美亞娛樂資訊集團有限公司

MEI AH ENTERTAINMENT GROUP LTD.

(Stock Code: 391)

ANNUAL REPORT 2006

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. LI Kuo Hsing
Mr. TONG Hing Chi
Mr. CHAU Kei Leung

Non-Executive Directors

Mr. CHAN Ngan Piu

Independent Non-Executive Directors

Mr. CHEUNG Yui Kai, Warren
Ms. WANG Huarong
Mr. CHEUNG Ming Man

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. CHAN Lun Ho

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, 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 Commerical Bank of China (Asia) Limited

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants, Hong Kong
22nd Floor, Prince's Building
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. CHEUNG Yui Kai, Warren
Ms. WANG Huarong
Mr. CHEUNG Ming Man

AUTHORISED REPRESENTATIVES

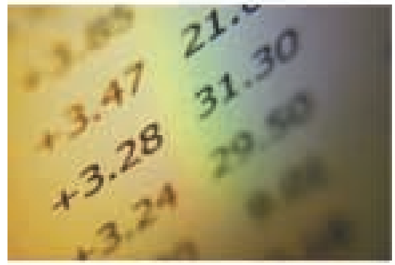
Mr. LI Kuo Hsing
Mr. TONG Hing Chi

website : www.meiah.com
e-mail : meiah@meiah.com

Chairman's Statement

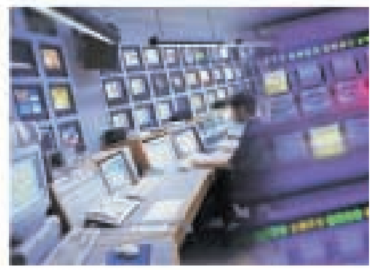
RESULTS AND DIVIDENDS

The profit attributable to shareholders of the Company for the year is HK$20,378,000 (2005: loss of HK$29,100,000) and the directors recommend the payment of a final dividend of 0.35 HK cent per share (2005: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

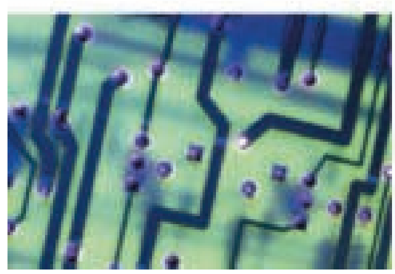
During the year ended 31st March 2006, the Group recorded a consolidated turnover of HK$153,394,000 (2005: HK$147,321,000), an increase of 4% compared with last year. Profit attributable to shareholders during the year was HK$20,378,000 (2005: loss of HK$29,100,000).



The Group operates in three major business segments, the television operations, film exhibition, film rights licensing and sub-licensing and sale and distribution of video products, which contributed 41% (2005: 23%), 27% (2005: 21%) and 32% (2005: 56%) to the Group's turnover respectively.

Following the conclusion of content supply contracts with pay-TV operators in the recent years, the contribution to revenues from the Group's television segment has increased by 83% from HK$33,885,000 to HK$62,151,000. The proportion of such revenues to the Group's turnover was also increased from 23% to 41%. Since the launch of its first broadcasting channel 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. As at 31st March 2006, the Group provided channels to HK Broadband, now TV, i-Cable and Malaysia MiTV. The Group has also commenced to provide contents to a Japanese pay TV platform since May 2006. In addition, contracts have also been secured with certain mobile phone operators to provide channel contents. Looking forward, the Group aims to provide channels to other Asian countries and secure advertising revenue from available air-time in TV channels, and develop channels with increasing varieties.

The Group will continue to strengthen its film library through own production, co-production and acquisition. 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 increasing popularity of pay TV in Hong Kong and the digitalisation plan of TV signal 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

In order to support its content requirement, the Group has allocated an increased amount of resources in the production of films. The revenues from film exhibition, film rights licensing and sub-licensing to third parties increased from HK$30,849,000 to HK$41,958,000. During the year ended 31st March 2006, "Colour of Loyalty", "Dragon Reloaded 2", "Embrace Your Shadow", "Dragon Squad", "Super Kid" and "Marriage with a Fool" were released by the Group. Subsequent to 31st March 2006, two more films, namely "Undercover Hidden Dragon" and "Love Undercover 3" were also released. Certain number of films are being produced and planned. All of these films received positive responses from the market. "Dragon Squad" is the first and the only movie elected by the National Museum of China for its permanent preservation in respect of the memorisation of the 100th anniversary of the Chinese film. 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 popular films.

The revenues attributable to sale and distribution of films and programs in audio visual product format was dropped from HK$82,587,000 to HK$49,285,000, as a result of the Group's strategy in diversifying its revenue mix and re-allocation of the Group's resources, as well as the effect of the relevant industrial environment.

The performance of the segment of video sales and distribution has been affected by the overall industrial climate. Fewer new titles were released during the year and the competition is keen. Following the increasing popularity of copyright infringement behaviour such as downloading through internet, copying through re-writable disc drives and shops which offer rental of video discs to customers, the business of sale and distributions of video discs has become difficult. Nevertheless, the Group will continue to acquire customised and popular films and diversify its distribution channels in order to maintain its competitiveness. In order to simplify the organisational structure and enhance operating efficiency, the Group has also appointed a distribution agent to handle the logistic procedures in respect of the distribution segment which led to a decrease in the Group's administrative and other expenses.

To cope with the Group's business development and expansion, the Group has recently entered into certain fund raising activities. In March 2006 the Company entered into placing agreements with funds managed by International Data Group, Inc. ("IDG"), a leading worldwide provider of information technology services to raise HK$16.3 million for working capital. The agreement was completed and shares were allotted in April 2006. On 28th June 2006, the Company also entered into agreements to issue convertible notes to three subscribers which is pending for shareholders' approval on a special general meeting to be held on 4th August 2006. The net proceeds from the proposed issuance of convertible notes will be HK$96.5 million, which is proposed to be utilised in the acquisition of film titles to enrich our film library, repayment of bank loans to minimise our finance costs, development of new media projects and enhancement of working capital. The Company believes that it will also be benefited from the broadened shareholders' base and its extended exposure to the global entertainment industry.

Chairman's Statement

The Group's gearing position (details as set out in the paragraph headed "Liquidity and financial resources " below) has also been improved continuously following the repayment of loans raised for 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 and reward their long-term support.

Looking forward, the Group will exploit every opportunities to generate greatest returns for its shareholders and reward their long-term support.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2006, the Group had net current liabilities of HK$53,465,000. Nevertheless, the Group's film rights, films in progress, film sub-licensing rights and deposits, which are classified as non-current assets, generated revenues for the core businesses of the Group continuously. Together with the fund raising activities as mentioned above, the directors are confident that the working capital available will be adequate for the Group's requirements.

At 31st March 2006, the Group had available banking facilities of approximately HK$53 million, of which approximately HK$45 million was utilised. Certain of the Group's properties with net book values of HK$159 million were pledged to banks to secure these banking facilities. The Group's gearing ratio of 18 % as at 31st March 2006 was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK$41,698,000 (of which HK$26,304,000, HK$5,474,000, HK$8,121,000 and HK$1,799,000 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$238,203,000. 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 2006, the Company had contingent liabilities in respect of guarantees given to banks for facilities of its subsidiaries amounting to approximately HK$64 million, and the Group had commitments in respect of film production and program licencing agreements amounting to approximately HK$13 million. The commitments will be financed by the Group's internal resources and banking facilities.

EMPLOYEES

At 31st March 2006, the Group employed 45 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, 26th July 2006

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. LI Kuo Hsing, aged 47, is the founder, Chairman and a major shareholder of the Group, and a recognised leader of the Hong Kong entertainment industry. With over 23 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 51, 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 19 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 China Chief Cable TV Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

Mr. CHAU Kei Leung, aged 42, 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 18 years of experience in the home video entertainment industry.

NON-EXECUTIVE DIRECTORS

Mr. CHAN Ngan Piu, aged 71, has over 37 years of experience in the manufacturing sector in Hong Kong and Mainland China. Mr. CHAN joined the Group in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Yui Kai, Warren, aged 39, has over 14 years of investment banking experience in the Asian Pacific region. He was appointed as an independent non-executive director of the Company in May 2003. He worked with PricewaterhouseCoopers (formerly known as Price Waterhouse), Standard Chartered Asia Limited and ABN AMRO Asia Corporate Finance Limited before. He is currently a director of Polaris Capital (Asia) Limited. Mr. CHEUNG is also a CPA member of the Hong Kong Institute of Certified Public Accountants.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. WANG Huarong, aged 42, has over 16 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.

Mr. CHEUNG Ming Man, aged 49, has extensive experience in the sector of culture and performance 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).

SENIOR MANAGEMENT

Mr. CHAN Lun Ho, aged 36 is the Company's Company Secretary, Qualified Accountant and 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 14 years of auditing and accounting experience. He joined the Group in July 2002.

Mr. LONG Sao Ian, aged 47, 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 26 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.

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions (the "Code") as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 March 2006, with the exception of the deviation in respect of the appointment term of non-executive directors as mentioned below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the year ended 31 March 2006.

BOARD OF DIRECTORS

The directors acknowledge their responsibilities for the preparation of financial statements, which shall give a true and fair view of the state of affairs of the Group. Details of the basis of preparation of financial statements are set out in note 2 to the financial statements. The Board is also responsible for formulating the Group's long-term strategy, determining and approving the Group's significant transactions and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. Other decisions are to be delegated to management. As at 31 March 2006, the Board comprised seven Directors, including three executive Directors — Mr. Li Kuo Hsing (the Chairman), Mr. Tong Hing Chi (the Chief Executive Officer) and Mr. Chau Kei Leung, one non-executive Director — Mr. Chan Ngan Piu and three independent non-executive Directors — Mr. Cheung Yui Kai, Warren, Ms. Wang Huarong and Mr. Cheung Ming Man. Biographies of the Directors are set out in pages 6 to 7.

There is no non-compliance with rules 3.10(1) and (2) of the Listing Rules and there is no relationship among members of the Board and no relationship among the members of the board.

Under code provision A4.1, non-executive directors should be appointed for specific term, There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-law of the Company. Accordingly the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

During the year, all of the board members attended the two board meetings to approve the interim and annual results. All of the executive directors also held and attended three other board meetings.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of chairman and chief executive officer are separate and are not performed by the same individual. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer, supported by the senior management, is responsible for managing the Group's responsibilities, the business, implementing major strategies, making day-to-day decisions and coordinating overall business operations.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or any additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

During the year, no new director has been appointed.

BOARD COMMITTEES

To assist the Board in discharge of its duties, the Board is supported by two board committees. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the Audit Committee are (a) to review the Group's annual reports and interim reports; (b) to discuss and review with the auditors of the Company on the scope and findings of the audit; and (c) to supervise the financial reporting process and internal control procedures of the Group. The audit committee consists of all of the Company's independent non-executive directors, namely Mr. Cheung Yui Kai, Warren, Ms Wang Huarong and Mr. Cheung Ming Man. The chairman of the committee is Mr. Cheung Yui Kai, Warren.

The audit committee held two meetings during the year under review. Both of the meetings were attended by Mr. Cheung Yui Kai, Warren and Ms Wang Huarong.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

(1) Audit Committee *(Continued)*

The Group's unaudited interim results and annual audited results during the year ended 31 March 2006 have been reviewed by the audit committee, which is of opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

(2) Remuneration Committee

The Company has established the Remuneration Committee according to the relevant provisions of the Listing Rules with written terms of reference. Its primary duties are (a) make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; and (b) establish a formal and transparent procedures for developing policy on such remuneration.

The remuneration committee consists of all of the Company's independent non-executive directors, namely Mr. Cheung Yui Kai, Warren, Ms Wang Huarong and Mr. Cheung Ming Man. The chairman of the committee is Mr. Cheung Yui Kai, Warren.

In July 2006, the Committee met to discuss the remuneration related matters. Mr. Cheung Yui Kai, Warren and Ms Wang Huarong attended the meeting. During the meeting, the performance and the remuneration of the executive directors were assessed and the policy of which was discussed and approved.

AUDITORS' REMUNERATION

The statement by the auditors of the Company about their reporting responsibilities is set out in the auditors' report on page 23. An amount of approximately HK$820,000 was charged to the Group's income statement for the year ended 31 March 2006. There was no significant non-audit service assignment undertaken by the external auditors during the year.

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31st March 2006.

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 36 to the financial statements.

An analysis of the Group's performance for the year by segment is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24.

The directors recommend the payment of a final dividend of HK$0.0035 per ordinary share, totaling HK$2,880,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

PRINCIPAL INVESTMENT PROPERTIES

Details of the movements in investment properties held by the Group are set out in note 16 to the financial statements. Details of those principal investment properties are set out on pages 93 to 94.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31st March 2006, the distributable reserves of the Company amounted to HK$192,023,000, comprising retained earnings of HK$38,913,000 and contributed surplus of HK$153,110,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributable if these are reasonable grounds for believing that:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 92.

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"). The principal terms are set out as follows:

(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.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(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 of directors (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.

(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;

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(c) Administration *(Continued)*

(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

(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.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

(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.

(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 adoption of the Share Option Scheme. 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 has been granted since the adoption of the Share Option Scheme.

Report of the Directors

DIRECTORS

The directors during the year were:

Executive directors

Mr. LI Kuo Hsing *(Chairman)*
Mr. TONG Hing Chi *(Managing Director)*
Mr. CHAU Kei Leung

Non-executive directors

Mr. CHAN Ngan Piu
Dr. YOU Jing Feng (resigned on 26th September 2005)

Independent non-executive directors

Mr. CHEUNG Yui Kai, Warren
Ms. WANG Huarong
Mr. CHEUNG Ming Man

In the forthcoming annual general meeting of the Company, Mr. LI Kuo Hsing, Mr. TONG Hing Chi, Mr. CHEUNG Yui Kai, Warren 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 34 to the financial statements, 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 6 to 7.

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 2006, 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 the Company

	Number of shares beneficially held — Long position			% of the issued
			Corporate	share capital
Name of director	**Personal interests**	**Family interests**	**interests**	**of the Company**
Mr. LI Kuo Hsing	27,893,500	37,968,750 *Note (i)*	413,433,510 *Note (ii)*	62.17%
Mr. TONG Hing Chi	3,375,000	—	—	0.44%
Mr. CHAU Kei Leung	7,209,000	—	—	0.94%
Mr. CHAN Ngan Piu	2,025,000	—	—	0.26%

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.

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)*

(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

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).

Report of the Directors

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition of those disclosed above in respect of the directors and chief executives.

Ordinary shares of HK$0.1 each in the Company

	Number of shares — Long position		
	Corporate interests	Persons acting in concert	Total
IDG-Accel China Growth Fund — A L.P.	8,190,000	43,810,000	52,000,000
IDG-Accel China Growth Fund — L.P.	40,076,400	11,923,600	52,000,000
IDG-Accel China Investors L.P.	3,733,600	48,266,400	52,000,000
IDG-Accel China Investors Associates Ltd.	52,000,000	—	52,000,000
IDG-Accel China Growth Fund Associates L.P.	52,000,000	—	52,000,000
IDG-Accel China Growth Fund GP Associates Ltd.	52,000,000	—	52,000,000
Zhou Quan	52,000,000	—	52,000,000
Mc Govern Patrick J.	52,000,000	—	52,000,000
Breyer Jim	52,000,000	—	52,000,000

Notes:

(a) The total long position interests in the above parties refer to the same parcel of shares.

(b) On 20th March 2006, conditional placing agreements were entered into between the Company and (i) IDG-Accel China Growth Fund — A L.P.; (ii) IDG-Accel China Growth Fund — L.P.; and (iii) IDG-Accel China Investors L.P., which will be placed 8,190,000, 40,076,400 and 3,733,600 of the Company's new shares respectively. The placing agreements were completed and 52,000,000 new shares, which represent 6.32% of the enlarged issued share capital of the Company, were alloted on 12th April 2006.

(c) The placees as stated in (b) above act in concert with each other under the placing agreements.

(d) IDG-Accel China Investors L.P. is wholly owned by IDG-Accel China Investors Associates Ltd. which is in turn wholly owned by Breyer Jim.

(e) IDG-Accel China Growth Fund — A L.P. and IDG-Accel China Growth Fund — L.P. are wholly owned by IDG-Accel China Growth Fund GP Associates Ltd.

(f) IDG-Accel China Growth Fund GP Associates Ltd. is 50% owned by each of Zhou Quan and Mc Govern Patrick J.

Report of the Directors

PLEDGE OF SHARES

At 31st March 2006, 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 financial statements.

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.

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	43%

SALES

— the largest customer	23%
— five largest customers combined	48%

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 34 to the financial statements do not constitute connected transactions under the Listing Rules.

CORPORATE GOVERNANCE REPORT

Corporate Governance Report of the Company is set out on pages 8 to 10.

Report of the Directors

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.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 38 to the financial statements.

AUDITORS

The financial statements 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, 26th July 2006

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

We have audited the financial statements on pages 24 to 91 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 financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2006 and of the profit 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, 26th July 2006

Consolidated Income Statement

For the year ended 31st March 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	5	**153,394**	147,321
Cost of sales	7	**(102,601)**	(115,385)
Gross profit		**50,793**	31,936
Other revenues	5	**11,023**	6,679
Other gains	6	**8,391**	15,579
Selling and marketing expenses	7	**(15,357)**	(8,583)
Administrative expenses	7	**(24,338)**	(28,591)
Impairment losses on film rights	7,17	**(1,348)**	(6,234)
Other expenses	7	**(4,256)**	(6,611)
Operating profit		**24,908**	4,175
Finance costs	8	**(2,909)**	(3,453)
Share of profits less losses of associated companies	9	**(2)**	(29,644)
Profit/(loss) before income tax		**21,997**	(28,922)
Income tax expense	10	**(1,527)**	(285)
Profit/(loss) for the year		**20,470**	(29,207)
Attributable to:			
Equity holders of the Company	11	**20,378**	(29,100)
Minority interests		**92**	(107)
		20,470	(29,207)
Earnings/(loss) per share — basic	12	**2.6 HK cents**	(3.8 HK cents)
Dividend	35	**2,880**	—

Consolidated Balance Sheet

As at 31st March 2006

	Note	2006 HK$'000	2005 HK$'000 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	15	**104,555**	107,485
Investment properties	16	**61,450**	55,000
Prepaid land premium and land use rights	14	**12,916**	13,238
Interest in a jointly controlled entity	19	**—**	—
Interests in associated companies	18	**24,419**	42,052
Available-for-sale financial assets	21	**4,687**	—
Investment securities	21	**—**	3,343
Film rights, films in progress, film sub-licensing rights and deposits	17	**73,564**	40,512
Trade and other receivables - non-current portion	23	**29,983**	—
Current assets			
Inventories	22	**7,420**	8,295
Trade and other receivables	23	**24,542**	34,774
Bank balances and cash	24	**17,595**	16,724
		49,557	59,793
Total assets		**361,131**	321,423
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	**77,100**	77,100
Reserves	26	**161,103**	140,262
Shareholders' funds		**238,203**	217,362
Minority interests		**(42)**	(131)
Total equity		**238,161**	217,231
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	**4,554**	3,027
Borrowings	28(a)	**15,212**	20,686
Obligations under finance leases	28(b)	**182**	20
		19,948	23,733

Consolidated Balance Sheet

As at 31st March 2006

	Note	2006 HK$'000	2005 HK$'000 Restated
Current liabilities			
Trade payables	27	**8,888**	16,931
Receipts in advance and accruals		**63,963**	40,100
Bills payable		**3,867**	2,369
Borrowings	28(a)	**26,147**	20,722
Obligations under finance leases	28(b)	**157**	337
		103,022	80,459
Total liabilities		**122,970**	104,192
Total equity and liabilities		**361,131**	321,423
Net current liabilities		**(53,465)**	(20,666)
Total assets less current liabilities		**258,109**	240,964

Li Kuo Hsing
Director

Tong Hing Chi
Director

Balance Sheet

As at 31st March 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**269,392**	230,456
Current assets			
Prepayments and other receivables		**111**	159
Bank balances and cash	24	**1**	1
		112	160
Total assets		**269,504**	230,616
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	**77,100**	77,100
Reserves	26	**192,035**	153,122
Total equity		**269,135**	230,222
LIABILITIES			
Current liabilities			
Other payables and accruals		**369**	394
Total equity and liabilities		**269,504**	230,616
Net current liabilities		**(257)**	(234)
Total assets less current liabilities		**269,135**	230,222

Li Kuo Hsing
Director

Tong Hing Chi
Director

Consolidated Statement of Changes in Equity

For The Year Ended 31st March 2006

	Attributable to shareholders								
	Share capital	Share premium	Share redemption reserve	Contributed surplus	Exchange difference	Investment properties revaluation reserve	Accumulated losses	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(Restated)			(Restated)
At 1st April 2004, as previously reported as equity	77,100	222,791	12	128,418	(306)	1,911	(194,999)	—	234,927
At 1st April 2004, as previously separately reported as minority interests	—	—	—	—	—	—	—	(27)	(27)
At 1st April 2004, as restated	77,100	222,791	12	128,418	(306)	1,911	(194,999)	(27)	234,900
Realisation upon disposal of an associated company	—	—	—	127	—	—	—	—	127
Surplus on revaluation of properties	—	—	—	—	—	14,150	—	—	14,150
Deferred tax arising from the revaluation of investment properties *(note 2.1)*	—	—	—	—	—	(2,742)	—	—	(2,742)
Net income recognised directly in equity	—	—	—	127	—	11,408	—	—	11,535
Loss for the year	—	—	—	—	—	—	(29,100)	(107)	(29,207)
Total recognised expense for the year	—	—	—	127	—	11,408	(29,100)	(107)	(17,672)
Partial disposal of interest in a subsidiary	—	—	—	—	—	—	—	3	3
At 31st March 2005	77,100	222,791	12	128,545	(306)	13,319	(224,099)	(131)	217,231

Consolidated Statement of Changes in Equity

For The Year Ended 31st March 2006

	Attributable to shareholders									
	Share capital	Share premium	Share redemption reserve	Contributed surplus	Exchange difference	Investment properties revaluation reserve	Available-for-sale financial assets reserve	Retained earnings/ (accumulated losses)	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2005, as per page 28	77,100	222,791	12	128,545	(306)	13,319	—	(224,099)	(131)	217,231
Opening adjustment for the adoption of HKAS 40	—	—	—	—	—	(13,319)	—	13,319	—	—
	77,100	222,791	12	128,545	(306)	—	—	(210,780)	(131)	217,231
Profit for the year	—	—	—	—	—	—	—	20,378	92	20,470
Income directly recognised in equity — revaluation surplus	—	—	—	—	—	—	463	—	—	463
Total recognised income for the year	—	—	—	—	—	—	463	20,378	92	20,933
Transfer from share premium *(note 26b(ii))*	—	(222,791)	—	222,791	—	—	—	—	—	—
Set off against accumulated losses *(note 26b(ii))*	—	—	—	(244,237)	—	—	—	244,237	—	—
Acquisition of further interest in a subsidiary	—	—	—	—	—	—	—	—	(3)	(3)
At 31st March 2006	77,100	—	12	107,099	(306)	—	463	53,835	(42)	238,161

Consolidated Cash Flow Statement

For the year ended 31st March 2006

	Note	**2006** **HK$'000**	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	30(a)	**88,153**	75,874
Bank loans interest paid		**(2,880)**	(3,298)
Net cash generated from operating activities		**85,273**	72,576
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,024)**	(3,280)
Proceeds from sale of property, plant and equipment		**35**	—
Purchase of investment securities		**(881)**	(3,711)
Additions to film rights, films in progress, film sub-licensing rights and deposits		**(84,607)**	(63,718)
Interest received		**300**	5
Dividend received		**117**	—
Acquisition of a subsidiary	30(c)	**41**	—
Acquisition of further interest in a subsidiary		**(3)**	—
Sale of interest in an associated company		**—**	24,988
Sale of investment securities		**—**	4,560
Decrease/(increase) in advances to associated companies		**3,703**	(2,611)
Increase in advance to a jointly controlled entity		**(339)**	—
Decrease in pledged deposit		**—**	500
Net cash outflow used in investing activities		**(82,658)**	(43,267)
Cash flows from financing activities			
Proceeds from borrowings	30(b)	**—**	4,800
Repayment of borrowings	30(b)	**(7,589)**	(12,331)
Interest element of finance leases		**(29)**	(155)
Repayment of capital element of finance leases	30(b)	**(431)**	(1,324)
Proceeds from deemed disposal of a subsidiary		**—**	3
Net cash used from financing activities		**(8,049)**	(9,007)
Net (decrease)/increase in cash and cash equivalents		**(5,434)**	20,302
Cash and cash equivalents as at the beginning of the year		**12,467**	(7,835)
Cash and cash equivalents as at the end of the year		**7,033**	12,467
Analysis of balances of cash and cash equivalents			
Bank balances and cash	24	**17,595**	16,724
Bank overdrafts	28	**(10,562)**	(4,257)
		7,033	12,467

Notes to the Financial Statements

1 GENERAL INFORMATION

Mei Ah Entertainment Group Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in television operations, film exhibition, film rights licensing and sub-licensing, sale and distribution of films and programs and processing of audio visual products through its associated companies.

The Company is a limited liability company incorporated in Bermuda.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26th July 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The adoption of new/revised HKFRS

During the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of the new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Int 15 had no material effect on the Group's policies.

— HKAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

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

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

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement as part of other gains. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the consolidated income statement.

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

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

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" in previous years. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st April 2005.

— HKAS 40 — since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st April 2005, including the reclassification of any amount held in revaluation reserve for investment properties.

— HKAS-Int 15 — does not require the recognition of incentives for leases for accounting periods beginning before 1st April 2005.

— HKFRS 3 — prospectively after 1st April 2005.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 has resulted in

	2006	2005
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	**(12,916)**	(13,238)
Increase in prepaid land premium and land use rights	**12,916**	13,238

The adoption of HKAS 40 and HKAS-Int 21 has resulted in

	2006	2005
	HK$'000	*HK$'000*
Increase in deferred tax liability	**—**	2,742
Increase in retained earnings	**13,319**	—
Decrease in investment properties revaluation reserve	**(13,319)**	(2,742)

The adoption of HKAS 39 has resulted in

	2006
	HK$'000
Increase in available-for-sale financial assets	**3,343**
Decrease in investment securities	**(3,343)**

The adoption of other HKAS and HKFRS has no material financial impact to the Group.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, interpretation and amendments to be published that are not yet effective

The Group did not early adopt the following new standards or interpretations or amendments that have been issued but are not yet effective. The Group has commenced an assessment of the impact of these standards interpretations or amendments but is not yet in a position to state whether these new standards or amendments would have a significant impact on its results of operations and financial position.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits — Acturarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) ***Subsidiaries*** *(Continued)*

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) ***Transactions with minority interests***

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

(d) Joint ventures

The Group's interests in jointly controlled entities are accounted for using equity method.

Equity accounting is discontinued from the date on which the Group ceases to have joint control over, or have significant influence in, a jointly controlled entity. When the carrying amount of the investment in the jointly controlled entity reaches zero, equity accounting is discontinued unless the Group has incurred or obligations or guaranteed obligations in respect of the jointly controlled entity.

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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.

Unallocated costs mainly represent corporate expenses. Last year's unallocated costs included impairment and loss on disposal of investment securities. Unallocated income represents rental income, gain on disposal of associated companies, property, plant and equipment and net surplus on revaluation of investment properties and buildings. Segment assets comprise primarily of property, plant and equipment (exclude buildings and leasehold improvements), film rights, films in progress, film sub-licensing rights and deposits, inventories, trade and other receivables and operating cash. Unallocated assets mainly represent investment properties, prepaid land premium and land use rights, buildings, leasehold improvements and available-for-sale financial assets. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings and deferred tax liabilities. Capital expenditure comprises additions to property, plant and equipment, film rights, films in progress and film sub-licensing rights and deposits *(notes 15 and 17)*.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) ***Transactions and balances*** *(Continued)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) ***Group companies***

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Buildings comprise mainly offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical costs less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset is expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs or revalued amounts to their residual values over their estimated useful lives. 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%
— Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as an investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by qualified external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties *(Continued)*

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2.7 Intangible assets — 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 Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

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 income statement 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 income statement.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets

Prior to 1st April 2005:

The Group classified its investments in securities, other than subsidiaries, associated companies and jointly controlled entities, as 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 income statement. This impairment loss is written back to the income statement 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.

From 1st April 2005 onwards:

The Group classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet *(Note 2.11)*.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities shorter than 12 months from the balance sheet date, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising, from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other gains or losses — net" in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale and analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The transaction differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(d) Available-for-sale financial assets *(Continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from available-for-sale securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to the purchases of raw materials.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "selling and marketing expenses".

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. The par value of the shares issued and fully paid is recognised in the share capital account. Any excess of proceeds from a new issue of shares (net of any incremental costs directly attributable to the new issue) over the par value of the shares issued is recognised in the share premium account.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the respective periods of the borrowings using the effective interest method.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Borrowings *(Continued)*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. The Group has a mandatory provident fund scheme and another defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Employee benefits *(Continued)*

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.17 Provisions and contingent liabilities

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

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

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

2.18 Revenue recognition

(a) Revenues from television operations mainly comprise sub-licensing of programme rights and channel supply revenues. Revenue from sub-licensing of programme rights is recognised on the basis as set out in note 2.18(c) below, and channel supply revenue is recognised on an accrual basis when the relevant channels are broadcasted.

(b) Film exhibition income is recognised when the right to receive payment is established.

(c) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon the delivery of pre-recorded audio visual products and materials for video features, including the master tapes to the customers.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Revenue recognition *(Continued)*

(d) 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.

(e) Rental income is recognised on a straight-line basis over the period of the lease.

(f) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) Distribution commission income from royalty rights is recognised on an accrual basis.

(h) Dividend income is recognised when the right to receive payment is established.

(i) Management fee income is recognised when services are rendered.

2.19 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the leases' commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, particularly interest rate, currency, price, liquidity and credit risks. Where appropriate, the Group's risk management policies seek to minimise potential adverse effects of these risks on the financial performance of the Group. The policies for managing these risks are summarised below.

(a) Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions, which generate interest income for the Group. The Group manages its interest rate risk by placing such balances on various maturities and interest rate terms.

The Group's bank loans also expose it to interest rate risk. The Group manages the risk by setting roll-over periods of various duration on its revolving loans after due consideration of market conditions and expectation of future interest rate.

(b) Currency risk

The currency risk of the Group arises mainly from its revenues from its film rights licensing and sub-licensing and purchases of film rights denominated in currencies other than the functional currency.

The Group minimises its currency risk by denominating majority of its foreign currency transactions in United States dollar, which is pegged with Hong Kong dollar at a destinated range such that the exposure on fluctuation of foreign currency rate is limited.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain a balance between the continuity and the flexibility of funding through the use of bank overdrafts, bank loans and finance lease contracts. In addition, sufficient banking facilities have been put in place for contingency purposes.

(d) Credit risk

The Group's credit risk arises mainly from its trade receivables.

The Group manages its credit risk associated with trade receivables through the application of credit approvals, credit ratings and monitoring procedures. The Group also obtains guarantees from certain customers.

Credit sales are only made to customers with appropriate credit history or high credit standing while sales to new customers or customers of low credit standing are usually made on an advance payment or cash on delivery basis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of film rights, films in progress, film sub-licensing rights and deposits

As set out in note 2.7(iv), impairment assessments on film rights, films in progress, film sub-licensing rights and deposits are performed at each balance sheet date with reference to both internal and external market information. Based on management's cash flow projection with respect to individual titles of the Group's film rights, films in progress, film sub-licensing rights and deposits at 31st March 2006, an impairment loss of HK$1,348,000 (2005: HK$6,234,000) was recognised in the consolidated income statement to reduce the carrying amounts of certain titles to their recoverable amounts. If projected cash inflow from these films were to deteriorate, additional provision for impairment may be required. The carrying value of films in progress, film sub-licensing rights and deposits at 31st March 2006 amounted to approximately HK$73,564,000 (2005: HK$40,512,000).

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Provision for impairment of trade and other receivables

During the year, impairment losses of HK$1,490,000 (2005: HK$3,051,000) have been recognised in the consolidated income statement to write-down the carrying amounts of certain trade and other receivable balances of the Group to their recoverable amounts.

The provisioning policy for trade and other receivables of the Group is based on the evaluation of collectability of those receivables and on management's judgement. At the balance sheet date, the trade and other receivables, net of provision, amounted to HK$54,525,000. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer, and the realisation of any repayment pattern promised. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

4.2 Critical judgements in applying the entity's accounting policies

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

The Group determine whether a property qualities as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generated cash flows are attributable not only to property but also to other assets used in the production or supply process.

(b) Interest in a jointly controlled entity

The Group owns 70% interest in Guangdong Tung Ah Audio Video Production Company Limited ("Tung Ah"). The Group's control over Tung Ah is restricted by a provision in the joint venture agreement that require 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. The Group judges that there is no unilateral control over Tung Ah and accordingly it is accounted for as a jointly controlled entity.

(c) Income taxes

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

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Television operations	**62,151**	33,885
Film exhibition and film rights licensing and sub-licensing	**41,958**	30,849
Sale and distribution of films and programs in audio visual product format	**49,285**	82,587
	153,394	147,321
Other revenues		
Rental income from investment properties	**3,482**	2,077
Rental income from buildings	**3,973**	1,956
Distribution commission income	**1,487**	2,641
Management fee income	**1,664**	—
Dividend income	**117**	—
Interest income	**300**	5
	11,023	6,679
Total revenues	**164,417**	154,000

Primary report format — business segments

The Group and its associated companies are organised into four main business segments:

— Television operations

— Film exhibition and film rights licensing and sub-licensing

— Sale and distribution of films and programs in audio visual product format

— Processing of audio visual products through its associated companies

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

The segment results for the year by each principal activity are as follows:

	For the year ended 31st March 2006					
	Television operations *HK$'000*	Film exhibition and film rights licensing and sub-licensing *HK$'000*	Sale and distribution of films and programs in audio visual product format *HK$'000*	Processing of audio visual products *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
External sales	62,151	41,958	49,285	—	—	153,394
Inter-segment sales	—	9,449	—	—	(9,449)	—
Total revenues	62,151	51,407	49,285	—	(9,449)	153,394
Segment results	17,940	4,667	(9,193)	—	713	14,127
Unallocated income						17,327
Unallocated costs						(6,546)
Operating profit						24,908
Finance costs						(2,909)
Share of profits less losses of associated companies	—	1,303	—	(1,305)	—	(2)
Profit before income tax						21,997
Income tax expense						(1,527)
Profit for the year						20,470
Property, plant and equipment						
— Additions	646	—	714	—	—	1,360
— Unallocated additions						77
						1,437
— Depreciation	109	44	688	—	—	841
— Unallocated depreciation						3,485
						4,326
Film rights, films sub-licensing rights and deposits						
— additions	30,342	52,081	11,634	—	(9,450)	84,607
— amortisation	19,447	25,123	14,996	—	(10,162)	49,404
— impairment	—	—	1,348	—	—	1,348
Impairment of trade and other receivables	1,490	—	—	—	—	1,490

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

	For the year ended 31st March 2005					
	Television operations *HK$'000*	Film exhibition and film rights licensing and sub-licensing *HK$'000*	Sale and distribution of films and programs in audio visual product format *HK$'000*	Processing of audio visual products *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
External sales	33,885	30,849	82,587	—	—	147,321
Inter-segment sales	—	15,475	—	—	(15,475)	—
Total revenues	33,885	46,324	82,587	—	(15,475)	147,321
Segment results	7,329	13,407	(18,283)	—	(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 income tax						(28,922)
Income tax expense						(285)
Loss for the year						(29,207)
Property, plant and equipment						
— Additions	1	1	471	—	—	473
— Unallocated additions						3,277
						3,750
— Depreciation	68	46	974	—	—	1,088
— Unallocated depreciation						3,565
						4,653
Film rights, films sub-licensing rights and deposits						
— additions	28,009	25,909	25,345	—	(15,545)	63,718
— amortisation	10,207	15,951	33,605	—	(7,142)	52,621
— impairment	—	1,325	4,909	—	—	6,234
Impairment of trade and other receivables	—	—	3,051	—	—	3,051

The amortisation of leasehold land and land use rights amounting to **HK$322,000** (2005: HK$322,000) is unallocated to the Group's business segments and the amortisation costs of non-current receivables amounting to **HK$2,427,000** (2005: Nil) are under the segment of "Sale and distribution of films and programs in audio visual product format ".

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

	As at 31st March 2006					
	Television operations	Film exhibition and film rights licensing and sub-licensing	Sale and distribution of films and programs in audio visual product format	Processing of audio visual products	Elimination	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	30,029	51,194	67,627	—	(7,620)	141,230
Investment in a jointly controlled entity	—	—	—	—	—	—
Investments in associated companies	—	—	—	24,419	—	24,419
Unallocated assets						195,482
Total assets						361,131
Segment liabilities	(27,756)	(44,377)	(23,099)	—	—	(95,232)
Unallocated liabilities						(27,738)
Total liabilities						(122,970)

Notes to the Financial Statements

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

	As at 31st March 2005					
	Television operations	Film exhibition and film rights licensing and sub-licensing	Sale and distribution of films and programs in audio visual product format	Processing of audio visual products	Elimination	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	24,121	22,020	49,300	—	(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	(9,681)	(22,282)	(32,665)	—	—	(64,628)
Unallocated liabilities						(39,564)
Total liabilities						(104,192)

Secondary report format — geographical segment

No geographical analysis is provided as less than 10% of the consolidated revenues and of the consolidated assets of the Group were attributable to markets outside Hong Kong.

6 OTHER GAINS

	2006	2005
	HK$'000	*HK$'000*
Net surplus on revaluation of investment properties and buildings	**6,394**	—
Gain on disposal of an associated company	**1,962**	15,579
Gain on disposal of property, plant and equipment	**35**	—
	8,391	15,579

Notes to the Financial Statements

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing, administrative and other expenses are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Amortisation of film rights and film sub-licensing rights	**49,404**	52,621
Amortisation of leasehold land and land use rights	**322**	322
Amortisation costs of non-current receivables	**2,427**	—
Auditors' remuneration		
— current year	**792**	624
— underprovision in prior years	**28**	—
Cost of inventories	**21,756**	54,873
Deficit arising on revaluation of buildings not covered by previous revaluation surplus	**—**	235
Depreciation		
— owned property, plant and equipment	**4,143**	4,372
— leased property, plant and equipment	**183**	281
Impairment of film rights, films in progress, film sub-licensing rights and deposits *(note 17)*	**1,348**	6,234
Impairment of investment securities *(note 21(b))*	**—**	368
Loss on disposal of investment securities	**—**	2,957
Operating lease rentals in respect of land and buildings	**—**	2,400
Provision for impairment of trade and other receivables	**1,490**	3,051
Provision for amount due from a jointly controlled entity	**339**	—
Employee benefit expenses (including directors' emoluments) *(note 13)*	**11,752**	13,501
Direct operating expenses arising from investment properties that generate rental income	**633**	511

Notes to the Financial Statements

8 FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts		
— Wholly repayable within five years	2,715	3,167
— Not wholly repayable within five years	165	131
	2,880	3,298
Interest element of finance leases	29	155
Total borrowing costs incurred	2,909	3,453

9 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

	2006	2005
	HK$'000	*HK$'000*
Share of profits less (losses) of associated companies	(2)	(2,963)
Provision for obligations in and amounts due from associated companies *(note below)*	—	(26,681)
Total	(2)	(29,644)

Note: In the prior year, the Group 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.

10 INCOME TAX EXPENSE

No provision for Hong Kong profits tax and overseas taxation has been made for the year as the Group has available tax losses brought forward from prior years (2005: 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 tax has been made in these financial statements (2005: Nil).

The amount of income tax expense charged to the consolidated income statement represents deferred income tax charge. *(note 29)*.

Notes to the Financial Statements

10 INCOME TAX EXPENSE *(Continued)*

The income tax expense on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of the home countries in which the Group operates as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before income tax	**21,997**	(28,922)
Calculated at a tax rate of 17.5% (2005: 17.5%)	**3,850**	(5,061)
Income not subject to tax	**(1,615)**	(3,342)
Expenses not deductible for tax purposes	**613**	5,393
Tax losses which no deferred income tax assets were recognised	**2,042**	4,561
Utilisation of previously unrecognised tax losses	**(3,363)**	(1,266)
Income tax expense	**1,527**	285

11 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$38,913,000 (2005: loss of HK$67,764,000).

12 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to equity holders of the Company of HK$20,378,000 (2005: loss of HK$29,100,000) and on 771,000,000 (2005: 771,000,000) ordinary shares in issue during the year.

The events as set out in note 38 would have changed significantly the number of ordinary shares outstanding as at 31st March 2006 if those transactions occurred or were completed before the balance sheet date.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000
Wages and salaries	11,456	13,137
Pension costs — defined contribution plans	296	364
	11,752	13,501

(a) Directors' emoluments

The remuneration of directors for the year ended 31st March 2006 is set out below:

	2006				2005			
	Fees HK$'000	Other emoluments — basic salaries, allowances and other benefits in kind HK$'000	Pension costs — defined contribution plans HK$'000	Total HK$'000	Fees HK$'000	Other emoluments — basic salaries, allowances and other benefits in kind HK$'000	Pension costs — defined contribution plans HK$'000	Total HK$'000
Executive directors								
Li Kuo Hsing	—	2,550	12	2,562	—	2,328	12	2,340
Tong Hing Chi	—	1,025	12	1,037	—	975	12	987
Chau Kei Leung	—	550	12	562	—	500	12	512
Non-executive directors								
Chan Ngan Piu	96	—	—	96	96	—	—	96
You Jing Feng	—	—	—	—	50	—	—	50
Independent non-executive directors								
Cheung Yui Kai, Warren	100	—	—	100	50	—	—	50
Wang Huarong	50	—	—	50	25	—	—	25
Cheung Ming Man	50	—	—	50	30	—	—	30
	296	4,125	36	4,457	251	3,803	36	4,090

(a) None of the directors has waived any of their emoluments in respect of the years ended 31st March 2006 and 2005.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2005: two) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**1,052**	1,105
Pension costs — defined contribution plans	**24**	24
	1,076	1,129

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
HK$Nil — HK$1,000,000	**2**	2

During the years ended 31st March 2006 and 31st March 2005, no emoluments have been paid by the Group to the three (2005: three) directors or the two (2005: two) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

(c) Emolument policy

The Group's emoluments (including the directors' emoluments) are determined by the board of directors with reference to their contributions in terms of time, effort and their expertise and will be reviewed on an annual basis.

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(d) 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 (2005: HK$233,000).

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 of 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 income statement for the year ended 31st March 2006 amounted to:

	2006	2005
	HK$'000	*HK$'000*
Gross employer's contributions	**81**	145
Less: Forfeited contributions and their accrued interest utilised to offset employer's contributions for the year	**(18)**	(14)
Net employer's contributions charged to the consolidated income statement	**63**	131

Notes to the Financial Statements

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(d) Pension scheme arrangement *(Continued)*

As at 31st March 2006, there is no forfeited contributions available to reduce future contributions under the Retirement Scheme (2005: HK$14,000) and contributions totalling HK$34,000 (2005: HK$40,00) and HK$12,000 (2005: HK$8,000) payable to the MPF Scheme and the Retirement Scheme respectively were included in current liabilities in the consolidated balance sheet.

14 PREPAID LAND PREMIUM AND LAND USE RIGHTS — GROUP

The Group's interests in prepaid land premium and land use rights are located in Hong Kong and held on leases of between 10 to 50 years. Details of which are set out in note 15(a).

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Beginning of the year	**13,238**	13,560
Amortisation	**(322)**	(322)
End of the year	**12,916**	13,238

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)				(Restated)
At 1st April 2004					
Cost or valuation	96,440	11,310	11,459	5,052	124,261
Accumulated depreciation	—	(2,099)	(8,769)	(4,770)	(15,638)
Net book amount	96,440	9,211	2,690	282	108,623
Year ended 31st March 2005					
Opening net book amount	96,440	9,211	2,690	282	108,623
Additions	2,700	532	69	449	3,750
Depreciation	(2,143)	(1,213)	(936)	(361)	(4,653)
Revaluation	(235)	—	—	—	(235)
Closing net book amount	96,762	8,530	1,823	370	107,485
At 31st March 2005					
Cost or valuation	96,762	11,842	10,299	5,501	124,404
Accumulated depreciation	—	(3,312)	(8,476)	(5,131)	(16,919)
Net book amount	96,762	8,530	1,823	370	107,485
Year ended 31st March 2006					
Opening net book amount	96,762	8,530	1,823	370	107,485
Additions	—	228	594	615	1,437
Depreciation	(2,122)	(1,181)	(832)	(191)	(4,326)
Acquisition of a subsidiary	—	—	15	—	15
Revaluation	(56)	—	—	—	(56)
Closing net book amount	94,584	7,577	1,600	794	104,555
At 31st March 2006					
Cost or valuation	94,584	12,070	11,099	5,628	123,381
Accumulated depreciation	—	(4,493)	(9,499)	(4,834)	(18,826)
Net book amount	94,584	7,577	1,600	794	104,555

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT — GROUP *(Continued)*

(a) The Group's leasehold land and land use rights *(note 14)* and buildings (collectively the "Properties") 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 Limited, an independent professional qualified valuer, 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. HKIEC merged with two other corporations in 2001 and is presently known as Hong Kong Science and Technology Parks Corporation.

(b) The carrying amount of Properties would have been HK$107,561,000 (2005: HK$110,239,000) had they been stated at cost less accumulated depreciation.

(c) At 31st March 2006, the Properties were pledged as security for banking facilities granted to the Group *(note 28)*.

(d) The Group's buildings are stated at valuation and other components of property, plant and equipment are stated at cost.

(e) At 31st March 2006, the carrying amount of furniture, fixtures and equipment and motor vehicles held under finance leases were HK$138,000 (2005: HK$486,000) and HK$632,000 (2005: HK$355,000) respectively.

(f) Depreciation expense of HK$4,326,000 (2005: HK$4,653,000) has been included as part of the administrative expenses.

16 INVESTMENT PROPERTIES — GROUP

	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**55,000**	40,850
Fair value gains (included in other gains — *note 6*)	**6,450**	14,150
End of the year	**61,450**	55,000

(a) The investment properties of the Group were revalued at 31st March 2006 by Memfus Wong Surveyors Limited, an independent qualified valuer, on the basis of open market value.

Notes to the Financial Statements

16 INVESTMENT PROPERTIES — GROUP *(Continued)*

(b) The Group's interests in investment properties are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Leases of over 50 years	**5,750**	5,180
Leases of between 10 to 50 years	**45,750**	40,070
Outside Hong Kong, held on:		
Leases of over 50 years	**9,950**	9,750
	61,450	55,000

(c) At 31st March 2006, certain investment properties with carrying amount of HK$51,500,000 (2005: HK$45,250,000) were pledged as security for banking facilities granted to the Group *(note 28)*.

Notes to the Financial Statements

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

	Group					
	Film rights HK$'000	Perpetual film rights HK$'000	Films in progress HK$'000	Film royalty deposits HK$'000	Non-perpetual film sub-licensing rights HK$'000	Total HK$'000
At 1st April 2004						
Cost	136,713	20,587	907	17,405	222,379	397,991
Accumulated amortisation and impairment	(134,163)	(13,877)	(778)	(8,648)	(204,876)	(362,342)
Net book amount	2,550	6,710	129	8,757	17,503	35,649
Year ended 31st March 2005						
Opening net book amount	2,550	6,710	129	8,757	17,503	35,649
Additions	—	328	22,631	25,786	14,973	63,718
Transfers	16,299	—	(16,299)	(25,646)	25,646	—
Amortisation charge	(13,771)	(2,150)	—	—	(36,700)	(52,621)
Impairment loss	—	(840)	—	(1,330)	(4,064)	(6,234)
Closing net book amount	5,078	4,048	6,461	7,567	17,358	40,512
At 31st March 2005						
Cost	153,012	20,915	7,239	17,545	262,998	461,709
Accumulated amortisation and impairment	(147,934)	(16,867)	(778)	(9,978)	(245,640)	(421,197)
Net book amount	5,078	4,048	6,461	7,567	17,358	40,512
Year ended 31st March 2006						
Opening net book amount	5,078	4,048	6,461	7,567	17,358	40,512
Additions	—	3,046	48,738	28,002	4,821	84,607
Disposals	(1,014)	—	—	—	—	(1,014)
Transfers	42,050	—	(41,037)	(26,991)	25,978	—
Acquisition of a subsidiary	161	—	50	—	—	211
Amortisation charge	(23,098)	(836)	—	—	(25,470)	(49,404)
Impairment loss	—	—	—	(97)	(1,251)	(1,348)
Closing net book amount	23,177	6,258	14,212	8,481	21,436	73,564
At 31st March 2006						
Cost	363,460	23,962	16,327	18,555	293,797	716,101
Accumulated amortisation and impairment	(340,283)	(17,704)	(2,115)	(10,074)	(272,361)	(642,537)
Net book amount	23,177	6,258	14,212	8,481	21,436	73,564

Notes to the Financial Statements

17 FILM RIGHTS, FILMS IN PROGRESS, FILM SUB-LICENSING RIGHTS AND DEPOSITS *(Continued)*

(a) Amortisation charge of HK$49,404,000 (2005: HK$52,621,000) with respect to film rights, films in progress, film sub-licensing rights and deposits has been included in cost of sales in the consolidated income statement.

(b) The carrying amounts of film rights, films in progress, film sub-licensing rights and deposits have been reduced to their recoverable amounts through the recognition of impairment losses of HK$1,348,000 (2005: HK$6,234,000) which have been included in other expenses in the consolidated income statement.

18 INTERESTS IN ASSOCIATED COMPANIES — GROUP

	2006	2005
	HK$'000	*HK$'000*
Share of net assets/(liabilities)		
Beginning of the year	**(23,930)**	(16,185)
Share of associated companies' results	**(2)**	(2,963)
Disposal of interest in an associated company	**1,962**	(9,282)
Acquisition of further interest in an associated company, which became a subsidiary	**27,750**	—
Other equity movement	**—**	4,500
	5,780	(23,930)
Amounts due from associated companies	**33,071**	110,414
Provision for obligations in and amounts due from associated companies	**(14,432)**	(44,432)
	24,419	42,052

(a) The Group's associated companies are unlisted shares.

At 31st March 2006, the Group held 45% interest in Silver Kent Technology Limited, its principal associated company which is incorporated in Hong Kong, with 10,000,000 ordinary shares of HK$1 each and engaged in the trading of audio visual products. The financial information of Silver Kent Technology Limited is extracted as follows:

	HK$'000
As at 31st March 2006	
Assets	71,227
Liabilities	58,070
For the year ended 31st March 2006	
Revenues	46,098
Loss for the year	1,394

(b) The amounts due from associated companies are unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

19 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest in a jointly controlled entity, at cost	**1,083**	1,083
Share of losses	**(1,083)**	(1,083)
Net book amount	**—**	—
Amount due from a jointly controlled entity *(note (b))*	**20,563**	18,841
Provision for amount due from a jointly controlled entity *(note (a))*	**(20,563)**	(18,841)
	—	—

(a) This represents the Group's 70% interest in Tung Ah. The Group's control over Tung Ah 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 Tung Ah and the equity method is used to account for its investment therein.

Particulars of Tung Ah 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.

(c) At 31st March 2006, Tung Ah was in net liabilities position and the Group has shared its loss up to the extent of its investment cost of HK$1,083,000 and the amount due from it of HK$20,563,000.

Notes to the Financial Statements

20 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost *(note (a))*	**46,010**	46,010
Amounts due from subsidiaries *(note (b))*	**492,060**	453,104
Amounts due to subsidiaries *(note (b))*	**(34,793)**	(34,773)
	503,277	464,341
Provision for amounts due from subsidiaries	**(233,885)**	(233,885)
	269,392	230,456

(a) Details of principal subsidiaries are set out in note 36 to the financial statements.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES — GROUP

(a) Available-for-sale financial assets — Group

	2006
	HK$'000
Beginning of the year *(note 21(b))*	**3,343**
Additions	**881**
Revaluation surplus transfer to equity	**463**
End of the year	**4,687**
Available-for-sale financial assets include the following:	
Equity securities listed in Hong Kong	**3,535**
Equity securities listed in Singapore	**1,152**
Market value of the listed securities	**4,687**

Notes to the Financial Statements

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES — GROUP *(Continued)*

(b) Investment securities — Group

	2005
	HK$'000
Equity securities, at cost	
Listed in Hong Kong	2,384
Listed outside Hong Kong	1,184
	3,568
Unlisted equity securities, at cost	143
	3,711
Less: provision for impairment	(368)
	3,343
Market value of listed equity securities	3,004

22 INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Films and programs in audio visual product format	**8,423**	9,298
Less: provision for obsolete inventories	**(1,003)**	(1,003)
	7,420	8,295

Notes to the Financial Statements

23 TRADE AND OTHER RECEIVABLES — GROUP

	2006 HK$'000	2005 HK$'000
Trade receivables	**27,467**	34,658
Less: provision for impairment of receivables	**(3,814)**	(4,179)
Trade receivables — net	**23,653**	30,479
Prepayments, deposits and other receivables	**30,872**	4,295
	54,525	34,774
Less: non-current portion of		
— trade receivables	**(16,190)**	—
— prepayments, deposits and other receivables	**(13,793)**	—
	(29,983)	—
	24,542	34,774

The ageing analysis of trade receivables is as follows:

	Group 2006 HK$'000	2005 HK$'000
Current to 3 months	**7,190**	15,463
4 to 6 months	**3,255**	6,966
Over 6 months	**17,022**	12,229
	27,467	34,658

The Group's credit terms to trade receivables generally ranges from 7 to 90 days. Credit terms for certain customers may be extended to over 12 months, after careful consideration of the credit history, credit standing or security in place for these customers. Balances with credit terms of more than 12 months are classified and presented in the consolidated balance sheet under the non-current portion of the receivables.

Notes to the Financial Statements

24 BANK BALANCES AND CASH

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank balances and cash	**12,487**	16,724	**1**	1
Short-term bank deposits	**5,108**	—	**—**	—
	17,595	16,724	**1**	1

The effective interest rate on short-term bank deposits was 3%; these deposits have an average maturity of 7-30 days.

25 SHARE CAPITAL

	Authorised	
	Shares of HK$0.1 each	
	No. of shares (Thousands)	*HK$'000*
At 31st March 2005 and 31st March 2006	3,000,000	300,000

	Issued and fully paid	
	Shares of HK$0.1 each	
	No. of shares (Thousands)	*HK$'000*
At 31st March 2005 and 31st March 2006	771,000	77,100

(a) Details of issue of shares subsequent to the balance sheet date are set out in note 38 to the financial statements.

(b) The Company has a share option scheme as adopted by the shareholders on 30th August 2004. No option has been granted since its adoption.

Notes to the Financial Statements

26 RESERVES

(a)

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Share premium	**—**	222,791
Share redemption reserve	**12**	12
Contributed surplus	**107,099**	128,545
Exchange difference	**(306)**	(306)
Investment properties revaluation reserve	**—**	13,319
Available-for-sale financial assets reserve	**463**	—
Retained earnings/(accumulated losses)		
— Proposed final dividend	**2,880**	—
— Others	**50,955**	(224,099)
	53,835	(224,099)
	161,103	140,262

(i) Movements of each component of the reserves are set out in the consolidated statement of changes in equity.

(ii) 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 Financial Statements

26 RESERVES *(Continued)*

(b)

	Company				
	Share premium HK$'000	Share redemption reserve HK$'000	Contributed surplus HK$'000	Retained earnings/ (accumulated Losses) HK$'000	Total HK$'000
At 1st April 2004	222,791	12	174,556	(176,473)	220,886
Loss for the year	—	—	—	(67,764)	(67,764)
At 31st March 2005	222,791	12	174,556	(244,237)	153,122
At 1st April 2005	222,791	12	174,556	(244,237)	153,122
Transfer from share premium	(222,791)	—	222,791	—	—
Set off against accumulated losses	—	—	(244,237)	244,237	—
Profit for the year	—	—	—	38,913	38,913
At 31st March 2006	—	12	153,110	38,913	192,035
Representing:					
Proposed final dividend	—	—	—	2,880	2,880
Others	—	12	153,110	36,033	189,155
	—	12	153,110	38,913	192,035

(i) 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 (as amended), the contributed surplus shall not be distributable if these are reasonable grounds for believing that:

(1) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(2) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Notes to the Financial Statements

26 **RESERVES** *(Continued)*

(b) *(Continued)*

(ii) On 16th September 2005, the Company's shareholders have approved the resolution to cancel the amount of HK$222,791,000 standing to the credit of the share premium account as at 31st March 2005, transfer the amount to the contributed surplus account and then apply an amount of HK$244,237,000 from the contributed surplus account to eliminate the accumulated losses of the Company as at 31st March 2005.

27 **TRADE PAYABLES**

The ageing analysis of trade payables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 3 months	**5,817**	9,749
4 to 6 months	**678**	595
Over 6 months	**2,393**	6,587
	8,888	16,931

Notes to the Financial Statements

28 BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts — secured	**10,562**	4,257
Bank loans		
— secured	**27,997**	34,351
— unsecured	**2,800**	2,800
Borrowings *(note 28(a))*	**41,359**	41,408
Obligations under finance leases *(note 28(b))*	**339**	357
	41,698	41,765

(a) Borrowings are repayable in the following periods:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**26,147**	20,722
In the second year	**5,338**	5,757
In the third to fifth year	**8,075**	13,070
After the fifth year	**1,799**	1,859
	15,212	20,686
	41,359	41,408

Notes to the Financial Statements

28 BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

(a) *(Continued)*

At 31st March 2006, banking facilities amounting to HK$52,791,000 (2005: HK$65,144,000) granted by banks to the Group are secured by the following:

(i) legal charges over certain of the Group's Properties *(note 15)* and certain investment properties *(note 16)*;

(ii) corporate guarantees executed by the Company *(note 31)*;

(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

(b) As at 31st March 2006, the Group's finance lease liabilities were repayable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**171**	359
In the second year	**147**	21
In the third to fifth year	**50**	—
	368	380
Future finance charges on finance leases	**(29)**	(23)
Present value of finance lease liabilities	**339**	357

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**157**	337
In the second year	**136**	20
In the third to fifth year	**46**	—
	182	20
	339	357

Notes to the Financial Statements

29 DEFERRED INCOME TAX LIABILITIES

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**3,027**	—
Charged to equity	**—**	2,742
Tax recognised in the consolidated income statement *(note 10)*	**1,527**	285
End of the year	**4,554**	3,027

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$226,512,000 (2005: HK$168,550,000) 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	**Revaluation of investment properties**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1st April 2004,	2,223	—	2,223
Charged to the consolidated income statement	231	—	231
Charged to equity	—	2,742	2,742
At 31st March 2005	2,454	2,742	5,196
Charged to the consolidated income statement	335	1,119	1,454
At 31st March 2006	2,789	3,861	6,650

Notes to the Financial Statements

29 DEFERRED TAXATION *(Continued)*

Deferred tax assets

	Group	
	Tax losses	
	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**(2,169)**	(2,223)
Charged to the consolidated income statement	**73**	54
End of the year	**(2,096)**	(2,169)

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	
	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	**(2,096)**	(2,169)
Deferred tax liabilities	**6,650**	5,196
End of the year	**4,554**	3,027

Notes to the Financial Statements

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) after taxation to cash generated from operations

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) after taxation	**20,470**	(29,207)
Adjustments for:		
Income tax expense *(note 10)*	**1,527**	285
Share of profits less losses of associated companies	**2**	29,644
Provision for impairment of trade and other receivables	**1,490**	3,051
Provision for impairment of an amount due from a jointly controlled entity	**339**	—
Amortisation costs of non-current receivables	**2,427**	—
Dividend income	**(117)**	—
Interest income	**(300)**	(5)
Interest on bank loans and overdrafts	**2,880**	3,298
Interest element of finance leases	**29**	155
Deficit arising on revaluation of buildings not covered by previous revaluation surplus	**—**	235
Net surplus on revaluation of investment properties and buildings	**(6,394)**	—
Gain on disposal of property, plant and equipment	**(35)**	—
Gain on disposal of an associated company	**(1,962)**	(15,579)
Loss on disposal of investment securities	**—**	2,957
Impairment of investment securities	**—**	368
Depreciation of property, plant and equipment	**4,326**	4,653
Amortisation of prepaid land premium and land use rights	**322**	322
Amortisation of film rights, perpetual film rights, and non-perpetual film sub-licensing rights	**49,404**	52,621
Cost of film rights disposed of	**1,014**	—
Impairment of film rights, films in progress, film sub-licensing rights and deposits	**1,348**	6,234
Operating profit before working capital changes	**76,770**	59,032
Decrease in inventories	**875**	3,141
Increase in trade and other receivables	**(4,306)**	(4,768)
(Decrease)/increase in trade payables	**(8,043)**	3,791
Increase in receipts in advance and accruals	**21,359**	14,811
Increase/(decrease) in bills payable	**1,498**	(133)
Cash generated from operations	**88,153**	75,874

Notes to the Financial Statements

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

(b) Analysis of changes in financing during the year

	Bank loans		Obligations under finance leases	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Beginning of the year	**37,151**	44,682	**357**	1,211
Acquisition of a subsidiary	**1,235**	—	**—**	—
Inception of finance lease *(note (d))*	**—**	—	**413**	470
Bank loans raised	**—**	4,800	**—**	—
Repayment of bank loans	**(7,589)**	(12,331)	**—**	—
Repayment of capital element of finance leases	**—**	—	**(431)**	(1,324)
End of the year	**30,797**	37,151	**339**	357

(c) Acquisition of a subsidiary

During the year, the Group acquired a further 45% interest in a 50% owned associated company and the company accordingly has become the Group's subsidiary (the "Sub").

	HK$'000
Property, plant and equipment	15
Film rights and films in progress	211
Bank balances and cash	41
Other receivables	3,103
Receipts in advance and accruals	(2,504)
Net amounts due to fellow subsidiaries	(56,429)
Bank loans	(1,235)
Net liabilities of the Sub at the time of acquisition	(56,798)
Share of liabilities previously recognised by the Group	27,750
Provision for obligations in and amounts due from the Sub	29,048
	—

Notes to the Financial Statements

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

(c) Acquisition of a subsidiary *(Continued)*

Net cash inflow from the acquisition

	HK$'000
Cash consideration *(note)*	—
Bank balances and cash acquired	41
	41

Note: The acquisition was at a consideration of HK$1.

(d) Major non-cash transactions

During the year, the Group has entered into finance lease arrangements in respect of furniture, fixtures and equipment and motor vehicles with a total capital value at the inception of the leases of HK$413,000 (2005: HK$470,000).

31 CONTINGENT LIABILITIES

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	**—**	—	**64,375**	64,144
Associated companies	**—**	5,250	**—**	5,250
	—	5,250	**64,375**	69,394

Notes to the Financial Statements

32 COMMITMENTS

(a) At 31st March 2006, the Group had contracted commitments but not provided for in these financial statements as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Commitments in respect of		
— film production	**3,379**	4,540
— program licensing agreements	**9,451**	12,137
	12,830	16,677

(b) At 31st March 2006, the Group did not have any commitments in relation to the jointly controlled entity and associated companies.

33 FUTURE OPERATING LEASE ARRANGEMENTS

As at 31st March 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**1,820**	2,678
Later than one year and not later than five years	**276**	2,123
	2,096	4,801

Notes to the Financial Statements

34 RELATED PARTY TRANSACTIONS

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Replication fees paid to an associated company	**18,693**	15,672
Rental income received from the sub-letting of premises to associated companies	**3,018**	1,410
Pre-mastering service fees paid to an associated company	**—**	341
Film rights and film sub-licensing rights purchased from an associated company	**—**	8,500
Commission income received from an associated company	**—**	2,082
Playout and post-production service fees paid to an associated company	**—**	606

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.

35 DIVIDEND

A dividend in respect of the year ended 31st March 2006 of HK$0.0035 (2005: Nil) per share, amounting to a total dividend of HK$2,880,000 (2005: Nil) is to be proposed at the 2006 annual general meeting. This dividend will be reflected in the financial statements for the year ending 31st March 2007..

Notes to the Financial Statements

36 GROUP STRUCTURE — PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st March 2006:

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
Brilliant Idea Group Limited	Hong Kong	Production of films and tele-features	10,000 ordinary shares of HK$1 each	95
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

Notes to the Financial Statements

36 GROUP STRUCTURE — PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Principal activities	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: *(Continued)*				
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
MATV (Asia) Limited	Hong Kong	Television operations	20,000 ordinary shares of HK$1 each	100

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

37 ULTIMATE HOLDING COMPANY

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

Notes to the Financial Statements

38 SUBSEQUENT EVENTS

(a) On 20th March 2006, the Company entered into a placing agreement with IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. (collectively the "Placees"), pursuant to which the Company has conditionally agreed to place 52,000,000 placing shares to the Placees at a price of HK$0.315 per placing share. On 12 April 2006, the placing agreement was completed and the said shares were allotted to the Placees.

This share placing arrangement had no dilutive effect on the basic earnings per share for the year.

(b) On 28th June 2006, the Company entered into three note subscription agreements with Hanny Holdings Limited and two other note subscribers, both being investment funds managed by the same investment manager, in relation to the subscription of convertible notes (the "Notes") in an aggregate principal amount of HK$100 million. The initial conversion price, which is subject to anti-dilution adjustments in certain events and a reset mechanism as set out in the subscription agreements, is HK$0.44 per share. Upon full conversion of the Notes at the initial conversion price, an aggregate of 227,272,726 new ordinary shares of the Company will be issued and allotted to the holders of the Notes. The interest rate of the Notes is 4% per annum and interest is payable semi-annually. The Notes will be matured at the third anniversary from the issue date. Other terms and conditions of the note subscription agreements are set out in the Company's announcement dated 29th June 2006. The note subscription agreements are pending approval from the Company's shareholders in a special general meeting to be held on 4th August 2006.

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				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Restated			*Restated*
		(Note 2)			*(Note 1)*
Results					
Profit/(loss) attributable to shareholders	**20,378**	(29,100)	(5,578)	(32,958)	(99,763)

	As at 31st March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**361,131**	321,423	333,140	355,985	368,543
Total liabilities	**(122,970)**	(104,192)	(98,240)	(117,734)	(96,882)
Minority interests	**42**	131	27	343	—
Net assets	**238,203**	217,362	234,927	238,594	271,661

Note 1: 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 income statement 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 income statement 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.

Note 2: The Group adopted certain new accounting standards commencing 1st April 2005, details and effects of which are set out in note 2 to the financial statements.

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 BayKowloon	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%

Schedule of Principal Investment Properties

Address	Existing use	Term of lease	Percentage of Group interest
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%