Man, aged 48, has extensive experience in the sector of performance and cultural and was appointed as an independent non-executive director of the Company in September 2004. Mr. CHEUNG has also participated in a number of community associations, including the Hong Kong Chinese Importers' & Exporters' Association (Executive Director); The Hong Kong Special Administrative Region Election Committee (First and Second Election Committee Member); Deputy of the National People's Congress of PRC Election Committee (Ninth and Tenth Election Committee Member) and Chinese People's Political Consultative Conference Guangxi Zhuangzu Zizhiqu (Member).

Ms. WANG Huarong, aged 41, has over 15 years of experience, including management experience, in information technology and financial service industry and was appointed as an independent non-executive director of the Company in October 2004. She had been a General Manager of Sparkice (Hong Kong) Ltd. which is a leading e-commerce company focusing on international trade of China market, a Senior Software Engineer at DSP Development Corporation in Boston, and worked at Fixed Income Technology Group of Goldman Sachs International. Ms. WANG received her Bachelor of Science degree in computer science from Beijing University of Aeronautics and Astronautics, and a Master of Science degree in Information Systems from North-Eastern University in the USA.

SENIOR MANAGEMENT

Mr. HO Po Nin, Benny, aged 45, is a director of Mei Ah (HK) Company Limited, a subsidiary of the Company. He is responsible for formulating the Group's sales and marketing strategies. He joined the Group in 1989 and has over 17 years of experience in the home video entertainment industry.

Mr. CHAN Lun Ho, aged 35, is the Group's financial controller and is responsible for all financial and accounting matters of the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 13 years of auditing and accounting experience. He joined the Group in July 2002.

Mr. LONG Sao Ian, aged 46, is the Program Development Manager of MATV Limited, a subsidiary of the Company. Mr. LONG is responsible for the development and management of the Group's TV operations. Mr. LONG has 25 years of experience in TV operations. Prior to joining the Group in December 2000, Mr. LONG worked for Commercial Radio, Television Broadcasting Ltd, HK Cable TV and Chinese Entertainment Television.

Directors' and Senior Management's Profile

SENIOR MANAGEMENT *(Continued)*

Mr. CHOI Chi Lam, aged 56, is the general manager of Guangdong Tung Ah Audio Video Production Company Limited, a jointly controlled entity of the Group. He joined the Group in 1995 and is responsible for developing the Group's business in the PRC audio video market. He has 27 years of experience in the film and audio video business in Hong Kong and PRC.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March 2005.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 30 to the accounts.

An analysis of the Group's performance for the year by segment is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

PRINCIPAL INVESTMENT PROPERTIES

Details of the principal investment properties held by the Group are set out on page 72.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda and the Company bye-laws, the contributed surplus is not distributable to shareholders except that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

At 31st March 2005, the Company has no distributable reserves available for distribution to shareholders of the Company.

Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 71.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted by the shareholders of the Company in the annual general meeting held on 30th August 2004 (the "Share Option Scheme").

(a) Purposes

The purposes of the Share Option Scheme are to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to employees, consultants, agents, advisers, customers, suppliers, business and joint venture partners of the Company, its subsidiaries and its associated companies.

(b) Participants

On and subject to the terms of the Share Option Scheme and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board may offer to grant share options (the "Options") to any director and employee, consultant, agent, advisor, customer, supplier, business and joint venture partner of the Company, its subsidiaries and its associated companies ("Qualifying Grantee") as the Board may in its absolute discretion select. Provided the Board so agrees, such offer may be accepted by a related trust of the relevant Qualifying Grantee.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(c) Administration

The Share Option Scheme shall be subject to the administration of the Board. The Board's administrative powers include the authority, in its discretion:

- (i) to select Qualifying Grantees to whom Options may be granted under the Share Option Scheme;
- (ii) to determine, subject to the requirements of the Listing Rules and the law, the time of the grant of Options;
- (iii) to determine the number of Shares to be covered by each Option granted under the Share Option Scheme;
- (iv) to approve forms of option agreements;
- (v) to determine the terms of conditions of any Option. Such terms and conditions may include:
 - the exercise price;
 - the period within which the Shares must be taken up under the Option, which must not be more than 10 years from the date of grant;
 - the minimum period, if any, for which an Option must be held before it can vest (the Share Option Scheme itself does not specify any minimum holding period);
 - the performance targets, if any, that must be achieved before the Option can be exercised (the Share Option Scheme itself does not specify any performance targets);
 - the amount, if any, payable on application or acceptance of the Option and the period within which payments or calls must or may be made or loans for such purposes must be repaid;
- (vi) to construe and interpret the terms of the Share Option Scheme and Options granted pursuant to the Share Option Scheme;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Share Option Scheme; and

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(c) Administration *(Continued)*

(viii) subject to the provisions relating to grant to substantial shareholders and independent non-executive directors and their respective associates in the Share Option Scheme, to vary the terms and conditions of any option agreement (provided that such variation is not inconsistent with the terms of the Listing Rules and the Share Option Scheme).

(d) Life of the Share Option Scheme and grant of Options

The Share Option Scheme is valid and effective for a period of 10 years from the date of adoption. On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time within 10 years commencing on the date of adoption to make an offer for the grant of an Option to any Qualifying Grantee as the Board may in its absolute discretion select.

(e) Acceptance and payment on acceptance of Option offer

An offer of the grant of any Option shall remain open for acceptance by the Qualifying Grantee concerned and, provided the Board so agrees, by a related trust of the named Qualifying Grantee for a period of 28 days from the date of the offer (or such longer period as the Board may specify in writing).

HK\$1.00 is payable by the grantee to the Company on acceptance of the Option offer.

(f) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option but the subscription price shall not be less than whichever is the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(g) Option period

The period within which the Shares must be taken up under an Option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant Option.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(h) Maximum number of shares available under the Share Option Scheme

(i) Overriding Limit

The limit on the number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

(ii) Mandate Limit

In addition to the limit set out in sub-paragraph (h)(i) above and prior to the approval of a Refreshed Mandate Limit as referred to in sub-paragraph (h)(iii) below, the total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other schemes of the Company must not in aggregate exceed 77,100,000 Shares ("Initial Mandate Limit"), representing 10% of the issued share capital of the Company at the date of this annual report. Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

(iii) Refreshing of Mandate Limit

The Company may by ordinary resolutions of the shareholders refresh the Mandate Limit provided the Company shall issue a circular containing such information as required by the Listing Rules to shareholders before such approval is sought. However, the total number of shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company under the limit as refreshed ("Refreshed Mandate Limit") must not exceed 10% of the shares in issue as at the date of approval of the Refreshed Mandate Limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating the limit as refreshed.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(h) **Maximum number of shares available under the Share Option Scheme** *(Continued)*

(iv) Grant to specifically identified participants

Specifically identified participants may be granted Options beyond the Mandate Limit. The Company may in addition seek separate approval by its shareholders in general meeting for granting Options beyond the Mandate Limit provided the Options in excess of the limit are granted only to participants specifically identified by the Company and a circular containing such information as required by the Listing Rules is issued to shareholders before such approval is sought. The date of board meeting for proposing such further grant should be taken as the date of grant for such grants.

(v) Limit for each participant

The total number of shares issued and to be issued upon exercise of Options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares in issue. Where any further grant of Options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be subject to separate approval by shareholders in general meeting with the relevant participant and his associates abstaining from voting. Prior to seeking such approval, the Company shall issue a circular containing such information as required by the Listing Rules to shareholders. The date of board meeting for proposing such further grant should be taken as the date of grant for such grants.

No Option was granted during the year.

DIRECTORS

The directors during the year were:

EXECUTIVE DIRECTORS

Mr. LI Kuo Hsing *(Chairman)*

Mr. TONG Hing Chi *(Managing Director)*

Mr. CHAU Kei Leung

Report of the Directors

NON-EXECUTIVE DIRECTORS

Dr. YOU Jing Feng
Mr. CHAN Ngan Piu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Warren CHEUNG
Mr. CHEUNG Ming Man (appointed on 1st September 2004)
Ms. WANG Huarong (appointed on 29th October 2004)
Mr. LEE Man Kwong (resigned on 29th October 2004)

In accordance with the Company's bye-laws, Mr. CHAU Kei Leung and Mr. CHAN Ngan Piu, retire and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group entered into certain transactions with associated companies in which certain directors of the Company have indirect interests through their interests in the Company as disclosed in the section headed "Directors' and chief executives' interests, and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" below. Details of these transactions have been set out in note 29 to the accounts, save as the above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 6 to 8.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS, AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st March 2005, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.1 each in Mei Ah Entertainment Group Limited

| Name of director | Number of shares beneficially held | | |
|--------------------|------------------------------------|-------------------------------|---------------------------------|
| | Personal interests | Family interests | Corporate interests |
| Mr. LI Kuo Hsing | 26,495,500 | 37,968,750 <i>Note (i)</i> | 407,011,510 <i>Note (ii)</i> |
| Mr. TONG Hing Chi | 3,375,000 | — | — |
| Mr. CHAU Kei Leung | 7,209,000 | — | — |
| Mr. CHAN Ngan Piu | 2,025,000 | — | — |

Notes:

(i) These shares are held by Ms. LI Pik Lin, the spouse of Mr. LI Kuo Hsing.

(ii) These shares are held by Kuo Hsing Holdings Limited, a company beneficially controlled by Mr. LI Kuo Hsing.

(b) Interest in subsidiaries of the Company

Mr. LI Kuo Hsing personally holds non-voting deferred shares of HK\$1 each in the following subsidiaries:

| Name | Number of non-voting deferred shares held |
|---|---|
| | Personal interests |
| Mei Ah Laser Disc Company Limited | 100,000 |
| Mei Ah Video Production Company Limited | 10,000 |
| Mei Ah Investment Company Limited | 500,000 |

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS, AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

Save as aforesaid, at no time during the year was the Company, its subsidiaries, its associated companies or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Save as aforesaid, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in or had been granted or exercised, any rights to subscribe for shares of the Company and its associated companies (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 31st March 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of Mr. LI Kuo Hsing as disclosed above.

PLEDGE OF SHARES

At 31st March 2005, 30,000,000 ordinary shares of the Company held by Kuo Hsing Holdings Limited, the controlling shareholder of the Company, were pledged to a bank to secure general banking facilities granted to the Group. Details of the facilities have been set out in note 28 to the accounts.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEME ARRANGEMENT

The Group provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong under the requirement of the Hong Kong Mandatory Provident Fund Scheme Ordinance ("MPF Scheme Ordinance"). Under the MPF Scheme, the Group's contributions are calculated at 5% of the employees' relevant income as defined in the MPF Scheme Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$5,000 per month. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The accrued benefits of an employee, which are derived from the Group's mandatory and voluntary contributions under the MPF Scheme can be used to offset any long service payments or severance payments payable to that employee. The total contribution to the MPF Scheme paid by the Group during the year amounted to HK\$233,000.

Report of the Directors

PENSION SCHEME ARRANGEMENT *(Continued)*

The Group also contributes to a defined contribution retirement scheme (the "Retirement Scheme") which provides retirement benefits to its employees who joined the Group prior to the adoption of the MPF Scheme and chose not to join the MPF Scheme after its adoption. The Retirement Scheme's assets are held in a provident fund (the "Fund") managed by an independent administrator. Under the Retirement Scheme, both the employer and the employees are required to contribute 5% of the basic salary of the employees (up to a maximum of HK\$1,000 per employee) on a monthly basis. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20% and 90% after completion of 2 to 9 years' service, in which case the forfeited contributions and the related accrued interest are to be used to reduce the employer's contributions.

The aggregate employer's contributions, net of forfeited contributions and their accrued interest, which have been dealt with in the consolidated profit and loss account for the year ended 31st March 2005 amounted to:

| | <i>HK\$'000</i> |
|---|-----------------|
| Gross employer's contributions | 145 |
| Less: Forfeited contributions and their accrued interest utilised to offset employer's contributions for the year | (14) |
| | <hr/> |
| Net employer's contributions charged to the consolidated profit and loss account | <u>131</u> |

As at 31st March 2005, the forfeited contributions available to reduce future contributions under the Retirement Scheme amounted to HK\$14,000 and contributions totalling HK\$40,000 and HK\$8,000 payable to the MPF Scheme and the Retirement Scheme respectively were included in payable in the consolidated balance sheet.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

PURCHASES

| | |
|-----------------------------------|-----|
| — the largest supplier | 15% |
| — five largest suppliers combined | 55% |

Report of the Directors

SALES

| | |
|-----------------------------------|-----|
| — the largest customer | 15% |
| — five largest customers combined | 41% |

The largest supplier of the Group is a 45% owned associated company in which certain directors of the Company have indirect interests through their interests in the Company as disclosed in the section “Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation”. Save as the above, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 29 to the accounts do not constitute connected transactions under the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The term of office for the non-executive directors (including independent non-executive directors) of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s bye-laws.

Other than the above, the Code of Best Practice (prior to the replacement by the Code on Corporate Governance Practices and Corporate Governance Report applicable to accounting periods commencing on or after 1st January 2005) has been complied with by the Company during the year ended 31st March 2005 as set out in Appendix 14 of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group’s audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr. Warren CHEUNG, Mr. CHEUNG Ming Man and Ms. WANG Huarong. Two meetings were held during the current financial year.

Report of the Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE *(Continued)*

The Company has received from each of the independent non-executive directors an annual confirmation of their respective independence pursuant to Chapter 3.13 of the Listing Rules and the Company considers the independent non-executive directors remain independent.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Kuo Hsing

Chairman

Hong Kong, 28th July 2005

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
MEI AH ENTERTAINMENT GROUP LIMITED**
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 22 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28th July 2005

Consolidated Profit and Loss Account

| <i>For the year ended 31st March 2005</i> | | | |
|--|-------------|--------------------|-----------------|
| | | 2005 | 2004 |
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| Turnover | 2 | 147,321 | 175,205 |
| Cost of sales | | (115,385) | (149,874) |
| Gross profit | | 31,936 | 25,331 |
| Other revenues | 2 | 6,679 | 7,336 |
| Other income | 3 | 15,579 | 8,995 |
| Selling and marketing expenses | | (8,583) | (5,688) |
| Administrative expenses | | (28,591) | (31,076) |
| Impairment loss on film rights | 3 | (6,234) | (7,632) |
| Other expenses | 3 | (6,611) | (1,285) |
| Operating profit/(loss) | 3 | 4,175 | (4,019) |
| Finance costs | 4 | (3,453) | (3,795) |
| Share of loss of a jointly controlled entity | | — | (1,237) |
| Share of profits less losses of associated companies | 5 | (29,644) | 4,309 |
| Loss before taxation | | (28,922) | (4,742) |
| Taxation | 6 | (285) | (520) |
| Loss after taxation | | (29,207) | (5,262) |
| Minority interests | | 107 | (316) |
| Loss attributable to shareholders | 7 | (29,100) | (5,578) |
| Loss per share — basic | 8 | (3.8 cents) | (0.7 cents) |

Consolidated Balance Sheet

As at 31st March 2005

| | | 2005 | 2004 |
|--|-----------|-----------------|-----------------|
| | Note | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Fixed assets | 11 | 175,723 | 163,033 |
| Interest in a jointly controlled entity | 13 | — | — |
| Associated companies | 14 | 42,052 | 78,367 |
| Investment securities | 15 | 3,343 | 7,517 |
| Film rights, films in progress, film sub-licensing rights and deposits | 16 | 40,512 | 35,649 |
| Current assets | | | |
| Inventories | 17 | 8,295 | 11,436 |
| Accounts receivable | 18 | 30,479 | 24,449 |
| Prepayments, deposits and other receivables | | 4,295 | 8,608 |
| Pledged deposit | 28 | — | 500 |
| Bank balances and cash | | 16,724 | 3,581 |
| | | 59,793 | 48,574 |
| Current liabilities | | | |
| Accounts payable | 19 | 16,931 | 13,140 |
| Receipts in advance and accruals | | 40,100 | 25,289 |
| Bills payable | | 2,369 | 2,502 |
| Bank loans — secured | 20(a), 28 | 16,465 | 19,517 |
| Obligations under finance leases | 20(b) | 337 | 1,089 |
| Bank overdrafts — secured | 28 | 4,257 | 11,416 |
| | | 80,459 | 72,953 |
| Net current liabilities | | (20,666) | (24,379) |
| Total assets less current liabilities | | 240,964 | 260,187 |
| Financed by: | | | |
| Share capital | 21 | 77,100 | 77,100 |
| Reserves | 22 | 143,004 | 157,827 |
| Shareholders' funds | | 220,104 | 234,927 |
| Minority interests | | (131) | (27) |
| Non-current liabilities | | | |
| Long-term liabilities | 20 | 20,706 | 25,287 |
| Deferred tax liabilities | 23 | 285 | — |
| | | 240,964 | 260,187 |

Li Kuo Hsing
Director

Tong Hing Chi
Director

Balance Sheet

As at 31st March 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------|------------------|------------------|
| Non-current assets | | | |
| Subsidiaries | 12 | 230,456 | 298,698 |
| Current assets | | | |
| Prepayments and other receivables | | 159 | 3,263 |
| Bank balances and cash | | 1 | 12 |
| | | 160 | 3,275 |
| Current liabilities | | | |
| Other payables and accruals | | 394 | 3,987 |
| Net current liabilities | | (234) | (712) |
| Total assets less current liabilities | | 230,222 | 297,986 |
| Financed by: | | | |
| Share capital | 21 | 77,100 | 77,100 |
| Reserves | 22 | 153,122 | 220,886 |
| Shareholders' funds | | 230,222 | 297,986 |

Li Kuo Hsing
Director

Tong Hing Chi
Director

Consolidated Statement of Changes in Equity

| <i>For the year ended 31st March 2005</i> | | | |
|---|-------------|-----------------|-----------------|
| | | 2005 | 2004 |
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| Total equity as at the beginning of year | | 234,927 | 238,594 |
| Surplus on revaluation of investment properties | 22 | 14,150 | 1,911 |
| Realisation of contributed surplus upon disposal of an associated company | 22 | 127 | — |
| Loss for the year | 22 | (29,100) | (5,578) |
| Total equity as at the end of year | | 220,104 | 234,927 |

Consolidated Cash Flow Statement

For the year ended 31st March 2005

| | | 2005 | 2004 |
|--|-------|----------|----------|
| | Note | HK\$'000 | HK\$'000 |
| Net cash inflow generated from operations | 24(a) | 75,874 | 58,366 |
| Interest paid | | (3,298) | (3,537) |
| Net cash inflow from operating activities | | 72,576 | 54,829 |
| Investing activities | | | |
| Purchase of fixed assets | | (3,280) | (1,862) |
| Sale of fixed assets | | — | 6,590 |
| Purchase of investment securities | | (3,711) | — |
| Additions to film rights, films in progress, film sub-licensing rights and deposits | | (63,718) | (51,731) |
| Interest received | | 5 | 2 |
| Sale of interest in an associated company | | 24,988 | — |
| Sale of investment securities | | 4,560 | — |
| (Increase)/decrease in advances to associated companies | | (2,611) | 8,793 |
| Decrease in pledged deposit | | 500 | — |
| Advance to a jointly controlled entity | | — | (1,237) |
| Net cash outflow from investing activities | | (43,267) | (39,445) |
| Net cash inflow before financing activities | | 29,309 | 15,384 |
| Financing activities | | | |
| Bank loans raised | 24(b) | 4,800 | 2,000 |
| Repayment of bank loans | 24(b) | (12,331) | (8,933) |
| Interest element of finance leases | | (155) | (258) |
| Repayment of capital element of finance leases | 24(b) | (1,324) | (1,827) |
| Proceeds from deemed disposal of a subsidiary | 24(c) | 3 | — |
| Net cash outflow from financing activities | | (9,007) | (9,018) |
| Increase in cash and cash equivalents | | 20,302 | 6,366 |
| Cash and cash equivalents as at the beginning of year | | (7,835) | (14,201) |
| Cash and cash equivalents as at the end of year | | 12,467 | (7,835) |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 16,724 | 3,581 |
| Bank overdrafts | | (4,257) | (11,416) |
| | | 12,467 | (7,835) |

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and leasehold land and buildings are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(i) Consolidation *(Continued)*

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net liabilities of the jointly controlled entity.

Equity accounting is discontinued when the carrying amount of the investment in the jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the jointly controlled entity.

(iii) Associated companies

An associated company is a company, not being a subsidiary, or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets/liabilities of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(iv) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entity and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising in these cases are dealt with as a movement in reserves.

(c) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

(ii) Property, plant and equipment

Leasehold land and buildings are stated at valuation at the balance sheet date.

It is the Group's policy to value leasehold land and buildings on an individual basis at intervals of not more than three years by independent valuers, in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market basis related to individual properties except that certain leasehold land and buildings situated in Hong Kong are valued on a depreciated replacement cost basis. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other tangible fixed assets, comprising leasehold improvements, furniture, fixtures and equipment, plant and machinery and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

No depreciation is provided for investment properties and properties under development.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|-----------------------------------|---|
| Buildings | 2% |
| Leasehold improvements | 10% or lease term, whichever is the shorter |
| Furniture, fixtures and equipment | 20% to 25% |
| Plant and machinery | 10% to 25% |
| Motor vehicles | 25% |

Improvements are capitalised and depreciated over their expected useful lives to the Group.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

(iv) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) **Assets under leases** *(Continued)*

(ii) Operating leases (Continued)

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

(e) **Investment securities**

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(f) **Film and sub-licensing rights**

(i) Film rights and perpetual film rights

Film rights generated by the Group or perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Costs less provision for impairment losses represent the carrying value transferred from films in progress upon completion or the purchase price of the perpetual film rights, and are amortised at rates calculated to write off the costs in proportion to the expected revenues from exhibition, the reproduction and distribution of audio visual products, the licensing of video rights and other broadcast rights following their release. Such rates are subject to annual review by the directors.

(ii) Films in progress

Films in progress are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of films. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production costs payable at year end are disclosed as commitments. Costs of films are transferred to film rights upon completion.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Film and sub-licensing rights *(Continued)*

(iii) *Film sub-licensing rights and deposits*

Licence fees paid in advance and by instalments during the production of films under licensing agreements for the reproduction and distribution of audio visual products and sub-licensing of film titles, in specified geographical areas and time periods, are accounted for as film sub-licensing rights and deposits. The balance payable under the licensing agreements is disclosed as a commitment. Upon the release of the pre-recorded audio visual products and the materials, the relevant portion of licence fees of purchased film titles are charged to the profit and loss account on a systematic basis, with reference to the projected revenue and the underlying licence periods. Provision for impairment loss is made against film sub-licensing rights and deposits to the extent that they are not expected to generate any future revenue for the Group.

In case where the Group is unable to exercise its rights under a licensing agreement because the film producer fails to complete the film, the Group writes off the difference between the advances made and the estimated recoverable amount from the film producer.

(iv) At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that film rights, films in progress, film sub-licensing rights and deposits are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(j) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group's contributions to the defined contribution retirement scheme and the mandatory provident fund scheme are expensed as incurred. The Group's contributions to the defined contribution retirement scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Deferred taxation *(Continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entity, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Revenue recognition

- (i) Revenue from the sale and distribution of films and programs in audio visual product format is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Film exhibition income is recognised when the right to receive payment is established.
- (iii) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon delivery of the pre-recorded audio visual products and the materials for video features including the master tapes to the customers.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

- (iv) Revenues from television operations mainly comprise sub-licensing of programme rights, advertising and airtime revenue. Revenue from sub-licensing of programme rights is recognised on the basis as set out in note 1(m)(iii) above, and advertising and airtime revenue is recognised when the relevant advertisements and programs are broadcasted. Advertising and airtime revenue under barter arrangement is recognised upon receipt of relevant films and programs from independent third parties and when relevant advertisements and programs are broadcasted by the Group pursuant to the terms of the relevant agreements.
- (v) Internet and related service fee income is recognised when the relevant services are rendered.
- (vi) Rental income is recognised on a straight-line basis.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (viii) Commission income from royalty rights is recognised on an accrual basis.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction work of properties under development/leasehold land and buildings that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of these assets.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Segment reporting *(Continued)*

Unallocated costs mainly represent corporate expenses, loss on disposal of investment securities and deficit arising on revaluation of investment properties and leasehold land and buildings not covered by previous revaluation surplus of the Group. Unallocated income mainly represents rental income, gain on disposal of fixed assets, gain on disposal of an associated company and surplus on revaluation of investment properties and leasehold land and buildings previously written off to the profit and loss account. Segment assets comprise primarily of fixed assets, film rights and films in progress, film sub-licensing rights and deposits, inventories, accounts receivable, prepayments, deposits and other receivables, pledged deposits and operating cash. Unallocated assets mainly represent investment properties and leasehold land and buildings. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings and deferred tax liabilities. Capital expenditure comprises additions to fixed assets, film rights, films in progress, perpetual and non-perpetual film rights and film sub-licensing rights and deposits (*notes 11 and 16*).

Notes to the Accounts

2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the sale and distribution of films and programs, film exhibition, film rights licensing and sub-licensing, television operations and processing of audio visual products through its associated companies. Revenues recognised during the year are as follows:

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | | |
| Sale and distribution of films and programs in audio visual product format | 82,587 | 133,135 |
| Film exhibition and film rights licensing and sub-licensing | 30,849 | 19,372 |
| Television operations | 33,885 | 22,479 |
| Provision of internet and related services | — | 219 |
| | 147,321 | 175,205 |
| Other revenues | | |
| Rental income from investment properties | 2,077 | 2,562 |
| Rental income from land and buildings | 1,956 | 1,785 |
| Distribution commission income | 2,641 | 2,987 |
| Interest income | 5 | 2 |
| | 6,679 | 7,336 |
| Total revenues | 154,000 | 182,541 |

Primary report format — business segments

The Group is organised into four main business segments:

- Sale and distribution of films and programs in audio visual product format;
- Film exhibition and film rights licensing and sub-licensing;
- Television operations; and
- Processing of audio visual products.

Notes to the Accounts

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by each principal activity is as follows:

| | For the year ended 31st March 2005 | | | | | |
|---|---|---|--------------------------------------|---|-------------------------|-------------------|
| | Sale and distribution of films and programs in audio visual product format HK\$'000 | Film exhibition and film rights licensing and sub-licensing HK\$'000 | Television operations HK\$'000 | Processing of audio visual products HK\$'000 | Elimination HK\$'000 | Group HK\$'000 |
| External sales | 82,587 | 30,849 | 33,885 | — | — | 147,321 |
| Inter-segment sales | — | 15,475 | — | — | (15,475) | — |
| Total revenues | 82,587 | 46,324 | 33,885 | — | (15,475) | 147,321 |
| Segment results before impairment | (13,374) | 14,732 | 7,329 | — | (8,333) | 354 |
| Impairment of film rights, film sub-licensing rights and deposits | (4,909) | (1,325) | — | — | — | (6,234) |
| Segment results | (18,283) | 13,407 | 7,329 | — | (8,333) | (5,880) |
| Unallocated income | | | | | | 19,617 |
| Unallocated costs | | | | | | (9,562) |
| Operating profit | | | | | | 4,175 |
| Finance costs | | | | | | (3,453) |
| Share of profits less losses of associated companies | — | (29,661) | — | 17 | — | (29,644) |
| Loss before taxation | | | | | | (28,922) |
| Taxation | | | | | | (285) |
| Loss after taxation | | | | | | (29,207) |
| Minority interests | | | | | | 107 |
| Loss attributable to shareholders | | | | | | (29,100) |

Notes to the Accounts

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

| | For the year ended 31st March 2005 | | | | | Group HK\$'000 |
|--|---|---|--------------------------------------|---|-------------------------|-------------------|
| | Sale and distribution of films and programs in audio visual product format HK\$'000 | Film exhibition and film rights licensing and sub-licensing HK\$'000 | Television operations HK\$'000 | Processing of audio visual products HK\$'000 | Elimination HK\$'000 | |
| Segment assets | 49,300 | 22,020 | 24,121 | — | (8,333) | 87,108 |
| Investment in a jointly controlled entity | — | — | — | — | — | — |
| Investments in associated companies | — | (3,728) | — | 45,780 | — | 42,052 |
| Unallocated assets | | | | | | 192,263 |
| Total assets | | | | | | 321,423 |
| Segment liabilities | (32,665) | (22,282) | (9,681) | — | — | (64,628) |
| Unallocated liabilities | | | | | | (36,822) |
| Total liabilities | | | | | | (101,450) |
| Minority interests | | | | | | 131 |
| Net assets | | | | | | 220,104 |
| Capital expenditure | 25,816 | 25,910 | 28,010 | — | (15,545) | 64,191 |
| Unallocated capital expenditure | | | | | | 3,277 |
| | | | | | | 67,468 |
| Depreciation | 974 | 46 | 68 | — | — | 1,088 |
| Unallocated depreciation | | | | | | 3,887 |
| | | | | | | 4,975 |
| Amortisation charge | 33,605 | 15,951 | 10,207 | — | (7,142) | 52,621 |

Notes to the Accounts

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

| | For the year ended 31st March 2004 | | | | | |
|---|---|---|--------------------------------------|--|---|-------------------|
| | Sale and distribution of films and programs in audio visual product format HK\$'000 | Film exhibition and film rights licensing and sub-licensing HK\$'000 | Television operations HK\$'000 | Provision of internet and related services HK\$'000 | Processing of audio visual products HK\$'000 | Group HK\$'000 |
| Revenues | 133,135 | 19,372 | 22,479 | 219 | — | 175,205 |
| Segment results before impairment | 1,130 | 4,693 | (9,444) | (515) | — | (4,136) |
| Impairment of film rights, film sub-licensing rights and deposits | (4,319) | (3,313) | — | — | — | (7,632) |
| Segment results | (3,189) | 1,380 | (9,444) | (515) | — | (11,768) |
| Unallocated income | | | | | | 11,776 |
| Unallocated costs | | | | | | (4,027) |
| Operating loss | | | | | | (4,019) |
| Finance costs | | | | | | (3,795) |
| Share of profits less losses of: | | | | | | |
| Jointly controlled entity | (1,237) | — | — | — | — | (1,237) |
| Associated companies | — | 1,899 | — | — | 2,410 | 4,309 |
| Loss before taxation | | | | | | (4,742) |
| Taxation | | | | | | (520) |
| Loss after taxation | | | | | | (5,262) |
| Minority interests | | | | | | (316) |
| Loss attributable to shareholders | | | | | | (5,578) |

Notes to the Accounts

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

| | For the year ended 31st March 2004 | | | | | |
|--|--|---|--------------------------------------|---|--|-------------------|
| | Sale and distribution of films and programs in audio visual product format HK\$'000 | Film exhibition and film rights licensing and sub-licensing HK\$'000 | Television operations HK\$'000 | Provision of internet and related services HK\$'000 | Processing of audio visual products HK\$'000 | Group HK\$'000 |
| Segment assets | 68,044 | 11,531 | 2,886 | 518 | — | 82,979 |
| Investment in a jointly controlled entity | — | — | — | — | — | — |
| Investments in associated companies | — | 25,533 | — | — | 52,834 | 78,367 |
| Unallocated assets | | | | | | 171,794 |
| Total assets | | | | | | 333,140 |
| Segment liabilities | (41,877) | (8,763) | (3,023) | (113) | — | (53,776) |
| Unallocated liabilities | | | | | | (44,464) |
| Total liabilities | | | | | | (98,240) |
| Minority interests | | | | | | 27 |
| Net assets | | | | | | 234,927 |
| Capital expenditure | 42,906 | 7,619 | 2,753 | — | — | 53,278 |
| Unallocated capital expenditure | | | | | | 457 |
| | | | | | | 53,735 |
| Depreciation | 1,105 | 52 | 446 | 245 | — | 1,848 |
| Unallocated depreciation | | | | | | 4,196 |
| | | | | | | 6,044 |
| Amortisation charge | 46,935 | 9,380 | 813 | — | — | 57,128 |

Secondary report format — geographical segment

No geographical analysis was provided as less than 10% of the consolidated turnover and of the consolidated trading results of the Group were attributable to markets outside Hong Kong.

Notes to the Accounts

3 OPERATING PROFIT/(LOSS)

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |

Operating profit/(loss) is stated after crediting and charging the following:

Crediting

| | | |
|---|--------|-------|
| Gain on disposal of an associated company # | 15,579 | — |
| Net exchange gains | 60 | 43 |
| Gain on disposal of fixed assets # | — | 2,013 |
| Reversal of impairment loss | — | 235 |
| Surplus arising on revaluation previously written off to the profit and loss account | | |
| — investment properties # | — | 5,396 |
| — leasehold land and buildings # | — | 20 |

Charging

| | | |
|---|--------|--------|
| Amortisation of film rights, perpetual film rights, film sub-licensing rights and non-perpetual film rights | 52,621 | 57,128 |
| Auditors' remuneration | | |
| — current year | 624 | 620 |
| — under provision in prior years | — | 130 |
| Cost of inventories | 54,873 | 67,275 |
| Deficit arising on revaluation of leasehold land and buildings not covered by previous revaluation surplus* | 235 | — |
| Depreciation | | |
| — owned fixed assets | 4,694 | 5,369 |
| — leased fixed assets | 281 | 675 |
| Impairment of film rights, perpetual film rights, films in progress, film royalty deposits, film sub-licensing rights and non-perpetual film rights (note 16) | 6,234 | 7,632 |
| Impairment of investment securities* (note 15) | 368 | — |
| Loss on disposal of investment securities* | 2,957 | — |
| Operating lease rentals in respect of land and buildings | 2,400 | 3,208 |
| Provision for doubtful debts* | 341 | — |
| Provision for prepayments, deposits and other receivables* | 2,710 | 748 |
| Staff costs (including directors' emoluments) (note 9) | 13,501 | 15,298 |

included in other income

* included in other expenses

Notes to the Accounts

4 FINANCE COSTS

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans and overdrafts | | |
| — Wholly repayable within five years | 3,167 | 1,944 |
| — Not wholly repayable within five years | 131 | 1,593 |
| | 3,298 | 3,537 |
| Interest element of finance leases | 155 | 258 |
| Total borrowing costs incurred | 3,453 | 3,795 |

5 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of profits less losses of associated companies | | |
| in the current year | (2,963) | 4,309 |
| Provision for obligations in and amounts due from | | |
| associated companies (<i>note below</i>) | (26,681) | — |
| Total | (29,644) | 4,309 |

Note: During the year ended 31st March 2005, the Group has provided financial support to an associated company and made a provision for obligations in this associated company to the extent of its net liabilities as at 31st March 2005.

6 TAXATION

No provision for Hong Kong and overseas profits tax has been made in these accounts as there was no estimated assessable profit for the year (2004: Nil).

The Group's jointly controlled entity in the People's Republic of China ("PRC") did not have any assessable income for the year for PRC tax purposes and accordingly no provision for PRC taxation has been made in these accounts (2004: Nil).

Notes to the Accounts

6 TAXATION (Continued)

The amount of taxation charged to the consolidated profit and loss account represents:

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deferred taxation (note 23) | 285 | — |
| Share of taxation attributable to associated companies | — | 520 |
| Taxation charge | 285 | 520 |

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home countries in which the Group operate as follows:

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before taxation | (28,922) | (4,742) |
| Calculated at a taxation rate of 17.5% (2004: 17.5%) | (5,061) | (830) |
| Income not subject to taxation | (3,342) | (2,178) |
| Expenses not deductible for taxation purposes | 5,393 | 1,067 |
| Tax losses unrecognised | 4,561 | 3,160 |
| Utilisation of previously unrecognised tax losses | (1,266) | (699) |
| Taxation charge | 285 | 520 |

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$67,764,000 (2004: HK\$1,075,000).

Notes to the Accounts

8 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$29,100,000 (2004: HK\$5,578,000) and on 771,000,000 (2004: 771,000,000) ordinary shares in issue during the year.

Diluted loss per share has not been presented for both years as there were no dilutive potential ordinary shares as at 31st March 2005 and 31st March 2004.

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Wages and salaries | 13,137 | 14,950 |
| Pension costs — defined contribution plans | 364 | 348 |
| | 13,501 | 15,298 |

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Fees | 251 | 190 |
| Other emoluments | | |
| — basic salaries, allowances and other benefits in kind | 3,803 | 4,655 |
| Pension costs — defined contribution plans | 36 | 43 |
| | 4,090 | 4,888 |

Directors' fees disclosed above include HK\$105,000 (2004: HK\$44,000) paid to independent non-executive directors.

Notes to the Accounts

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

| | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2005 | 2004 |
| HK\$Nil — HK\$1,000,000 | 8* | 6* |
| HK\$2,000,001 — HK\$2,500,000 | 1 | — |
| HK\$2,500,001 — HK\$3,000,000 | — | 1 |
| | 9 | 7 |

* Including four (2004: two) independent non-executive directors.

None of the directors has waived any of their emoluments in respect of the years ended 31st March 2005 and 2004.

Notes to the Accounts

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: one) individuals during the year are as follows:

| | 2005 | 2004 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Basic salaries, allowances and other benefits in kind | 1,105 | 670 |
| Pension costs — defined contribution plans | 24 | 12 |
| | 1,129 | 682 |

The emoluments fell within the following band:

| | Number of individuals | |
|-------------------------|--------------------------|------|
| | 2005 | 2004 |
| HK\$Nil — HK\$1,000,000 | 2 | 1 |

During the years ended 31st March 2005 and 31st March 2004, no emoluments have been paid by the Group to the three (2004: four) directors or the two (2004: one) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

Notes to the Accounts

11 FIXED ASSETS

| | Investment properties | Leasehold land and buildings | Leasehold improvements | Group Furniture, fixtures and equipment | Plant and machinery | Motor vehicles | Total |
|--------------------------|--------------------------|------------------------------------|---------------------------|---|------------------------|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation | | | | | | | |
| At 1st April 2004 | 40,850 | 110,000 | 11,310 | 7,855 | 3,604 | 5,052 | 178,671 |
| Additions | — | 2,700 | 532 | 57 | 12 | 449 | 3,750 |
| Revaluation adjustment | 14,150 | (2,700) | — | — | — | — | 11,450 |
| Disposals | — | — | — | (1,229) | — | — | (1,229) |
| At 31st March 2005 | 55,000 | 110,000 | 11,842 | 6,683 | 3,616 | 5,501 | 192,642 |
| Accumulated depreciation | | | | | | | |
| At 1st April 2004 | — | — | 2,099 | 5,543 | 3,226 | 4,770 | 15,638 |
| Charge for the year | — | 2,465 | 1,213 | 687 | 249 | 361 | 4,975 |
| Revaluation adjustment | — | (2,465) | — | — | — | — | (2,465) |
| Disposals | — | — | — | (1,229) | — | — | (1,229) |
| At 31st March 2005 | — | — | 3,312 | 5,001 | 3,475 | 5,131 | 16,919 |
| Net book value | | | | | | | |
| At 31st March 2005 | 55,000 | 110,000 | 8,530 | 1,682 | 141 | 370 | 175,723 |
| At 31st March 2004 | 40,850 | 110,000 | 9,211 | 2,312 | 378 | 282 | 163,033 |

Notes to the Accounts

11 FIXED ASSETS (Continued)

The analysis of the cost or valuation at 31st March 2005 of the above assets is as follows:

| | Group | | | | | | Total HK\$'000 |
|-----------------------------------|--------------------------------------|--|---------------------------------------|--|------------------------------------|-------------------------------|-------------------|
| | Investment properties HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | |
| At cost | — | — | 11,842 | 6,683 | 3,616 | 5,501 | 27,642 |
| At 2005 professional valuation | 55,000 | 110,000 | — | — | — | — | 165,000 |
| | 55,000 | 110,000 | 11,842 | 6,683 | 3,616 | 5,501 | 192,642 |

The analysis of the cost or valuation at 31st March 2004 of the above assets is as follows:

| | Group | | | | | | Total HK\$'000 |
|-----------------------------------|--------------------------------------|--|---------------------------------------|--|------------------------------------|-------------------------------|-------------------|
| | Investment properties HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | |
| At cost | — | — | 11,310 | 7,855 | 3,604 | 5,052 | 27,821 |
| At 2004 professional valuation | 40,850 | 110,000 | — | — | — | — | 150,850 |
| | 40,850 | 110,000 | 11,310 | 7,855 | 3,604 | 5,052 | 178,671 |

Net book value of leased
assets

| | | | | | | | |
|--------------------|---|---|---|-----|---|-----|-----|
| At 31st March 2005 | — | — | — | 486 | — | 355 | 841 |
| At 31st March 2004 | — | — | — | 829 | — | 123 | 952 |

Notes to the Accounts

11 FIXED ASSETS (Continued)

The Group's interests in investment properties and leasehold land and buildings at their net book value are analysed as follows:

| | Group | |
|----------------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| In Hong Kong, held on: | | |
| Leases of over 50 years | 5,180 | 4,200 |
| Leases of between 10 to 50 years | 150,070 | 138,200 |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | 9,750 | 8,450 |
| | 165,000 | 150,850 |

- (a) Except for certain leasehold land and buildings situated in Hong Kong which were valued at 31st March 2005 on the basis of its depreciated replacement cost (*note (b)*), all other investment properties and leasehold land and buildings situated in both the PRC and Hong Kong were revalued on the basis of their open market value by Memfus Wong Surveyors Limited, an independent professional valuer in Hong Kong ("Memfus Wong Surveyors").
- (b) Certain leasehold land and buildings situated in Hong Kong are held by the Group under a lease agreement dated 25th August 1997 with the Hong Kong Industrial Estates Corporation ("HKIEC") which restricts the usage of the premise to the manufacture of optical discs and related business. The Group's interests in the properties are transferable subject to the right of first refusal to purchase by HKIEC. Accordingly, the properties were valued by Memfus Wong Surveyors on a depreciated replacement cost basis, which is the aggregate of the land value in its existing use and the estimated replacement costs of the buildings.
- (c) The carrying amount of leasehold land and buildings would have been HK\$110,239,000 (2004: HK\$110,217,000) had they been stated at cost less accumulated depreciation.
- (d) At 31st March 2005, certain investment properties and leasehold land and buildings with an aggregate net book value of HK\$155,250,000 (2004: HK\$142,400,000) were pledged as security for banking facilities granted to the Group (*note 28*).

Notes to the Accounts

12 SUBSIDIARIES

| | Company | |
|---|------------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost (<i>note (a)</i>) | 46,010 | 46,010 |
| Amounts due from subsidiaries (<i>note (b)</i>) | 453,104 | 454,460 |
| Amounts due to subsidiaries (<i>note (b)</i>) | (34,773) | (34,772) |
| | 464,341 | 465,698 |
| Provision for amounts due from subsidiaries | (233,885) | (167,000) |
| | 230,456 | 298,698 |

Notes:

- (a) Details of principal subsidiaries are set out in note 30 to the accounts.
- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

13 INTEREST IN A JOINTLY CONTROLLED ENTITY

| | Group | |
|---|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amount due from a jointly controlled entity (<i>note (b)</i>) | 18,841 | 18,841 |
| Share of net liabilities and provision for amount due from a jointly controlled entity (<i>note (a)</i>) | (18,841) | (18,841) |
| | — | — |
| Unlisted shares, at cost | 1,083 | 1,083 |

Notes:

- (a) This represents the Group's 70% interest in Guangdong Tung Ah Audio Video Production Company Limited. The Group's control over the jointly controlled entity (the "JCE") is restricted by a provision in the joint venture agreement that requires unanimous approval by all directors present for certain major decisions, notwithstanding the Group having a majority equity interest and the ability to appoint the majority of directors. Accordingly, in the opinion of the directors, the Group does not have unilateral control over the JCE and the equity method is used to account for its investment therein.

Notes to the Accounts

13 INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Notes: (Continued)

(a) (Continued)

Particulars of the jointly controlled entity are as follows:

| Name | Country of establishment | Principal activity and place of operation | Percentage of interest in ownership/voting power/loss sharing held indirectly |
|--|--------------------------|---|---|
| 廣東東亞音像制作有限公司 ("Guangdong Tung Ah Audio Video Production Company Limited") | PRC | Processing and distribution of audio visual products in the PRC | 70% |

(b) The amount due from the jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

14 ASSOCIATED COMPANIES

| | Group | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Share of net liabilities | (23,930) | (16,185) |
| Amounts due from associated companies (note (b)) | 110,414 | 112,303 |
| Provision for obligations in and amounts due from associated companies | (44,432) | (17,751) |
| | 42,052 | 78,367 |
| Investment at cost: | | |
| Listed shares in Hong Kong | — | 3,682 |
| Unlisted shares | 34,565 | 30,065 |
| | 34,565 | 33,747 |
| Market value of listed shares | — | 95,976 |

Notes:

(a) Details of principal associated companies are set out in note 31 to the accounts.

(b) The amounts due from associated companies are unsecured, interest-free, and have no fixed repayment terms.

Notes to the Accounts

15 INVESTMENT SECURITIES

| | Group | |
|--|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Equity securities, at cost | | |
| Listed in Hong Kong | 2,384 | 7,517 |
| Listed outside Hong Kong | 1,184 | — |
| | 3,568 | 7,517 |
| Unlisted equity securities, at cost | 143 | — |
| | 3,711 | 7,517 |
| Less: provision for impairment | (368) | — |
| | 3,343 | 7,517 |
| Market value of listed equity securities | 3,004 | 11,160 |

Notes to the Accounts

16 FILM RIGHTS, FILMS IN PROGRESS, FILM SUB-LICENSING RIGHTS AND DEPOSITS

| | Group | | | | | | Total HK\$'000 |
|---|-------------|--------------------------|----------------------|-----------------------------|----------------------------------|----------------------------------|-------------------|
| | Film rights | Perpetual film rights | Films in progress | Film royalty deposits | Film sub- licensing rights | Non- perpetual film rights | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Cost | | | | | | | |
| At 1st April 2004 | 136,713 | 20,587 | 907 | 17,405 | 195,834 | 26,545 | 397,991 |
| Additions | — | 328 | 22,631 | 25,786 | 2,640 | 12,333 | 63,718 |
| Transfers | 16,299 | — | (16,299) | (25,646) | 25,534 | 112 | — |
| At 31st March 2005 | 153,012 | 20,915 | 7,239 | 17,545 | 224,008 | 38,990 | 461,709 |
| Accumulated amortisation and impairment | | | | | | | |
| At 1st April 2004 | 134,163 | 13,877 | 778 | 8,648 | 179,971 | 24,905 | 362,342 |
| Amortisation charge for the year | 13,771 | 2,150 | — | — | 31,855 | 4,845 | 52,621 |
| Impairment loss | — | 840 | — | 1,330 | 3,579 | 485 | 6,234 |
| At 31st March 2005 | 147,934 | 16,867 | 778 | 9,978 | 215,405 | 30,235 | 421,197 |
| Net book value | | | | | | | |
| At 31st March 2005 | 5,078 | 4,048 | 6,461 | 7,567 | 8,603 | 8,755 | 40,512 |
| At 31st March 2004 | 2,550 | 6,710 | 129 | 8,757 | 15,863 | 1,640 | 35,649 |

Notes to the Accounts

17 INVENTORIES

| | Group | |
|---|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Films and programs in audio visual product format | 9,298 | 12,439 |
| Less: provision for obsolete inventories | (1,003) | (1,003) |
| | 8,295 | 11,436 |

18 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable was as follows:

| | Group | |
|------------------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current to 3 months | 15,463 | 14,757 |
| 4 to 6 months | 6,966 | 5,568 |
| Over 6 months | 12,229 | 7,962 |
| | 34,658 | 28,287 |
| Less: provision for doubtful debts | (4,179) | (3,838) |
| | 30,479 | 24,449 |

The Group's credit terms to accounts receivable generally ranges from 7 to 90 days.

Notes to the Accounts

19 ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

| | Group | |
|---------------------|-------------------------|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Current to 3 months | 9,749 | 11,285 |
| 4 to 6 months | 595 | 231 |
| Over 6 months | 6,587 | 1,624 |
| | 16,931 | 13,140 |

20 LONG-TERM LIABILITIES

| | Group | |
|--|-------------------------|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Bank loans — secured (<i>note (a)</i>) | 37,151 | 44,682 |
| Obligations under finance leases (<i>note (b)</i>) | 357 | 1,211 |
| | 37,508 | 45,893 |
| Current portion of long-term liabilities | (16,802) | (20,606) |
| | 20,706 | 25,287 |

(a) Secured bank loans were repayable in the following periods:

| | Group | |
|----------------------------|-------------------------|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Within one year | 16,465 | 19,517 |
| In the second year | 5,757 | 4,944 |
| In the third to fifth year | 13,070 | 16,260 |
| After the fifth year | 1,859 | 3,961 |
| | 20,686 | 25,165 |
| | 37,151 | 44,682 |

Notes to the Accounts

20 LONG-TERM LIABILITIES (Continued)

(b) As at 31st March 2005, the Group's finance lease liabilities were repayable as follows:

| | Group | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Within one year | 359 | 1,237 |
| In the second year | 21 | 114 |
| In the third to fifth year | — | 21 |
| | 380 | 1,372 |
| Future finance charges on finance leases | (23) | (161) |
| Present value of finance lease liabilities | 357 | 1,211 |

The present value of finance lease liabilities were repayable in the following periods:

| | Group | |
|----------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Within one year | 337 | 1,089 |
| In the second year | 20 | 102 |
| In the third to fifth year | — | 20 |
| | 357 | 1,211 |

21 SHARE CAPITAL

| | Authorised Ordinary Shares of HK\$0.1 each | |
|--|--|----------|
| | No. of shares (Thousands) | HK\$'000 |
| At 31st March 2004 and 31st March 2005 | 3,000,000 | 300,000 |
| | Issued and fully paid Ordinary Shares of HK\$0.1 each | |
| | No. of shares (Thousands) | HK\$'000 |
| At 31st March 2004 and 31st March 2005 | 771,000 | 77,100 |

Notes to the Accounts

22 RESERVES

| | Group | | | | | | Total HK\$'000 |
|---|------------------------------|--|------------------------------------|------------------------------------|------------------------------------|-----------------------------------|-------------------|
| | Share premium HK\$'000 | Share redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Exchange difference HK\$'000 | Investment | Accumulated losses HK\$'000 | |
| | | | | | properties | | |
| | | | | | revaluation reserve HK\$'000 | | |
| At 1st April 2004 | 222,791 | 12 | 128,418 | (306) | 1,911 | (194,999) | 157,827 |
| Realisation upon disposal of an associated company | — | — | 127 | — | — | — | 127 |
| Surplus on revaluation of properties | — | — | — | — | 14,150 | — | 14,150 |
| Loss for the year | — | — | — | — | — | (29,100) | (29,100) |
| At 31st March 2005 | 222,791 | 12 | 128,545 | (306) | 16,061 | (224,099) | 143,004 |
| Representing: | | | | | | | |
| Company and subsidiaries | 222,791 | 12 | 128,545 | — | 16,061 | (131,851) | 235,558 |
| Jointly controlled entity | — | — | — | (253) | — | (19,669) | (19,922) |
| Associated companies | — | — | — | (53) | — | (72,579) | (72,632) |
| | 222,791 | 12 | 128,545 | (306) | 16,061 | (224,099) | 143,004 |
| At 1st April 2003 | 222,791 | 12 | 128,418 | (306) | — | (189,421) | 161,494 |
| Surplus on revaluation of properties | — | — | — | — | 1,911 | — | 1,911 |
| Loss for the year | — | — | — | — | — | (5,578) | (5,578) |
| At 31st March 2004 | 222,791 | 12 | 128,418 | (306) | 1,911 | (194,999) | 157,827 |
| Representing: | | | | | | | |
| Company and subsidiaries | 222,791 | 12 | 128,545 | — | 1,911 | (131,981) | 221,278 |
| Jointly controlled entity | — | — | — | (253) | — | (19,669) | (19,922) |
| Associated companies | — | — | (127) | (53) | — | (43,349) | (43,529) |
| | 222,791 | 12 | 128,418 | (306) | 1,911 | (194,999) | 157,827 |

Note: The contributed surplus of the Group represents the credit arising from the reduction of share capital during the year ended 31st March 1999.

Notes to the Accounts

22 RESERVES (Continued)

| | Company | | | | Total HK\$'000 |
|--------------------|------------------------------|--|------------------------------------|-----------------------------------|-------------------|
| | Share premium HK\$'000 | Share redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Accumulated losses HK\$'000 | |
| | At 1st April 2004 | 222,791 | 12 | 174,556 | |
| Loss for the year | — | — | — | (67,764) | (67,764) |
| At 31st March 2005 | 222,791 | 12 | 174,556 | (244,237) | 153,122 |
| At 1st April 2003 | 222,791 | 12 | 174,556 | (175,398) | 221,961 |
| Loss for the year | — | — | — | (1,075) | (1,075) |
| At 31st March 2004 | 222,791 | 12 | 174,556 | (176,473) | 220,886 |

Note: The contributed surplus of the Company represents the difference between the par value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the credit arising from the reduction of share capital during the year ended 31st March 1999. Under the Companies Act 1981 of Bermuda and the Company's bye-laws, the contributed surplus is not distributable to shareholders except that immediately following the distributions or dividend payments, the Company is able to pay its debts as they fall due in the ordinary course of business.

23 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in the deferred tax liabilities account is as follows:

| | Group | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| At the beginning of year | — | — |
| Charged to consolidated profit and loss account (note 6) | 285 | — |
| At the end of year | 285 | — |

Notes to the Accounts

23 DEFERRED TAXATION (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$168,550,000 (2004: HK\$145,943,000) to carry forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability. Such tax losses have no expiry date.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

| | Group | |
|---|------------------------------|----------|
| | Accelerated tax depreciation | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| At the beginning of year | 2,223 | 1,944 |
| Charged to consolidated profit and loss account | 231 | 279 |
| At the end of year | 2,454 | 2,223 |

Deferred tax assets

| | Group | |
|--|------------|----------|
| | Tax losses | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| At the beginning of year | (2,223) | (1,944) |
| Charged/(credited) to consolidated profit and loss account | 54 | (279) |
| At the end of year | (2,169) | (2,223) |

Notes to the Accounts

23 DEFERRED TAXATION *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | Group | |
|--------------------------|-------------------------|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Deferred tax assets | (2,169) | (2,223) |
| Deferred tax liabilities | 2,454 | 2,223 |
| At the end of year | 285 | — |

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow generated from operations

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before taxation | (28,922) | (4,742) |
| Share of loss of a jointly controlled entity | — | 1,237 |
| Share of profits less losses of associated companies | 29,644 | (4,309) |
| Provision for doubtful debts | 341 | — |
| Provision for prepayments, deposits and other receivables | 2,710 | 748 |
| Provision for amounts due from associated companies | — | 537 |
| Reversal of impairment loss | — | (235) |
| Interest income | (5) | (2) |
| Interest on bank loans and overdrafts | 3,298 | 3,537 |
| Interest element of finance leases | 155 | 258 |
| Deficit not covered by previous revaluation surplus/ (surplus previously written off to the profit and loss account) arising on revaluation of leasehold land and buildings and investment properties | 235 | (5,416) |
| Gain on disposal of fixed assets | — | (2,013) |
| Gain on disposal of an associated company | (15,579) | — |
| Loss on disposal of investment securities | 2,957 | — |
| Impairment of investment securities | 368 | — |
| Depreciation of owned fixed assets | 4,694 | 5,369 |
| Depreciation of fixed assets held under finance leases | 281 | 675 |
| Amortisation of film rights, perpetual film rights, film sub-licensing rights and non-perpetual film rights | 52,621 | 57,128 |
| Impairment of film rights, perpetual film rights, films in progress, film royalty deposits, film sub-licensing rights and non-perpetual film rights | 6,234 | 7,632 |
| Operating profit before working capital changes | 59,032 | 60,404 |
| Decrease in inventories | 3,141 | 3,022 |
| (Increase)/decrease in accounts receivable | (6,371) | 162 |
| Decrease in prepayments, deposits and other receivables | 1,603 | 1,287 |
| Increase/(decrease) in accounts payable, bills payable, receipts in advance and accruals | 18,469 | (6,509) |
| Net cash inflow generated from operations | 75,874 | 58,366 |

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

| | Minority interests | | Bank loans and finance lease obligations | |
|---|--------------------|----------|--|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginning of year | (27) | (343) | 45,893 | 54,511 |
| Inception of finance lease (note (d)) | — | — | 470 | 142 |
| Bank loans raised | — | — | 4,800 | 2,000 |
| Repayment of bank loans | — | — | (12,331) | (8,933) |
| Repayment of capital element of finance leases | — | — | (1,324) | (1,827) |
| Increase in minority interests resulting from deemed disposal of a subsidiary to minority shareholders (note (c)) | 3 | — | — | — |
| Share of (losses)/profits by minority interests | (107) | 316 | — | — |
| At the end of year | (131) | (27) | 37,508 | 45,893 |

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Deemed disposal of a subsidiary

During the year, the Group's wholly-owned subsidiary, Sun Media Group Limited, issued 6,998 ordinary shares to the Group and 3,000 ordinary shares to a third party at par value of HK\$1 each respectively. As a result, the Group's equity interest in Sun Media Group Limited was reduced from 100% to 70%. There was no significant profit or loss arising from the deemed disposal of this subsidiary.

(d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$470,000 (2004: HK\$142,000).

25 CONTINGENT LIABILITIES

| | Group | | Company | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Guarantees given to banks in respect of utilised banking facilities of: | | | | |
| Subsidiaries | — | — | 64,144 | 68,342 |
| Associated companies | 5,250 | 5,250 | 5,250 | 5,250 |
| | 5,250 | 5,250 | 69,394 | 73,592 |

Notes to the Accounts

26 COMMITMENTS

- (a) At 31st March 2005, the Group had contracted commitments but not provided for in these accounts as follows:

| | Group | |
|--------------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Commitments in respect of | | |
| — film production | 4,540 | 187 |
| — program licensing agreements | 12,137 | 13,199 |
| | 16,677 | 13,386 |

- (b) At 31st March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|-------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year | — | 2,400 |

- (c) At 31st March 2005, the Group did not have any commitments in relation to the jointly controlled entity and the associated companies.

Notes to the Accounts

27 FUTURE OPERATING LEASE ARRANGEMENTS

As at 31st March 2005, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings and motor vehicles as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year | 2,678 | 1,622 |
| Later than one year and not later than five years | 2,123 | 1,840 |
| | 4,801 | 3,462 |

28 PLEDGE OF ASSETS — GROUP

At 31st March 2005, banking facilities amounting to HK\$65,144,000 (2004: HK\$70,875,000) granted by banks to the Group are secured by the following:

- (i) legal charges over certain of the Group's properties (*note 11(d)*);
- (ii) corporate guarantees executed by the Company (*note 25*);
- (iii) 30,000,000 shares of the Company held by Kuo Hsing Holdings Limited, which is beneficially controlled by Mr. Li Kuo Hsing, a director of the Company; and
- (iv) fixed deposits of HK\$Nil (2004: HK\$500,000) held by the Group.

Notes to the Accounts

29 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

| | Group | |
|---|------------------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Replication fees paid to an associated company | 15,672 | 24,691 |
| Rental income received from the sub-letting of premises to associated companies | 1,410 | 2,562 |
| Pre-mastering service fees paid to an associated company | 341 | 369 |
| Proceeds on sale of fixed assets to an associated company | — | 5,700 |
| Film rights and film sub-licencing rights purchased from an associated company | 8,500 | 5,500 |
| Commission income received from an associated company | 2,082 | 2,582 |
| Payout and post-production service fees paid to an associated company | 606 | 8,445 |

The above transactions were conducted in the normal course of business and are charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

Notes to the Accounts

30 GROUP STRUCTURE — PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st March 2005:

| Name | Place of incorporation | Principal activities | Nominal value of issued share capital | Percentage of equity interest attributable to the Group |
|--|------------------------|---------------------------------------|---|---|
| Shares held directly: | | | | |
| Mei Ah Holdings Limited | British Virgin Islands | Investment holding | 50,050 ordinary shares of US\$1 each | 100 |
| Shares held indirectly: | | | | |
| Mei Ah (HK) Company Limited | Hong Kong | Distribution of audio visual products | 10,000 ordinary shares of HK\$1 each | 100 |
| Mei Ah Film Production Company Limited | Hong Kong | Production of films and tele-features | 2 ordinary shares of HK\$1 each | 100 |
| Mei Ah Investment Company Limited | Hong Kong | Investment and property holding | 2 ordinary shares of HK\$1 each 500,000 non-voting deferred shares of HK\$1 each | 100 |
| Mei Ah Trading Company Limited | British Virgin Islands | Sub-licensing of film rights | 50,000 ordinary shares of US\$1 each | 100 |
| Mei Ah Development Company Limited | British Virgin Islands | Sub-licensing of film rights | 50,000 ordinary shares of US\$1 each | 100 |
| MATV Limited | Hong Kong | Television operations | 4 ordinary shares of HK\$1 each | 100 |
| First Choice Media Group Limited | Hong Kong | Sale of audio visual products | 2 ordinary shares of HK\$1 each | 100 |
| Winning Creator Limited | Hong Kong | Distribution of audio visual products | 10,000 ordinary shares of HK\$1 each | 51 |

Note: Other than Mei Ah Trading Company Limited and Mei Ah Development Company Limited which operate in Hong Kong and overseas, all subsidiaries are principally operated in Hong Kong.

Notes to the Accounts

31 GROUP STRUCTURE — PRINCIPAL ASSOCIATED COMPANIES

The following is a list of the principal associated companies at 31st March 2005:

| Name | Place of incorporation | Principal activities | Nominal value of issued share capital | Percentage of equity interest attributable to the Group |
|--|------------------------|-------------------------------------|--|---|
| Shares held indirectly: (Continued) | | | | |
| Brilliant Idea Group Limited | Hong Kong | Production of films | 10,000 ordinary shares of HK\$1 each | 50 |
| Silver Kent Technology Limited* | Hong Kong | Trading of audio visual products | 10,000,000 ordinary shares of HK\$1 each | 45 |
| Link Tech Optical Disc Limited* | Hong Kong | Processing of audio visual products | 100 ordinary shares of HK\$1 each | 45 |

* Associated companies not audited by PricewaterhouseCoopers

32 ULTIMATE HOLDING COMPANY

The directors regard Kuo Hsing Holdings Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company of the Company.

33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th July 2005.

Five Year Financial Summary

The results, assets and liabilities of the Group for the last five financial years are as follows:

| | Year ended 31st March | | | | |
|--|-----------------------|----------|----------|----------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | | (Restated) |
| | | | | | (Note) |

Results

| | | | | | |
|-----------------------------------|-----------------|---------|----------|----------|---------|
| Loss attributable to shareholders | (29,100) | (5,578) | (32,958) | (99,763) | (8,600) |
|-----------------------------------|-----------------|---------|----------|----------|---------|

| | As at 31st March | | | | |
|------------------------|------------------|----------|----------|----------|----------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets and liabilities | | | | | |

Assets and liabilities

| | | | | | |
|--------------------|------------------|----------|-----------|----------|----------|
| Total assets | 321,423 | 333,140 | 355,985 | 368,543 | 459,030 |
| Total liabilities | (101,450) | (98,240) | (117,734) | (96,882) | (82,570) |
| Minority interests | 131 | 27 | 343 | — | — |

| | | | | | |
|------------|----------------|---------|---------|---------|---------|
| Net assets | 220,104 | 234,927 | 238,594 | 271,661 | 376,460 |
|------------|----------------|---------|---------|---------|---------|

Note: Results for the year ended 31st March 2001 and assets and liabilities as at 31st March 2001 were adjusted in accordance with SSAP 31.

As of 31st March 2002, the total amount of goodwill arising from previous acquisitions of business and charged to reserves under the Group's then accounting policy was HK\$9,925,000. For the year ended 31st March 2002, the Group applied SSAP 31, and the directors considered that the goodwill had been impaired as at that date to the extent of HK\$9,798,000 and accordingly adjustments had been made in the consolidated profit and loss account for the respective periods in which the impairment was considered to have occurred. The effect of this change in accounting policy had been applied retrospectively, giving rise to a restatement of the consolidated profit and loss account for the year ended 31st March 2001 for an impairment loss for goodwill of HK\$9,798,000. The Group's accumulated losses as at 1st April 2001 had increased by HK\$9,798,000 representing the cumulative effects of this change in accounting policy at that date.

Schedule of Principal Investment Properties

| Address | Existing use | Term of lease | Percentage of Group interest |
|---|--------------|---------------|------------------------------|
| Workshop No. 5, Nos. 15-23 and 25-28 on 17th Floor Metro Centre, No. 32 Lam Hing Street Kowloon Bay Kowloon | Industrial | Medium | 100% |
| Workshop Nos. 1-2 on 10th Floor Metro Centre, No. 32 Lam Hing Street Kowloon Bay Kowloon | Industrial | Medium | 100% |
| House No. 28 and Car Park Nos. 59 and 60 The Villa Horizon, Silver Stream Path Sai Kung, New Territories | Residential | Medium | 100% |
| Factory Unit Nos. 23 and 24 on 5th Floor and Car Park Space No. V18 on Basement Kowloon Bay Industrial Centre No. 15 Wang Hoi Road Kowloon Bay Kowloon | Residential | Medium | 100% |
| Flat A on 6th Floor Nikken Heights 12 Prince's Terrace Hong Kong | Residential | Long | 100% |
| Shop 2 on Ground Floor, Po Sun Mansion Nos. 87-101, Bulkeley Street Hung Hom, Kowloon | Commercial | Medium | 100% |
| Flat 1 on Level 3 No. 2, Hua Xiao Street, Tianhe Ming Ya Court Tianhe East Road Tianhe District, Guangzhou The People's Republic of China | Residential | Long | 100% |
| Units 801-814 on Level 8 of West Tower Yangcheng International Commercial Center Tiyu East Road Tianhe District, Guangzhou The People's Republic of China | Commercial | Long | 100% |