1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Group consist of worldwide film and video distribution, film exhibition in Hong Kong, Malaysia, Singapore, Taiwan and Mainland China, the operation of a film processing business in Hong Kong and film and television drama series production.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS"), hereinafter collectively referred to as the new HKFRSs, which are generally effective for the Company's accounting period beginning on 1 July 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005, except for the following standards:

- HKFRS 3 Business Combinations;
- HKAS 36 Impairment of Assets; and
- HKAS 38 Intangible Assets.

Changes in the accounting policies have been made in accordance with the provisions of HKFRS 3, HKAS 36 and HKAS 38, which were prospectively applied from 1 July 2004.

(i) The early adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill and excess of the fair values of the identifiable assets, liabilities and contingent liabilities acquired over cost ("Negative goodwill").

Prior to the adoption of HKFRS 3 and HKAS 36:

- goodwill arising from acquisitions after 1 July 2001 was amortised on the straight-line basis over its estimated useful life;
- goodwill was assessed for impairment if there was any indication of impairment of such; and
- on disposal of subsidiaries or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition was written back and included in the calculation of the gain or loss on disposal.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

In accordance with the provisions of HKFRS 3 and HKAS 36:

- from the year ended 30 June 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;

- Negative goodwill is recognised immediately in the consolidated profit and loss account;

- on disposal of subsidiaries, jointly-controlled entities or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to the accumulated losses as a movement in reserves and not included in the calculation of the gain or loss on disposal; and

- reversal of impairment losses for goodwill is prohibited.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements for year ended 30 June 2005 is summarised as follows:

- the Negative goodwill arising from the companies acquired by the Group during the year over the cost of business combinations in an aggregate amount of HK$43,032,000 was fully recognised as income for the year ended 30 June 2005; and

- the attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition in an aggregate amount of HK$12,483,000, was transferred to the accumulated losses as a movement in reserves for the year ended 30 June 2005.

(ii) The early adoption of HKAS 38 has had no significant impact on these financial statements in respect of the accounting policy for intangible assets.

The Group has already commenced an assessment of the impact of other new HKFRSs, which are generally effective for the Company's accounting periods beginning on 1 July 2005, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its result of operations and financial position.

3. BASIS OF PRESENTATION

The Group sustained a consolidated net loss attributable to shareholders of HK$12,938,000 for the year ended 30 June 2005 and had net current liabilities of HK$38,720,000 at the balance sheet date.

In order to improve the Group's working capital position, immediate liquidity and cash flow position of the Group, the directors have implemented the following measures:

(a) subsequent to the balance sheet date, on 10 October 2005, the Group entered into a Letter of Intent with an existing shareholder to dispose of a 5% equity interest in a jointly-controlled entity for a cash consideration of US$2,150,000 (approximately HK$16,700,000). The disposal, when completed, will generate a cash inflow of approximately HK$16,700,000 to the Group which will improve the working capital and cash flow positions of the Group;

(b) the directors of the Company are seeking support from its bankers to re-arrange the Group's secured short-term bank and other borrowings to longer term financing. The management is negotiating with a bank to extend two installments of a total of HK$12,400,000 which fall due within one year at the balance sheet date to be repaid after 30 June 2006 and the management is optimistic about the outcome based on the negotiation so far;

(c) the Group continues to implement measures to tighten cost controls over various general and administrative expenses and to attain profitable and positive cash flow operations. The directors may consider in the future to close down certain non-profit making cinemas in Hong Kong following which the operating expenses shared by the Group can be reduced; and

(d) the Group is currently considering the issuance of convertible bonds and continues to seek support from the potential investors to strengthen the Group's working capital position.

In the opinion of the directors, in light of the various measures/arrangements implemented to date and the support from the Group's bankers and the potential investors, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight liquidity as at 30 June 2005.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2005, together with the Group's share of the results for the year and post-acquisition reserves of its jointly-controlled entities and associates, as set out below. The results of the subsidiaries, jointly-controlled entities and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is calculated based on the audited results after making appropriate adjustments to conform to the Group's accounting policies and are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets of the joint venture company under the equity method of accounting less any impairment losses.

Unrealised gains arising from transactions with jointly-controlled entities are eliminated to the extent of the Group's interests in the enterprises. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

In the current year, the Group's share of the post-acquisition results and reserves of its associates was calculated from the latest available audited and management financial statements of the associates which were made up to 30 June 2005.

Goodwill

Goodwill on the acquisition of subsidiaries, jointly-controlled entities and associates is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill arising on the acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset and in the case of jointly-controlled entities and associates , the goodwill was included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1 July 2004 is not amortised and goodwill already carried in the consolidated balance sheet before 1 July 2004 is not amortised after 1 July 2004. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising on acquisitions before 1 July 2001 was eliminated against the consolidated capital reserve in the year of acquisition. The Group applied the transitional provision of HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated capital reserve and that required such goodwill not to be recognised in the consolidated profit and loss account when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates become impaired.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill

On acquisition of subsidiaries, jointly-controlled entities and associates, if the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in the consolidated profit and loss account any excess remaining after that reassessment.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the assets does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss for an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. Any impairment losses made against goodwill is not reversed.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	over the unexpired terms of the leases
Buildings	4%
Leasehold improvements	$8^1/_3$% – $33^1/_3$%
Machinery and equipment	10% – $33^1/_3$%
Furniture and fixtures	10% – $33^1/_3$%
Motor vehicles	20%
Air-conditioning systems	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits or accumulated losses is transferred directly to retained profits or accumulated losses.

Investments in club memberships

Investments in club memberships are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club memberships.

Trademarks

Trademarks with indefinite life are stated at cost less any impairment losses.

Long term investments

Long term investments in unlisted equity securities, which are intended to be held on a continuing basis, and which are held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account in the period in which they arise.

When the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts receivable

Accounts receivable, which generally have credit terms of one to three months, are recognised and carried at the original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices, less any further costs expected to be incurred to completion and disposal.

Film rights and amortisation

(i) *Film rights*

Film rights represent films and television drama series and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the profit and loss account based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. Where there is an impairment in value, the unamortised balance is written down to its estimated recoverable amount.

(ii) *Films in progress*

Films in progress are stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films or television drama series. Costs are transferred to film rights upon completion.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, jointly-controlled entities and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas jointly-controlled entities and associates expressed in foreign currencies are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars as the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employee Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions to the Scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The Group's employer contributions are fully and immediately vested with the employees when contributed to the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme (the "State Scheme") operated by the government of the PRC. Contributions to the State Scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they became payable in accordance with the rules of the State Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for long service payments are made based on relevant labour laws and regulations governing retirement payments and are reviewed by the directors on an annual basis and adjusted where applicable.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) film royalties income, theatre advertising income and video distribution income, on an accrual basis;

(b) film distribution commission income, film developing and printing service income, advertising agency fee income, production control fee income and consultancy service income, on completion of the services;

(c) gross box office takings, when the services have been rendered to the buyers;

(d) income from confectionery sales and compact disc sales, at the point of sales when the confectionery and audio visual products are given to the customers;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(e) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(f) interest, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable; and

(g) dividends, when the shareholders' right to receive payment is established.

5. SEGMENT INFORMATION

Segment information is presented by way of segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the film and video distribution segment engages in worldwide distribution of films and audio visual products related to films and television programmes;

(b) the film exhibition segment engages in film exhibition in Hong Kong, Malaysia, Singapore, Taiwan and Mainland China; and

(c) the others segment comprises film processing business, which provide film processing services and sell soundtrack albums, and film and television drama series production.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Film and video distribution		Film exhibition		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (*Note*)	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	52,508	51,225	137,851	146,271	12,880	20,981	–	–	203,239	218,477
Inter-segment sales	3,427	1,762	–	–	294	294	(3,721)	(2,056)	–	–
Other revenue	1,583	5,748	3,852	2,470	910	1,811	(884)	(1,305)	5,461	8,724
Total	57,518	58,735	141,703	148,741	14,084	23,086	(4,605)	(3,361)	208,700	227,201
Segment results	(13,657)	126	(53,309)	(24,394)	(7,260)	(7,092)	–	–	(74,226)	(31,360)
Interest income and unallocated gains									1,744	3,796
Impairment of film rights	–	(3,543)	–	–	–	–	–	–	–	(3,543)
Loss from operating activities									(72,482)	(31,107)
Recognition of Negative goodwill	–	–	43,032	–	–	–	–	–	43,032	–
Impairment of interests in an associate	–	–	–	(1,413)	–	–	–	–	–	(1,413)
Finance costs									(3,073)	(363)
Share of profits and losses of jointly-controlled entities	–	–	1,763	–	–	–	–	–	1,763	–
Share of profits and losses of associates	926	2,372	29,147	29,611	–	–	–	–	30,073	31,983
Loss before tax									(687)	(900)
Tax									(12,251)	(10,763)
Net loss from ordinary activities attributable to shareholders									(12,938)	(11,663)

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Film and video distribution		Film exhibition		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note)	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	54,977	58,201	131,744	64,698	11,882	15,509	–	–	198,603	138,408
Interests in jointly-controlled entities	–	–	178,619	–	–	–	–	–	178,619	–
Interests in associates	66	405	159,308	182,208	–	–	–	–	159,374	182,613
Trademarks									79,421	79,421
Unallocated assets									16,422	22,767
Total assets									632,439	423,209
Segment liabilities	35,791	25,041	39,655	23,841	7,236	5,286	–	–	82,682	54,168
Unallocated liabilities									138,789	49,032
Total liabilities									221,471	103,200
Other segment information:										
Depreciation	215	529	14,725	12,976	710	1,147	–	–	15,650	14,652
Unallocated amounts									1,297	1,593
									16,947	16,245
Amortisation of film rights	13,498	14,093	–	–	–	–	–	–	13,498	14,093
Provision/(write-back of provision) for doubtful debts, net	3	(3,282)	–	151	(19)	204	–	–	(16)	(2,927)
Capital expenditure	125	68	49,465	1,314	–	133	–	–	49,590	1,515
Unallocated amounts									1,774	179
									51,364	1,694

Note: Due to the decreasing of significance of film and television drama series production segment to the Group, it has not been separately disclosed as a separate segment in the current year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Elsewhere in Asia		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	184,783	201,748	14,810	3,697	6,651	3,407	716	11,681	(3,721)	(2,056)	203,239	218,477
Other segment information:												
Segment assets	145,421	155,104	38,484	4,663	30,863	1,383	257	25	–	–	215,025	161,175
Interests in jointly-controlled entities											178,619	–
Interests in associates											159,374	182,613
Trademarks											79,421	79,421
											632,439	423,209
Capital expenditure	20,564	1,607	30,800	68	–	19	–	–	–	–	51,364	1,694

6. TURNOVER

Turnover represents proceeds from the sale of film, video and television rights, motion picture distribution and theatre operation, advertising agency fees earned, invoiced value of film developing and printing services rendered, production control fees earned, consultancy fee income, and proceeds from sale of audio visual products.

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000
Cost of inventories sold	5,733	9,410
Cost of services provided*	83,976	70,590
Amortisation of film rights**	13,498	14,093
Auditors' remuneration	1,734	1,348
Depreciation	16,947	16,245
Loss on disposal of fixed assets	3,577	1,345
Loss on disposal of subsidiaries	–	161
Operating lease rental payments in respect of land and buildings		
Minimum lease payments	35,689	37,002
Contingent rents	3,092	1,424
	38,781	38,426
Staff costs, excluding directors' remuneration *(see note 31)*		
Wages, salaries and staff welfare***	43,875	45,763
Pension contributions	1,535	1,557
	45,410	47,320
Provision/(write-back of provision) for long service payments	(139)	709
Exchange gains arising from translation of advances to overseas jointly-controlled entities and associates and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	(321)	(2,352)
Exchange gains, net	(748)	(1,109)
Write-back of provision for doubtful debts, net	(16)	(2,927)
Rental income, net	(130)	(365)
Interest income on bank deposits	(56)	(14)
Gain on disposal of associates	–	(47)
Write-off of aged liabilities	–	(12,044)

* The cost of services provided includes approximately HK$2,890,000 (2004: HK$2,974,000) relating to staff costs which is also included in the amount disclosed above.

** The amortisation of film rights for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

*** Balance also included the amount of "Provision/(write-back of provision) for long service payments" disclosed above.

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans wholly repayable within five years	2,418	–
Bank loans arrangement fee	399	–
Interest on accounts payable	178	264
Interest on finance leases	78	99
	3,073	363

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on country legislation, interpretations and practices in respect thereof.

	2005 HK$'000	2004 HK$'000
Group:		
Hong Kong	182	642
Elsewhere	21	(130)
	203	512
Share of tax attributable to:		
Jointly-controlled entities		
Charge for the year	1,789	–
Deferred	407	–
	2,196	–
Associates		
Charge for the year	8,405	2,893
Deferred	1,447	7,358
	9,852	10,251
Total tax charge for the year	12,251	10,763

9. TAX *(continued)*

At the date of approval of the financial statements, a subsidiary of the Group has ongoing disputes with the Hong Kong Inland Revenue Department ("HKIRD") in respect of a non-taxable claim of certain non-Hong Kong sourced income for the years of assessment 1995/1996 and 1996/1997. The subsidiary is pursuing its objection to HKIRD's assessments and as at the date of the financial statements, the directors consider that sufficient tax provision has been made in this regard.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates ranging from 17.5% to 33% for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, is as follows:

Group

	2005 HK$'000	2004 HK$'000
Loss before tax	(687)	(900)
Tax at statutory rates	(120)	(157)
Higher tax rate for specific provinces or local authority	2,976	1,612
Effect on opening deferred tax of decrease in tax rates	–	(951)
Adjustments in respect of current tax of previous periods	182	(2,159)
Income not subject to tax	(9,212)	(3,103)
Expenses not deductible for tax	5,966	6,555
Temporary differences not recognised	(27)	1,671
Tax losses not recognised	13,008	9,522
Tax losses from previous periods utilised	(522)	(2,227)
Tax charge at the Group's effective rate	12,251	10,763

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$13,859,000 (2004: HK$11,297,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$12,938,000 (2004: HK$11,663,000) and the weighted average of 1,140,535,574 shares (2004: 877,223,566 shares) in issue during the year.

The comparative basic and diluted loss per share amounts have been adjusted to reflect the rights issue of shares, as further detailed in note 26 to the financial statements.

No disclosure of diluted loss per share for both current year and prior year is shown as the exercise prices of the Company's outstanding share options granted prior to 1 July 2004 were higher than the average market price of the Company's ordinary shares during the year and thus the share options have no diluting effect.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Air-conditioning systems HK$'000	Total HK$'000
Cost or valuation:							
At beginning of year	9,300	68,691	29,352	18,236	3,055	588	129,222
Additions	–	28,840	15,273	7,251	–	–	51,364
Disposals	–	(2,224)	(6,471)	(6,220)	–	(53)	(14,968)
Exchange adjustments	–	–	18	–	18	–	36
At 30 June 2005	9,300	95,307	38,172	19,267	3,073	535	165,654
Accumulated depreciation:							
At beginning of year	3,365	38,654	18,106	11,268	1,496	580	73,469
Provided during the year	358	9,023	4,206	2,739	617	4	16,947
Disposals	–	(2,102)	(4,660)	(4,563)	–	(49)	(11,374)
Exchange adjustments	–	(2)	14	(1)	11	–	22
At 30 June 2005	3,723	45,573	17,666	9,443	2,124	535	79,064
Net book value:							
At 30 June 2005	5,577	49,734	20,506	9,824	949	–	86,590
At 30 June 2004	5,935	30,037	11,246	6,968	1,559	8	55,753
Analysis of cost or valuation:							
At cost	–	95,307	38,172	19,267	3,073	535	156,354
At valuation	9,300	–	–	–	–	–	9,300
	9,300	95,307	38,172	19,267	3,073	535	165,654

12. FIXED ASSETS *(continued)*

The leasehold land and buildings are situated in Hong Kong and are held under long term leases.

The net book values of the Group's fixed assets held under finance leases included in the total amount of machinery and equipment and motor vehicles at 30 June 2005, amounted to HK$26,000 (2004: HK$48,000) and HK$794,000 (2004: HK$1,361,000), respectively.

The long term leasehold land and buildings were revalued on 30 September 1994 by an independent firm of professionally qualified valuers, C.Y. Leung & Company Limited, at HK$9,300,000 at open market value assuming sale with vacant possession. The surplus arising from the revaluation was credited to the revaluation reserve account. The Group has adopted the transitional provision, as permitted under paragraph 80 of SSAP 17 issued in 1995 and revised in 2001, of not making further regular valuations on its revalued assets.

Had the Group's land and buildings been carried at cost less accumulated depreciation and any impairment losses, they would have been included in the financial statements at approximately HK$629,000 (2004: HK$668,000).

As at 30 June 2005, certain of the Group's fixed assets which are situated in the PRC with a net book value of approximately HK$28,800,000 were pledged as security to a bank for a bank loan granted to the Group *(note 22)*.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	167,647	167,647
Due from subsidiaries	845,585	741,247
	1,013,232	908,894
Provision for impairment	(601,870)	(588,580)
	411,362	320,314

The balances with subsidiaries are unsecured, interest-free and not expected to be repaid within the next twelve months.

13. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and principal operations	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Cine Art Laboratory Limited	Hong Kong	Ordinary HK$2,500 Deferred* HK$997,500	100	Film developing and printing
City Entertainment Corporation Limited	Hong Kong	Ordinary HK$2	100	Theatre operation
Conneway Films Company Limited	Hong Kong	Ordinary HK$31,610,000	100	Theatre operation
Gala Film Distribution Limited	Hong Kong	Ordinary HK$49,990,000** Deferred* HK$10,000	100	Distribution of motion pictures
Global Entertainment and Management Systems Sdn. Bhd.#	Malaysia	Ordinary RM300,000	100	Investment holding
Golden Harvest Cinemas Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
Golden Harvest Entertainment Company Limited	Hong Kong	Ordinary HK$100 Deferred* HK$114,000,000	100	Investment holding
Golden Harvest Entertainment International Limited	British Virgin Islands	Ordinary US$1,000	100	Investment holding
Golden Harvest Films Distribution Holding Limited	British Virgin Islands	Ordinary US$1	100	Investment holding
Golden Harvest Film Productions Limited	Hong Kong	Ordinary HK$100,000	100	Provision of production controller and film producer services
Golden Harvest (Marks) Limited	British Virgin Islands	Ordinary US$1	100	Holding of trademarks
Golden Harvest Multiplex (Pte) Limited	Singapore	Ordinary S$2	100	Investment holding
Golden Harvest (Shenzhen) Cinemas Company Limited##	PRC	Registered RMB10,000,000	100	Theatre operation

13. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation and principal operations	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Golden Movies International Limited	British Virgin Islands	Ordinary US$1	100	Sale of film rights and distribution of motion pictures
Golden Screen Limited	Hong Kong	Ordinary HK$8,750,000	100	Investment holding
Golden Touch Licencing B.V.	Netherlands	Ordinary EUR18,151.21	100	Distribution of motion pictures
Happy Way Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of audio visual products related to films and programmes
Kotewall Limited	British Virgin Islands	Ordinary US$1	100	Sale of film rights and distribution of motion pictures
Panasia Films Limited	Hong Kong	Ordinary HK$2,600,000	100	Distribution of motion pictures and its related audio visual products and acting as an advertising agent
Real Merry Limited	Hong Kong	Ordinary HK$16,831,002	100	Theatre operation
Shanghai Golden Harvest Media Management Company Limited***	PRC	Registered US$500,000	90	Distribution of motion pictures
Splendid Ventures Limited	Hong Kong	Ordinary HK$2	100	Theatre operation
United Harvest Asia Limited	Hong Kong	Ordinary HK$2	100	Provision of finance to group companies

Except for Golden Harvest Entertainment International Limited, all of the above subsidiaries are indirectly held by the Company.

13. INTERESTS IN SUBSIDIARIES *(continued)*

During the year, the Group acquired the remaining 66.67% equity interests in Global Entertainment and Management Systems Sdn. Bhd. ("GEMS"). GEMS became a wholly-owned subsidiary of the Group upon the acquisition (note 14). GEMS is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Golden Harvest (Shenzhen) Cinemas Company Limited, established during the year, is 75% directly held by the Group as at 30 June 2005. The remaining 25% is held by an independent third party on behalf of the Group. As at 30 June 2005, the transfer of legal title on 25% equity interests from the independent third party to the Group is still in progress.

* For Golden Harvest Entertainment Company Limited, the deferred shares carry no rights to dividends and carry the right to receive one half of the surplus on a return of capital exceeding HK$1,000,000,000,000,000. Apart from the above, all other deferred shares carry rights to dividends for any given financial year of the respective companies when the net profit available for distribution exceeds HK$1,000,000,000. They also carry rights to receive one half of the surplus on a return of capital of the respective companies exceeding HK$500,000,000,000. None of the deferred shares carry any rights to vote at general meetings.

** The authorised and issued ordinary share capital of Gala Film Distribution Limited was increased from HK$10,000 to HK$49,990,000 during the year. The new shares rank pari passu in all respects with the existing ordinary shares in issue of the company.

*** Shanghai Golden Harvest Media Management Company Limited is a Sino-foreign equity joint venture enterprise under the PRC Law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	72,163	–
Due from jointly-controlled entities	106,456	–
	178,619	–

14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The balances with jointly-controlled entities are unsecured, interest-free and not expected to be repaid within the next twelve months except for HK$30,000,000 which is expected to be repaid within the next twelve months and classified as a current asset.

On 10 March 2005, the Group completed the acquisition of the remaining 66.67% equity interests in GEMS at a consideration of approximately HK$18,318,000 and Negative goodwill of approximately HK$3,709,000 was credited to the consolidated profit and loss account for the year ended 30 June 2005. GEMS became a wholly-owned subsidiary of the Group upon the acquisition. Through this acquisition, the Group's total equity interests in TGV Cinemas Sdn. Bhd. ("TGV") increased from 33.33% to 50%. Pursuant to the joint venture and shareholders' agreement dated 8 February 2002 and the change in equity interests in TGV shared by the Group, TGV was reclassified as a jointly-controlled entity upon the acquisition of GEMS during the year.

On 24 February 2005, the Group completed the acquisition of 40% equity interests in Warner Village Cinemas Co., Ltd. ("WVT") at a consideration of US$15,200,000 (approximately HK$118,560,000) and Negative goodwill of approximately HK$39,323,000 was credited to the consolidated profit and loss account for the year ended 30 June 2005. WVT is principally engaged in film exhibition and leisure operation in Taiwan.

Details of the financial position as at 30 June 2005 and the results for the year then ended of TGV and WVT are as follows:

TGV

	2005 HK$'000	2004 HK$'000
Total assets	122,148	124,627
Total liabilities	91,895	106,328
Turnover	158,867	152,219
Profit before tax	23,105	20,488
Profit after tax attributable to the Group*	5,883	3,633

* Included profit after tax attributable to the Group when acting as an associate of HK$2,807,000 and a jointly-controlled entity of HK$3,076,000 for the year ended 30 June 2005.

14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

WVT

	2005 HK$'000
Total assets	502,028
Total liabilities	373,315
Turnover	530,755
Profit before tax	53,513
Loss after tax attributable to the Group from date of acquisition to 30 June 2005	(3,509)

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and principal operations	Class of shares held	Percentage of paid-up share capital held by the Group	Principal activities
TGV Cinemas Sdn. Bhd. (formerly know as "Tanjong Golden Village Sdn. Bhd.")	Corporate	Malaysia	Ordinary	50	Theatre operation
Warner Village Cinemas Co., Ltd.	Corporate	Taiwan	Ordinary	40	Theatre operation and leisure operation

15. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets other than goodwill	69,980	57,581
Due from associates	91,689	126,571
Due to associates	(882)	(126)
	160,787	184,026
Provision for impairment	(1,413)	(1,413)
	159,374	182,613

15. INTERESTS IN ASSOCIATES *(continued)*

All balances with associates are unsecured, interest-free and not expected to be repaid within the next twelve months.

The Group's share of the post-acquisition accumulated reserves of associates as at 30 June 2005 amounted to accumulated losses of HK$21,853,000 (2004: HK$29,244,000). During the year, the Group acquired additional interests in certain associates which became a wholly-owned subsidiary and a jointly-controlled entity of the Group thereafter. The related retained profits in relation to those former associates that became a wholly-owned subsidiary and a jointly-controlled entity of the Group amounted to HK$149,000 and HK$12,681,000, respectively. In addition, the related exchange reserve in relation to a former associate that become a jointly-controlled entity of the Group amounted to HK$701,000.

Included in below are the results of GSC and GVM which, in the opinion of the directors, are material to the Group's financial results. Details of the financial positions as at 30 June 2005 and results for the year then ended of the respective associates are as follows:

GSC

	2005 HK$'000	2004 HK$'000
Total assets	235,298	205,345
Total liabilities	138,977	122,989
Turnover	216,664	285,331*
Profit before tax	26,098	28,455*
Profit after tax attributable to the Group	6,404	8,575*

* Included results from 1 January 2003 to 30 June 2004. Profit after tax attributable to the Group for the additional 6 months amounted to approximately HK$2,495,000.

GVM

	2005 HK$'000	2004 HK$'000
Total assets	367,447	357,116
Total liabilities	227,974	253,432
Turnover	328,527	292,029
Profit before tax	44,208	32,599
Profit after tax attributable to the Group	14,524	12,249

15. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and principal operations	Class of shares held	Percentage of paid-up share capital held by the Group	Principal activities
Dartina Development Limited	Corporate	Hong Kong	Ordinary	50	Investment holding
Golden Access Pte Ltd	Corporate	Singapore	Ordinary	50	Computer programming
Golden Screen Cinemas Sdn. Bhd.#	Corporate	Malaysia	Ordinary	40.22	Distribution of motion pictures and theatre operation
Golden Village Entertainment (Singapore) Pte Ltd	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Pictures Pte Ltd	Corporate	Singapore	Ordinary	50	Distribution of motion pictures
Golden Village Holdings Pte Ltd	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Multiplex Pte Ltd	Corporate	Singapore	Ordinary	50	Theatre operation
Rich Will Limited	Corporate	Hong Kong	Ordinary	50	Theatre operation

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

16. TRADEMARKS

The trademarks represent the perpetual licence for the use of the brand name “Golden Harvest” which takes the form of sign, symbol, name, logo, design or any combination thereof.

The trademarks with indefinite life are stated at cost less any impairment.

The directors are of the opinion that the Group’s trademarks have indefinite useful life due to the following reasons:

(i) the trademarks, which were acquired by the Group in 2000, have been in use for a considerable number of years and will continue to be used for the long term; and

(ii) the Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to profit and loss account when incurred, to maintain and increase the market value of its trademarks.

Vigers Appraisal & Consulting Ltd., a firm of independent professionally qualified valuers, has confirmed, in their valuation of the Group’s trademarks, that the market value of the trademarks exceeded the carrying value as at 30 June 2005. Accordingly, the directors consider that no impairment provision is necessary at the balance sheet date.

17. INVENTORIES

	Group	
	2005	2004
	HK$’000	HK$’000
Raw materials	396	426
Chemicals	54	39
Machinery parts	121	91
	571	556

18. FILM RIGHTS

As at 30 June 2005, there was no impairment loss (2004: HK$3,543,000) on film rights charged to the consolidated profit and loss account for the year. The impairment loss was determined by management with reference to the net realisable values of film rights as at the balance sheet date in accordance with the Group’s accounting policy.

19. ACCOUNTS RECEIVABLE

The Group usually grants credit periods ranging from one to three months. The age analysis of the accounts receivable, net of provision at 30 June, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 3 months	14,180	19,929
4 to 6 months	2,254	1,084
7 to 12 months	31	528
Over 1 year	639	930
	17,104	22,471

The accounts receivable of the Group included trading balances due from Golden Harvest Private Group companies totaling HK$481,000 (2004: HK$20,000). All of the balances with the Golden Harvest Private Group companies are unsecured, repayable in accordance with normal trading terms and interest-free.

The Golden Harvest Private Group represents the private companies in the Golden Harvest Group, a group of companies controlled by Raymond Chow Ting Hsing, a director of the Company, which were not included in the Group reorganisation in November 1994.

The accounts receivable of the Group also included amounts due from GH Media Management Pte Ltd, GH Pictures (China) Limited, Best Creation International Limited and Wigston Co. Limited of HK$332,000 (2004: Nil), Nil (2004: HK$36,000), HK$269,000 (2004: HK$269,000) and HK$179,000 (2004: Nil), respectively. The amounts are unsecured and have no fixed repayment terms. Raymond Chow Ting Hsing, Phoon Chiong Kit, David Chan Sik Hong, who are directors of the Company and Stephen Chu Siu Tsun, who was a then director of the Company, and a relative of Raymond Chow Ting Hsing, were/are also directors and/or beneficial shareholders of certain of these related companies.

20. PLEDGED BANK BALANCE

The pledged bank balance of HK$486,000 (2004: Nil) was pledged as security to a bank for a bank loan granted to the Group (note 22).

21. ACCOUNTS PAYABLE

The age analysis of trade creditors included in accounts payable at 30 June is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 3 months	36,645	27,437
4 to 6 months	4,455	534
7 to 12 months	896	920
Over 1 year	13,020	23,179
	55,016	52,070

The accounts payable of the Group included trading balances due to Golden Harvest Private Group companies totaling HK$67,000 (2004: HK$40,000). The amounts are unsecured, interest-free and repayable in accordance with normal trading terms.

The accounts payable of the Group also included amounts due to GH Pictures (China) Limited, Harvest Crown Limited and Pinetree Production Services, Inc. of HK$9,987,000 (2004: HK$20,421,000), HK$618,000 (2004: HK$390,000) and HK$206,000 (2004: Nil), respectively. The amounts are unsecured and have no fixed repayment terms. Except for an amount of HK$9,769,000 due to GH Pictures (China) Limited which bears interest at Hong Kong dollars short term time deposits rate plus 1% per annum, the other balances are interest-free and have no fixed repayment terms. Raymond Chow Ting Hsing, Phoon Chiong Kit and David Chan Sik Hong, who were directors of the Company, Stephen Chu Siu Tsun, who was a then director of the Company, and a relative of Raymond Chow Ting Hsing were/are also directors and/or beneficial shareholders of certain of these related companies.

22. INTEREST-BEARING BANK LOANS, SECURED

	Group 2005 HK$'000	Group 2004 HK$'000
Bank loans, secured	90,022	–
Bank loans repayable:		
Within one year	24,697	–
In the second year	21,577	–
In the third to fifth years, inclusive	43,748	–
Total bank loans	90,022	–
Portion classified as current liabilities	(24,697)	–
Non-current portion	65,325	–

The Group's bank loans as at 30 June 2005 were secured by:

(i) the assets of a wholly-owned subsidiary;

(ii) 70% share holdings in a wholly-owned subsidiary;

(iii) 40% equity interests in a jointly-controlled entity;

(iv) fixed assets of a subsidiary *(note 12)*; and

(v) pledged bank balance *(note 20)*.

23. FINANCE LEASE PAYABLES

At 30 June 2005, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts payable:				
Within one year	456	548	413	470
In the second year	309	456	298	412
In the third to fifth years, inclusive	–	308	–	298
Total minimum finance lease payments	765	1,312	711	1,180
Future finance charges	(54)	(132)		
Total net finance lease payables	711	1,180		
Portion classified as current liabilities	(413)	(471)		
Non-current portion	298	709		

24. PROVISIONS

Group

	Long service payments HK$'000	Other employee benefits HK$'000	Total HK$'000
At beginning of year	3,800	1,319	5,119
Additional provision/(write-back)	(139)	361	222
At 30 June 2005	3,661	1,680	5,341
Portion classified as current liabilities	–	(1,680)	(1,680)
Non-current portion	3,661	–	3,661

Under the relevant labour laws and regulations governing retirement payments, the Company's directors have estimated and provided for the amount of provision for long service payments. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The Group provides for the unused holiday leave carried forward by the Group's employees. The provision is based on the best estimate of the probable future costs of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

25. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

	Revaluation of leasehold land and buildings	
	2005 HK$'000	2004 HK$'000
At beginning of year	878	931
Deferred tax credited to equity during the year	(53)	(53)
At 30 June	825	878

The Group has tax losses arising in, and outside Hong Kong of approximately HK$421,640,000 and HK$35,753,000 (2004: HK$333,843,000 and HK$50,774,000), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, except for the balances of approximately HK$10,193,000 and HK$4,485,000 (2004: HK$9,316,000 and HK$3,091,000) which can be only carried forward for five years under the relevant legislation, interpretations and practices in the PRC and Taiwan, respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

25. DEFERRED TAX *(continued)*

At 30 June 2005, there is no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

	Company	
	2005	2004
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK$0.10 each	200,000	200,000
Issued and fully paid:		
1,330,309,375 (2004: 884,287,500) ordinary shares of HK$0.10 each	133,031	88,429

During the year, the movements in share capital were as follows:

(a) On 14 July 2004, the Company entered into a subscription agreement (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company issued and allotted 155,000,000 ordinary shares at a price of HK$0.25 per share to Typhoon Music (PRC) Limited ("Typhoon Music"), an independent third party, on 11 August 2004. The net proceeds from the allotment of shares, after deduction of related expenses, amounted to HK$36,300,000. The Company has applied the net proceeds for general working capital purposes, including paying down certain indebtedness of the Group and film financing and for the new cinema operation business in Shenzhen.

(b) On 25 January 2005, the Company passed a board resolution to make a rights issue of 259,821,875 shares of HK$0.1 each to shareholders at an exercise price of HK$0.25 per share on the basis of the one rights share for every four shares held on 22 December 2004 (the "Rights Issue"). The transaction was completed on 28 January 2005. The net proceeds from the Rights Issue, after deduction of related expenses amounted to approximately HK$60,900,000. The Company used the net proceeds from the Rights Issue for the purpose of financing part of the acquisition of the 40% equity interest in Warner Village Cinemas Co., Ltd. The exercise price of HK$0.25 per share represented no premium to the closing price of HK$0.25 per share as quoted on the Stock Exchange on 28 January 2005, being the completion date.

26. SHARE CAPITAL *(continued)*

(c) On 3 March 2005, the Company further placed 31,200,000 new shares at a price of HK$0.25 per share to an independent third party, Asset Managers (China) Fund Co., Ltd., in order to strengthen the Group's financial position by providing additional general working capital. The net proceeds from the share placement, after deducting of related expenses, amounted to approximately HK$7,600,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 July 2003	800,887,500	80,089	565,577	645,666
Shares placement	83,400,000	8,340	15,012	23,352
Share issue expenses	–	–	(924)	(924)
At 30 June 2004 and 1 July 2004	884,287,500	88,429	579,665	668,094
Issue of shares (a)	155,000,000	15,500	23,250	38,750
Rights issue (b)	259,821,875	25,982	38,973	64,955
Shares placement (c)	31,200,000	3,120	4,680	7,800
	446,021,875	44,602	66,903	111,505
Share issue expenses	–	–	(6,687)	(6,687)
At 30 June 2005	1,330,309,375	133,031	639,881	772,912

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose for providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

27. SHARE OPTION SCHEME *(continued)*

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme and any other share option schemes of the Company (if any) is an amount equivalent to 10% of the shares of the Company in issue as at 28 November 2001. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval in advance by the independent non-executive directors (excluding independent non-executive director who is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any 12-month period up to and including the date of the grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options must be accepted within 30 days inclusive of, and from the day of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, which may not exceed 10 years commencing on such date on or after the date of grant as the directors of the Company may determine in granting the share options and ending on such date as the directors of the Company may determine in granting the share options (which in any event must be prior to the close of business on 30 October 2011). Save as determined by the directors of the Company and provided in the offer of the grant of the relevant share option, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

The exercise price of the share options is determinable by the directors, provided always that it shall be at least the higher of (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of grant of the share options; and (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at the shareholders' meetings.

Adjustments to share options and exercise prices

The Company completed a rights issue on the basis of one share for every four existing shares which was completed on 28 January 2005 (the "Rights Issue"). All the relevant share option holders have been notified that the number of shares comprised in each of the share options granted prior to the Rights Issue and for the time being outstanding and the exercise price thereunder were modified in accordance with the adjustments set out in the opinion dated 29 July 2005 from FB Gemini Capital Limited acting as expert in relation to the impact of the Rights Issue on the share options. The effective date of the adjustment was the date on which the Rights Issue became unconditional (i.e. 14 January 2005). The number of shares comprised in each of the share options for the time being outstanding and the exercise price thereunder were modified by factors of 1.25 and 0.80, respectively.

After adjustments, the aggregate number of the shares of the Company issuable under share options granted under the Company's current Share Option Scheme (the "Current Scheme") and an earlier share option scheme of the Company (the "Terminated Scheme"), which had been terminated on 28 November 2001) was 45,275,000 as at 30 June 2005, of which 39,525,000 shares of the Company remain issuable under share options granted under the Current Scheme (which represented approximately 2.97% of the Company's shares in issue as at 30 June 2005), and 5,750,000 shares of the Company remain issuable under share options granted under the Terminated Scheme (which represented approximately 0.43% of the Company's shares in issue as at 30 June 2005).

27. SHARE OPTION SCHEME *(continued)*

Accordingly, as at 30 June 2005, the Company had the following outstanding share options granted to directors and employees of the Company:

Name or category of participant	Date of grant of share option	Pre-adjusted exercise price HK$	Post-adjusted Exercise price HK$	Exercise period	Outstanding options at I July 2004	Granted during the year	Adjustment to share options due to Rights Issue	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding options at 30 June 2005
					Number of share options						
Director											
Phoon Chiong Kit	25/07/2000	0.78	0.624	25/07/2000 to 24/07/2010 *Note (a)*	4,600,000	–	1,150,000	–	–	–	5,750,000
	31/10/2001	0.62	0.496	30/11/2001 to 30/10/2011 *Note (b)*	10,000,000	–	2,500,000	–	–	–	12,500,000
	09/12/2004	*Note (d)*	*Note (d)*	10/01/2005 to 30/10/2011 *Note (c)*	–	15,000,000	3,750,000	–	–	–	18,750,000
David Chan Sik Hong	31/10/2001	0.62	0.496	30/11/2001 to 30/10/2011 *Note (b)*	5,000,000	–	1,250,000	–	–	–	6,250,000
Eric Norman Kronfeld	31/03/2005	0.26	–	31/03/2005 to 30/10/2011	–	350,000	–	–	–	–	350,000
Paul Ma Kah Woh	31/03/2005	0.26	–	31/03/2005 to 30/10/2011	–	350,000	–	–	–	–	350,000
Frank Lin	31/03/2005	0.26	–	31/03/2005 to 30/10/2011	–	350,000	–	–	–	–	350,000
Prince Chatrichalerm Yukol	31/03/2005	0.26	–	31/03/2005 to 30/10/2011	–	350,000	–	–	–	–	350,000
Stephen Chu Siu Tsun	31/10/2001	0.62	–	30/11/2001 to 30/10/2011 *Note (b)*	8,000,000	–	–	–	(8,000,000) *Note (e)*	–	–
Other participant											
In aggregate	31/10/2001	0.62	0.496	30/11/2001 to 30/10/2011 *Note (b)*	500,000	–	125,000	–	–	–	625,000
					28,100,000	16,400,000	8,775,000	–	(8,000,000)	–	45,275,000

27. SHARE OPTION SCHEME *(continued)*

Notes:

(a) 50%, 25% and 25% of the share options granted are exercisable during the periods from 25 July 2000 to 24 July 2010, 25 July 2001 to 24 July 2010 and 25 July 2002 to 24 July 2010, respectively.

(b) 30%, 30% and 40% of the share options granted are exercisable during the periods from 30 November 2001 to 30 October 2011, l August 2002 to 30 October 2011 and l August 2003 to 30 October 2011, respectively.

(c) 33.33%, 33.33% and 33.34% of the share options granted are exercisable during the periods from 10 January 2005 to 30 October 2011, 10 January 2006 to 30 October 2011 and 10 January 2007 to 30 October 2011, respectively.

(d) The pre-adjusted exercise prices of the share options granted which are exercisable during the periods from 10 January 2005 to 30 October 2011, 10 January 2006 to 30 October 2011 and 10 January 2007 to 30 October 2011 are HK$0.26, HK$0.32 and HK$0.38, respectively. The post-adjusted exercise prices of the share options granted which are exercisable during the periods from 10 January 2005 to 30 October 2011, 10 January 2006 to 30 October 2011 and 10 January 2007 to 30 October 2011 are HK$0.208, HK$0.256 and HK$0.304, respectively.

(e) Stephen Chu Siu Tsun resigned as a director of the Company on 25 October 2004 and ceased to be an employee with effect from l November 2004. As such, the 8,000,000 outstanding share options granted to him lapsed pursuant to the provisions of the share option scheme.

(f) The closing price of the securities immediately before the date on which the option was granted to Phoon Chiong Kit on 9 December 2004 was HK$0.26. The closing price of the securities immediately before the date on which the option was granted to each of Eric Norman Kronfeld, Paul Ma Kah Woh, Frank Lin and Prince Chatrichalerm Yukol on 31 March 2005 was HK$0.26.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no change is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or lapsed prior to their exercise date are deleted from the register of outstanding options.

The Board of Directors (the "Board") considers that it is not appropriate to state the theoretical value of the share options granted during the year under the Company's share option scheme. The Board believes that any calculation of the value of share options may not be meaningful as the exercise price is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's issued share capital, and as the volume of trading in the Company's shares has been relatively low and the Company has not paid dividends on its shares in the recent years.

28. RESERVES

(a) Group

The surplus reserve represents an amount transferred from retained profits in accordance with statutory requirements and the articles of association of an associate in Taiwan. The surplus reserve may only be applied to make up any losses and for the capitalisation by the way of fully paid bonus issues of the shares of the associate in Taiwan.

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 July 2001, are as follows:

	Goodwill eliminated against capital reserve HK$'000
Cost:	
At beginning of year and at 30 June 2005	154,313
Accumulated impairment:	
At beginning of year	141,830
Provided during the year *(note)*	12,483
At 30 June 2005	154,313
Net amount:	
At 30 June 2005	–
At 30 June 2004	12,483

Note: The current year's impairment of goodwill arising on the acquisition of subsidiaries and associates in prior years that remained eliminated against the consolidated capital reserve were transferred to the consolidated accumulated losses as a movement in reserves.

28. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2003	565,577	145	191,644	(528,577)	228,789
Issue of shares	15,012	–	–	–	15,012
Share issue expenses	(924)	–	–	–	(924)
Net loss for the year	–	–	–	(11,297)	(11,297)
At 30 June 2004 and 1 July 2004	579,665	145	191,644	(539,874)	231,580
Issue of shares	66,903	–	–	–	66,903
Share issue expenses	(6,687)	–	–	–	(6,687)
Net loss for the year	–	–	–	(13,859)	(13,859)
At 30 June 2005	639,881	145	191,644	(553,733)	277,937

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued, in exchange for the issued share capital of the subsidiaries, and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders under certain conditions.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2005 HK$'000	2004 HK$'000
Net assets acquired:		
Interests in an associate	11,506	–
Prepayments, deposits and other receivables	35	413
Cash and cash equivalents	12,951	400
Accrued liabilities and other payables	(12)	(100)
Amounts due from/(to) related companies	(41)	289
Amounts due to shareholders	(14,216)	–
Net assets	10,223	1,002
Negative goodwill on acquisition	(3,709)	–
	6,514	1,002
Satisfied by:		
Cash	18,318	501
Amounts due to shareholders	(14,216)	–
Reclassification to interests in subsidiaries from interests in associates	2,412	501
	6,514	1,002

An analysis of the net cashflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	(18,318)	(501)
Cash and cash equivalents acquired	12,951	400
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(5,367)	(101)

In March 2005, the Group acquired the remaining 66.67% equity interests in GEMS at a consideration of approximately HK$18,318,000. The consideration is financed by the Group's banking facilities. The principal activity of GEMS is investment holding in TGV, which is principally engaged in theatre operation in Malaysia. The Group's interests in TGV increased to 50% through the acquisition of GEMS.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of subsidiaries *(continued)*

Since its further acquisition, GEMS did not contribute any turnover to the Group but contributed net profit of HK$1,512,000 to the net loss attributable to shareholders for the year.

If the acquisition had taken place on 1 July 2004, there would have no effect on the Group's revenue, and the net loss attributable to shareholders of the Group for the year would have been approximately HK$11,337,000.

The subsidiary acquired in prior year made no significant contribution to the Group in respect of turnover and net loss attributable to shareholders for the year.

(b) Disposal of subsidiaries

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Fixed assets	–	1,774
Inventories	–	16
Accounts receivable	–	7
Prepayments, deposits and other receivables	–	28
Cash and cash equivalents	–	376
Accounts payable	–	(390)
Minority interests	–	(22)
Realisation of exchange reserves	–	(35)
	–	1,754
Loss on disposal	–	(161)
	–	1,593
Satisfied by:		
Cash	–	1,274
Due from an associate	–	319
	–	1,593

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries *(continued)*

An analysis of the net cash flow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	–	1,274
Cash and cash equivalents disposed of	–	(376)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	898

The results of the subsidiaries disposed of in the year ended 30 June 2004 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

(c) Major non-cash transaction

During the year, an associate became a jointly-controlled entity upon the acquisition of the additional equity interests and its respective net assets shared by the Group and the amount due from the then associate of HK$12,023,000 and HK$25,287,000, respectively, were reclassified as the Group's share of net assets of a jointly-controlled entity and the amount due from a jointly-controlled entity, respectively.

30. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group also had the following transactions with related parties.

The directors consider that all of these transactions were carried out in the ordinary and usual course of business of the Group.

(a) Transactions with the Golden Harvest Private Group

During the year, the Group had transactions to which members of the Golden Harvest Private Group were parties. The significant transactions are summarised below:

		Group	
		2005	2004
	Notes	HK$'000	HK$'000
Film distribution commission income	*(i)*	38	62
Film developing and printing services income	*(ii)*	–	19

Notes:

(i) The Group acted as the distributor of the films produced by certain companies within the Golden Harvest Private Group and commission income was charged according to prices and conditions similar to those offered to other customers of the Group.

Raymond Chow Ting Hsing ("Mr. Chow"), a director and a substantial shareholder of the Company during the year, is interested, directly or indirectly, in the above transactions as a director and/or beneficial shareholder of the members of the Golden Harvest Private Group of which the commission income was derived from.

(ii) The service income related to the provision of film developing and printing services to certain companies within the Golden Harvest Private Group and was charged according to prices and conditions similar to those offered to other customers of the Group.

The above related party transactions with the members of the Golden Harvest Private Group also constituted connected transactions, as defined in the Listing Rules.

The directors have reviewed and confirmed that these connected transactions were conducted in the ordinary course of the business of the Group and on terms no less favourable than those offered to unrelated third parties.

30. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other related parties

Apart from the above, during the year, the Group also had the following material transactions with other related parties:

		Group	
		2005	2004
	Notes	HK$'000	HK$'000
Film distribution commission income from related companies	*(i), (ii)*	164	445
Rental income from a related company	*(i), (iii)*	122	365
Interest expense to a related company	*(i), (iv)*	178	264
Distribution consultancy fee paid to a related company	*(i), (v)*	429	881
Consultancy fee paid to a related company	*(i), (vi)*	585	–
Film royalties income from associates	*(i), (vii)*	669	367
Management fee income from associates	*(i), (viii)*	384	1,027
Film distribution commission income from an associate	*(i), (ix)*	50	331
Film sourcing service fee paid to an associate	*(i), (x)*	132	132
Accounting service fee paid to an associate	*(i), (xi)*	87	85
Ticketing system maintenance/ development costs paid to an associate	*(i), (xii)*	221	518
Theatre rental paid to an associate	*(i), (xiii)*	139	124
Corporate guarantee given in respect of banking facilities granted to an associate	*(i), (xiv)*	17,325	17,100

30. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other related parties *(continued)*

Notes:

(i) Mr. Chow, Phoon Chiong Kit, David Chan Sik Hong and Eric Norman Kronfeld, who are directors of the Company and Stephen Chu Siu Tsun, who was a then director of the Company, are/was interested, directly or indirectly, in the above transactions as directors and/or beneficial shareholders of certain of these companies.

(ii) The Group acted as the distributor of the films produced by the related companies and the film distribution commission income was charged according to the terms of the distribution agreements dated 21 April 1997 and 2 August 1999 or charged according to prices and conditions similar to those offered to other customers of the Group.

(iii) The rental income was charged at a rate of approximately HK$30,000 per month from July 2004 to October 2004 (2004: HK$30,000 per month from 1 July 2003 to 30 June 2004) for sub-letting a portion of the Group's office premises to an associate of the Golden Harvest Private Group.

(iv) The interest expense to an associate of Golden Harvest Private Group was charged at Hong Kong dollars short-term time deposit rate plus 1% per annum.

(v) The distribution consultancy fee paid represented the film production and distribution consulting services provided by a related company to the Group and was charged according to the terms of the agreement dated 1 July 2004. Last year's fee paid was charged according to the terms of the agreement dated 1 October 2001.

(vi) The consultancy fee paid represented the consultancy service in relation to the rights issue exercise provided by a related company to the Group and was charged according to the terms of the agreement dated 15 March 2005.

(vii) The royalty income was charged according to the terms of the respective distribution agreements.

(viii) The management fee income represented the following:

– an amount of HK$384,000 related to accounting services provided to two associates of the Group which were charged at rates of HK$10,000 (2004: HK$10,000) per month and HK$22,000 (2004: HK$14,000) per month, respectively; and

– nil amount of consultancy services was charged to two associates of the Group for the year ended 30 June 2005. For the year ended 30 June 2004, an amount of approximately HK$739,000 related to consultancy services provided to two associates of the Group which were charged at rates of HK$120,000 per month from July to December 2003 and RMB5,000 per month from July to October 2003, respectively.

30. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other related parties *(continued)*

Notes: (continued)

(ix) The Group acted as the distributor of a film produced by an associate and the film distribution commission income was charged according to the terms of the distribution agreement dated 6 January 2004.

(x) The film sourcing service fee was charged at a rate of HK$11,000 (2004: HK$11,000) per month.

(xi) The accounting service fee was charged at a rate of S$1,500 (2004: S$1,500) per month.

(xii) The ticketing system maintenance/development costs paid were charged according to prices and conditions similar to those offered to other customers of the associate.

(xiii) The theatre rental fee was charged according to prices and conditions similar to those offered to other customers of the associate.

(xiv) The corporate guarantee was given by the Group in respect of banking facilities granted to an associate at nil consideration.

Certain transactions amounting to HK$1,037,000 (2004: HK$899,000) included in notes (ii), (v) and (vi) above with three related companies (2004: three related companies) constituted connected or continuing connected transactions which amounted to de minimis transactions as defined in the Listing Rules.

None of the other related party transactions set out above constituted connected or continuing connected transactions as defined in the Listing Rules.

31. REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration

The remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

	2005 HK$'000	2004 HK$'000
Fees:		
Executive directors	–	–
Non-executive directors	120	–
Independent non-executive directors	350	120
	470	120
Basic salaries, allowances and benefits in kind:		
Executive directors	15,530	12,240
Non-executive directors	–	–
Independent non-executive directors	–	–
	15,530	12,240
Pension contributions:		
Executive directors	91	97
Non-executive directors	–	–
Independent non-executive directors	–	–
	91	97
	16,091	12,457

(a) Independent non-executive directors

	2005 HK$'000	2004 HK$'000
Paul Ma Kah Woh	150	–
Frank Lin	100	60
Prince Chatrichalerm Yukol	100	60
	350	120

There was no other emolument payable to the independent non-executive directors during the year (2004: Nil).

31. REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Executive directors and a non-executive director

	Fees	Basic salaries, allowances and benefits in kind	Pension contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 30 June 2005				
Executive directors:				
Raymond Chow Ting Hsing	–	3,939	–	3,939
Phoon Chiong Kit	–	6,469	64	6,533
Stephen Chu Siu Tsun	–	2,013	4	2,017
David Chan Sik Hong	–	1,867	12	1,879
Roberta Chin Chow Chung Hang	–	1,242	11	1,253
	–	15,530	91	15,621
Non-executive director:				
Eric Norman Kronfeld	120	–	–	120
	120	15,530	91	15,741

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures. Under the terms of the grant, the options granted on the shares of the Company are not transferable and, in the absence of a readily available market value for the options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors during the year. Accordingly, no value is included in directors' remuneration in respect of the share options granted.

31. REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Pension contributions HK$'000	Total emoluments HK$'000
For the year ended 30 June 2004				
Executive directors:				
Raymond Chow Ting Hsing	–	3,705	–	3,705
Phoon Chiong Kit	–	4,535	73	4,608
Stephen Chu Siu Tsun	–	2,400	12	2,412
David Chan Sik Hong	–	1,600	12	1,612
	–	12,240	97	12,337

Five highest paid individuals

Of the five highest paid individuals, all (2004: four) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above. The remuneration of the remaining one non-director, highest paid individual for the year ended 30 June 2004 is as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, allowances and benefits in kind	–	1,720
Pension contributions	–	12
	–	1,732

In the prior year, the above remuneration of the non-director, highest paid individual employee fell within the band of HK$1,500,001 – HK$2,000,000 for the year ended 30 June 2004.

32. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantee of banking facilities granted to:				
Subsidiaries	–	–	95,622	–
An associate	17,325	17,100	17,325	17,100
	17,325	17,100	112,947	17,100

As at 30 June 2005, banking facilities of HK$90,022,000 (2004: Nil) and HK$9,933,000 (2004: HK$16,644,000) had been utilised by the subsidiaries and an associate, respectively.

In addition to the above, the Group's share of a guarantee provided by an associate amounted to approximately HK$14,093,000 (2004: HK$11,589,000) as at the balance sheet date, in respect of a banking facility granted to that associate.

33. COMMITMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
(a) Capital commitments in respect of acquisition of property, plant and equipment:		
Contracted for	1,894	1,888
Authorised, but not contracted for	30,870	29,159
	32,764	31,047

(b) **Operating lease commitments**

The Group leases certain of its office premises and cinemas under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 13 years.

	Group	
	2005	2004
	HK$'000	HK$'000
Total future minimum lease payments under non-cancellable operating leases for land and buildings:		
Within one year	37,429	33,760
In the second to fifth years, inclusive	95,545	94,507
After five years	22,513	33,584
	155,487	161,851

Certain non-cancellable operating leases included in the above were subject to contingent rent payments, which were charged for the amount of 13% to 28% (2004: 17% to 28%) of their monthly or annual gross box office takings in excess of the base rents as determined in respective lease agreements. In addition, 10% of theatre confectionery sales and advertising income are also charged for certain leases.

The Company had no significant commitment at the balance sheet date (2004: Nil).

34. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

In May 2005, Golden Screen Limited, a wholly-owned subsidiary of the Group, issued a petition in Hong Kong to wind up Dartina Development Limited, an associate, of its operations in Singapore on the grounds that the Group's interests have been unfairly prejudiced. The other shareholder of the associate alleged that the petition disclosed no reasonable cause of action and applied to strike out the petition. The application to strike out was heard by the Hong Kong court on 29 August 2005, and the court's judgement was issued on 12 October 2005, the court rejected the application to strike out. No provision in respect of the petition has been made, as the directors of the Company are of the view that it is unlikely that the Group will incur loss as a result of the petition.

On 18 July 2005, the Group obtained a banking facility of HK$2,250,000 to strengthen the general working capital of the Group. The banking facility is secured by the leasehold land and building of the Group.

On 10 October 2005, the Group entered into a Letter of Intent with an existing shareholder to dispose of a 5% equity interest in a jointly-controlled entity for a cash consideration of US$2,150,000 (approximately HK$16,700,000). No gain or loss is expected to arise from the disposal.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 October 2005.