NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

1. CORPORATE INFORMATION

Golden Harvest Entertainment (Holdings) Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. 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, and the operation of a film processing business in Hong Kong.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 buildings, of which the Group adopted the transitional provision of paragraph 80A of HKAS 16 and have been measured at 1995 fair value, further details of which are included in notes 4 and 12 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's share of the financial statements of the Group's jointly-controlled entities for the year ended 30 June 2006. The results of subsidiaries and jointly-controlled entities are consolidated and proportionately consolidated, respectively, from the date of acquisition, being the date on which the Group obtains control and joint control, and continue to be consolidated and proportionately consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 32, 33, 37, 39, 40 and HK-Int 4 has had no material impact on the accounting policies of the Group and of the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 24 has expanded the definition of related parties and has no material impact on disclosure other than the disclosure in note 33(b) on the compensation of key management personnel in the Group's financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 1 – Presentation of Financial Statements

In prior years, the Group's share of the tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement.

Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

(b) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is classified as prepaid land lease payments, while buildings is classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The Group has restated the comparative amounts to reflect the reclassification retrospectively for the earliest periods presented in the financial statements. The effects of the above changes are summarised in note 2.4 to the financial statements.

(c) HKAS 31 – Interests in Joint Ventures

In prior years, the Group's interests in its jointly-controlled entities were accounted for using the equity method. Upon the adoption of HKAS 31, which allows the use of proportionate consolidation for investments in jointly-controlled entities, the Group changed the accounting policy for its investment in the jointly-controlled entities from the equity method to proportionate consolidation. Such change in accounting policy is accounted for retrospectively and involves recognising a proportionate share of each of the jointly-controlled entity's assets, liabilities, income and expenses into similar items in the consolidated financial statements on a line-by-line basis.

The change in accounting policy has had no net effect on the consolidated income statement and the net assets of the Group. The comparative amounts on the consolidated balance sheet as at 30 June 2005 and the consolidated income statement for the year ended 30 June 2005 have been restated to reflect the share of assets and liabilities of the jointly-controlled entities on a line-by-line basis.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium account were credited with the proceeds received.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HKFRS 2 – Share-based Payment *(continued)*

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by management using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, is applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (including directors) become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 July 2005 are summarised in note 2.4 to the financial statements.

In the prior year, the Group early adopted HKFRS 3, HKAS 36 and HKAS 38 and the effects of the adoption have been disclosed in the financial statements for the year ended 30 June 2005.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on 1 July 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

HKAS 1 Amendment shall be applied for annual periods beginning on 1 July 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on 1 July 2007.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated income statement

Increase/(decrease) in profit for the year ended 30 June

	2006					2005				
	HKAS 1 Share of post-tax profits and losses of associates	HKAS 17 Prepaid land lease payments	HKAS 31 Proportionate consolidation	HKFRS 2 Share option expenses	Total	HKAS 1 Share of post-tax profits and losses of associates	HKAS 17 Prepaid land lease payments	HKAS 31 Proportionate consolidation	HKFRS 2 Share option expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	–	–	286,236	–	286,236	–	–	73,347	–	73,347
Cost of sales	–	–	(128,957)	–	(128,957)	–	–	(35,142)	–	(35,142)
Interest income	–	–	662	–	662	–	–	161	–	161
Other income and gains	–	–	20,686	–	20,686	–	–	10,072	–	10,072
Selling and distribution costs	–	158	(149,264)	–	(149,106)	–	158	(45,698)	–	(45,540)
General and administrative expenses	–	–	(1,439)	(394)	(1,833)	–	–	(522)	(150)	(672)
Other operating expenses, net	–	–	(867)	–	(867)	–	–	(427)	–	(427)
Finance costs	–	–	(345)	–	(345)	–	–	(28)	–	(28)
Share of profits and losses of jointly-controlled entities	–	–	(22,768)	–	(22,768)	–	–	433	–	433
Share of profits and losses of associates	(10,067)	–	–	–	(10,067)	(9,852)	–	–	–	(9,852)
Tax	10,067	–	(3,944)	–	6,123	9,852	–	(2,196)	–	7,656
Total effect for the year	–	158	–	(394)	(236)	–	158	–	(150)	8
Increase/(decrease) in basic earnings per share (HK cent)	–	0.01	–	(0.03)	(0.02)	–	0.01	–	(0.01)	–

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30 JUNE 2006

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the consolidated balance sheet

Increase/(decrease)

	As at 30 June 2006			As at 30 June 2005		
	HKAS 17 Prepaid land lease payments HK$'000	HKAS 31 Proportionate consolidation HK$'000	Total HK$'000	HKAS 17 Prepaid land lease payments HK$'000	HKAS 31 Proportionate consolidation HK$'000	Total HK$'000
Property, plant and equipment	(2,811)	168,473	165,662	(2,987)	152,633	149,646
Interests in jointly – controlled entities	–	(171,700)	(171,700)	–	(178,619)	(178,619)
Due from jointly-controlled entities (non-current portion)	–	42,775	42,775	–	61,344	61,344
Prepaid land lease payments	741	–	741	759	–	759
Prepaid rental	–	11,502	11,502	–	5,190	5,190
Rental and other deposits	–	41,765	41,765	–	43,293	43,293
Pledged bank deposits	–	1,870	1,870	–	1,139	1,139
Accounts receivable	–	1,157	1,157	–	1,200	1,200
Prepayments, deposits and other receivables	–	15,277	15,277	–	16,610	16,610
Due from jointly-controlled entities (current portion)	–	(9,600)	(9,600)	–	(12,000)	(12,000)
Cash and bank balances	–	29,500	29,500	–	49,433	49,433
	(2,070)	131,019	128,949	(2,228)	140,223	137,995
Accounts payable	–	16,381	16,381	–	20,567	20,567
Accrued liabilities and other payables	–	30,227	30,227	–	29,513	29,513
Current portion of interest – bearing bank loans	–	2,328	2,328	–	–	–
Current portion of loans from joint venture partners	–	14,400	14,400	–	18,000	18,000
Tax payable	–	526	526	–	1,244	1,244
Non-current portion of interest – bearing bank loans	–	13,259	13,259	–	–	–
Non-current portion of loans from joint venture partners	–	42,742	42,742	–	62,051	62,051
Deposit received	–	4,284	4,284	–	3,686	3,686
Provision for long service payments	–	–	–	–	9	9
Deferred tax	(370)	6,872	6,502	(393)	5,153	4,760
	(370)	131,019	130,649	(393)	140,223	139,830

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the balance of equity

	As at 30 June 2006			As at 30 June 2005		
	HKAS 17 Prepaid land lease payments HK$'000	HKFRS 2 Share option expenses HK$'000	Total HK$'000	HKAS 17 Prepaid land lease payments HK$'000	HKFRS 2 Share option expenses HK$'000	Total HK$'000
Increase/(decrease)						
Share option reserve	–	544	544	–	150	150
Revaluation reserve	(3,149)	–	(3,149)	(3,126)	–	(3,126)
Decrease/(increase)						
Accumulated losses	1,449	(544)	905	1,291	(150)	1,141
	(1,700)	–	(1,700)	(1,835)	–	(1,835)

3. CORPORATE UPDATE

The Group recorded consolidated profit of HK$5,215,000 and net cash inflow from operating activities of HK$17,118,000 (2005: outflow of HK$22,407,000) for the year ended 30 June 2006. As at 30 June 2006, the Group had consolidated net current liabilities of HK$78,605,000 and consolidated net assets of HK$420,866,000.

Subsequent to the balance sheet date, the Group successfully raised an aggregate amount of approximately HK$99,000,000, net of expenses, from the issue of the convertible notes as disclosed in note 38(a) to the financial statements. With this additional cash resource, the Group will be able to fund the investments in new businesses, expansion of existing businesses and the discharge of its current liabilities.

In view of the above, the directors consider 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 2006.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement 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 an entity 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) an equity investment accounted for in accordance with HKAS 39, 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 that 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 interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of each of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. The jointly-controlled entity is proportionately consolidated until the date on which the Group ceases to have joint control over the jointly-controlled entity.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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 income statement 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.

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 2006.

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

Goodwill

Goodwill arising 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 acquirees' identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset and in the case of 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 income statement 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.

Negative Goodwill

On acquisition of subsidiaries and jointly-controlled entities, 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 ("Negative Goodwill"), 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 income statement any excess remaining after that reassessment.

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

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The transitional provision set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA has been adopted for certain properties which are stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 30 June 1995 have not been revalued by class at the balance sheet date.

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

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Company and subsidiaries	Jointly-controlled entities
Buildings	4%	N/A
Leasehold improvements	8.33% – 33.33%	4.78% – 20%
Machinery and equipment	10% – 33.33%	6.50% – 50%
Furniture and fixtures	10% – 33.33%	6.67% – 20%
Motor vehicles	20%	20%
Air-conditioning systems	20%	N/A

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised 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.

Construction in progress represents an asset under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Club memberships

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.

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

Financial assets (applicable to the year ended 30 June 2006)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets (applicable to the year ended 30 June 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Derecognition of financial assets (applicable to the year ended 30 June 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible note

The component of a convertible note that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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

Derecognition of financial liabilities (applicable to the year ended 30 June 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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 income statement 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

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries:

(i) controls, is controlled by, or is under common control with, the Group;

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

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

Related parties *(continued)*

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

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 in a transaction that is not a business combination 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, 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 credits 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 credits 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 in a transaction that is not a business combination 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.

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

Income tax *(continued)*

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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries, jointly-controlled entities and associates outside Hong Kong are currencies other than Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of an entity outside Hong Kong, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

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

Leases

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 property, plant and equipment 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 income statement 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Employee benefits

Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes option pricing model (the "Black-Scholes Model"), further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

Employee benefits *(continued)*

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 July 2005 and to those granted on or after 1 July 2005.

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.

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 schemes

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 income statement 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 which operate in Mainland China are members of the state-sponsored retirement scheme (the "State Scheme") operated by the government of Mainland China. Contributions to the State Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they became payable in accordance with the rules of the State Scheme.

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 non-pledged 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 income statement.

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) 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;

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

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

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

Estimation uncertainty

Impairment allowances for accounts and other receivables

Impairment allowances for accounts and other receivables are made on assessment of the recoverability of accounts and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment or its reversal in the period in which such estimate has been changed.

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, revenue 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.

NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

5. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Film and video distribution		Film exhibition		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:										
Sales to external customers	**46,039**	52,508	**451,374**	211,198	**14,872**	12,880	**–**	–	**512,285**	276,586
Inter-segment sales	**1,634**	3,427	**–**	–	**278**	294	**(1,912)**	(3,721)	**–**	–
Other revenue	**2,324**	1,583	**31,249**	13,924	**998**	910	**(678)**	(884)	**33,893**	15,533
Total	**49,997**	57,518	**482,623**	225,122	**16,148**	14,084	**(2,590)**	(4,605)	**546,178**	292,119
Segment results	**(5,221)**	(13,657)	**(10,468)**	(51,679)	**(995)**	(7,252)	**–**	–	**(16,684)**	(72,588)
Interest income and unallocated gains									**7,943**	1,905
Recognition of Negative Goodwill	**–**	–	**–**	43,032	**–**	–	**–**	–	**–**	43,032
Finance costs									**(7,450)**	(3,101)
Share of profits and losses of associates	**2,554**	999	**21,589**	19,222	**–**	–	**–**	–	**24,143**	20,221
Profit/(loss) before tax									**7,952**	(10,531)
Tax									**(2,737)**	(2,399)
Profit/(loss) for the year									**5,215**	(12,930)

NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Film and video distribution		Film exhibition		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)		(Restated)				(Restated)
Segment assets	**40,159**	54,977	**430,700**	450,586	**7,233**	9,654	**–**	–	**478,092**	515,217
Interests in associates	**355**	66	**195,547**	159,308	**–**	–	**–**	–	**195,902**	159,374
Trademarks									**79,421**	79,421
Unallocated assets									**17,507**	16,422
Total assets									**770,922**	770,434
Segment liabilities	**27,107**	35,791	**150,521**	173,481	**3,066**	7,236	**–**	–	**180,694**	216,508
Unallocated liabilities									**169,362**	144,793
Total liabilities									**350,056**	361,301
Other segment information:										
Depreciation	**283**	215	**39,153**	23,247	**210**	534	**–**	–	**39,646**	23,996
Unallocated amounts									**1,238**	1,297
									40,884	25,293
Amortisation of prepaid land lease payments	**–**	–	**–**	–	**18**	18	**–**	–	**18**	18
Amortisation of film rights	**8,577**	13,498	**–**	–	**–**	–	**–**	–	**8,577**	13,498
Impairment allowances/ (write-back of impairment allowances) for accounts and other receivables, net	**(422)**	3	**8**	427	**(285)**	(19)	**–**	–	**(699)**	411
Provision for impairment of club memberships	**–**	–	**–**	–	**270**	–	**–**	–	**270**	–
Capital expenditure	**714**	125	**52,101**	50,416	**4**	–	**–**	–	**52,819**	50,541
Unallocated amounts									**2,426**	1,774
									55,245	52,315

NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Taiwan		Malaysia		Elsewhere in Asia		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(Restated)		(Restated)		(Restated)						(Restated)
Segment revenue:																
Sales to external customers	**177,589**	184,783	**43,538**	14,810	**215,795**	51,331	**74,831**	24,842	**1,355**	3,825	**1,089**	716	**(1,912)**	(3,721)	**512,285**	276,586
Other segment information:																
Segment assets	**122,192**	143,193	**44,995**	38,484	**233,615**	276,129	**94,464**	73,107	**249**	469	**84**	257	**-**	-	**495,599**	531,639
Interests in associates															**195,902**	159,374
Trademarks															**79,421**	79,421
															770,922	770,434
Capital expenditure	**8,463**	20,565	**2,919**	30,800	**14,222**	506	**29,641**	444	**-**	-	**-**	-	**-**	-	**55,245**	52,315

6. REVENUE

Revenue, which is also the Group's 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 the sale of audio visual products.

NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2006 HK$'000	2005 HK$'000 (Restated)
Cost of inventories sold	**6,631**	5,733
Cost of services provided *	**216,825**	119,118
Amortisation of film rights **	**8,577**	13,498
Amortisation of prepaid land lease payments	**18**	18
Auditors' remuneration	**2,131**	1,834
Depreciation	**40,884**	25,293
Loss on disposal of items of property, plant and equipment	**346**	3,577
Operating lease rental payments in respect of land and buildings:		
Minimum lease payments	**107,098**	56,994
Contingent rents	**14,475**	4,485
	121,573	61,479
Staff costs, excluding directors' remuneration (see note 34)		
Wages, salaries and staff welfare ***	**69,420**	50,452
Pension contributions	**2,802**	1,668
	72,222	52,120
Provision for impairment on club memberships	**270**	–
Provision/(write-back of provision) for long service payments, net	**432**	(139)
Write-off of bad debts	**24**	–
Exchange (gains)/losses, net	**(1,176)**	146
Exchange gains arising from the translation of balances with overseas jointly-controlled entities and associates and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	**(3,298)**	(321)
Impairment allowances/(write-back of impairment allowances) for accounts and other receivables, net	**(699)**	411
Interest income on bank deposits	**(785)**	(217)
Rental income	**(20,795)**	(5,532)
Less: outgoings	**14,374**	4,580
	(6,421)	(952)

* The cost of services provided includes approximately HK$2,853,000 (2005: HK$2,890,000) 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 income statement.

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

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000 (Restated)
Interest on bank loans wholly repayable within five years	**6,848**	2,446
Bank loans arrangement fee	**47**	399
Interest on accounts payable	**319**	178
Interest on convertible note	**143**	–
Interest on finance leases	**93**	78
	7,450	3,101

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	2006 HK$'000	2005 HK$'000 (Restated)
Group:		
Hong Kong	**(62)**	182
Elsewhere	**(1,145)**	21
	(1,207)	203
Jointly-controlled entities:		
Charge for the year – elsewhere	**2,545**	2,281
Deferred – elsewhere	**1,399**	(85)
	3,944	2,196
Total tax charge for the year	**2,737**	2,399

At the date of approval of the financial statements, a subsidiary of the Group has ongoing disputes with the Hong Kong Inland Revenue Department (the "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 approval of the financial statements, the directors consider that sufficient tax provision has been made in this regard.

9. TAX *(continued)*

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

Group

	2006 HK$'000	2005 HK$'000 (Restated)
Profit/(loss) before tax	**7,952**	(10,531)
Tax at statutory rates	**1,392**	(1,843)
Higher tax rate for specific provinces or local authority	**5,287**	4,700
Adjustments in respect of current tax of previous periods	**(3,675)**	182
Profits and losses attributable to associates	**(10,067)**	(9,852)
Income not subject to tax	**(3,685)**	(9,212)
Expenses not deductible for tax	**3,971**	5,992
Temporary differences not recognised	**319**	(54)
Tax losses not recognised	**10,077**	13,008
Tax losses from previous periods utilised	**(882)**	(522)
Tax charge at the Group's effective rate	**2,737**	2,399

The share of tax attributable to associates amounting to HK$10,067,000 (2005: HK$9,852,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss for the year attributable to equity holders of the Company dealt with in the financial statements of the Company was HK$1,275,000 (2005: HK$14,009,000 (restated) (note 31(b)).

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts is based on the net profit attributable to ordinary equity holders of the Company for the year of HK$5,215,000 (2005: net loss of HK$12,930,000 (restated)) and 1,330,309,375 shares (2005: weighted average of 1,140,535,574 shares) in issue during the year.

No disclosure of diluted earnings/(loss) per share amounts for both the current year and prior year is shown as the exercise prices of the Company's outstanding share options granted were higher than the average market price of the Company's ordinary shares during the year and thus the share options have no dilutive effect, and the convertible note outstanding during the current year also has no dilutive effect.

NOTES TO FINANCIAL STATEMENTS
30 JUNE 2006

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Air-conditioning systems HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:								
At 1 July 2004								
– as previously reported	9,300	68,691	29,352	18,236	3,055	588	–	129,222
– effect on adoption of:								
– HKAS 17	(4,744)	–	–	–	–	–	–	(4,744)
– as restated	4,556	68,691	29,352	18,236	3,055	588	–	124,478
Acquisition of jointly – controlled entities (as restated)	–	147,003	36,057	16,213	–	–	521	199,794
Additions (as restated)	–	28,999	15,816	7,279	–	–	221	52,315
Disposals	–	(2,224)	(6,471)	(6,220)	–	(53)	–	(14,968)
Exchange adjustments (as restated)	–	(1,475)	(38)	(230)	18	–	1	(1,724)
At 30 June 2005	4,556	240,994	74,716	35,278	3,073	535	743	359,895
At 1 July 2005								
– as previously reported	9,300	95,307	38,172	19,267	3,073	535	–	165,654
– effect on adoption of:								
– HKAS 17	(4,744)	–	–	–	–	–	–	(4,744)
– HKAS 31	–	145,687	36,544	16,011	–	–	743	198,985
– as restated	4,556	240,994	74,716	35,278	3,073	535	743	359,895
Additions	–	21,467	18,964	9,469	2,583	–	2,762	55,245
Disposals	–	(904)	(3,409)	(4,434)	(2,712)	–	–	(11,459)
Exchange adjustments	–	(1,120)	1,437	(3,864)	87	–	36	(3,424)
At 30 June 2006	4,556	260,437	91,708	36,449	3,031	535	3,541	400,257

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Air-conditioning systems HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation:								
At 1 July 2004								
– as previously reported	3,365	38,654	18,106	11,268	1,496	580	–	73,469
– effect on adoption of:								
– HKAS 17	(1,581)	–	–	–	–	–	–	(1,581)
– as restated	1,784	38,654	18,106	11,268	1,496	580	–	71,888
Acquisition of jointly – controlled entities (as restated)	–	19,727	17,829	–	–	–	–	37,556
Provided during the year (as restated)	182	12,792	6,081	5,617	617	4	–	25,293
Disposals	–	(2,102)	(4,660)	(4,563)	–	(49)	–	(11,374)
Exchange adjustments	–	113	53	119	11	–	–	296
At 30 June 2005	1,966	69,184	37,409	12,441	2,124	535	–	123,659
At 1 July 2005								
– as previously reported	3,723	45,573	17,666	9,443	2,124	535	–	79,064
– effect on adoption of:								
– HKAS 17	(1,757)	–	–	–	–	–	–	(1,757)
– HKAS 31	–	23,611	19,743	2,998	–	–	–	46,352
– as restated	1,966	69,184	37,409	12,441	2,124	535	–	123,659
Provided during the year	182	20,135	9,923	10,055	589	–	–	40,884
Disposals	–	(31)	(3,210)	(4,425)	(2,180)	–	–	(9,846)
Exchange adjustments	–	34	854	(2,209)	82	–	–	(1,239)
At 30 June 2006	2,148	89,322	44,976	15,862	615	535	–	153,458
Net book value:								
At 30 June 2006	2,408	171,115	46,732	20,587	2,416	–	3,541	246,799
At 30 June 2005 (restated)	2,590	171,810	37,307	22,837	949	–	743	236,236

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Air-conditioning systems HK$'000	Construction in progress HK$'000	Total HK$'000
Analysis of cost or valuation:								
At 30 June 2006:								
At cost	–	260,437	91,708	36,449	3,031	535	3,541	395,701
At valuation	4,556	–	–	–	–	–	–	4,556
	4,556	260,437	91,708	36,449	3,031	535	3,541	400,257
At 30 June 2005:								
At cost	–	240,994	74,716	35,278	3,073	535	743	355,339
At valuation	4,556	–	–	–	–	–	–	4,556
	4,556	240,994	74,716	35,278	3,073	535	743	359,895

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

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of machinery and equipment and motor vehicles at 30 June 2006, amounted to HK$4,000 (2005: HK$26,000) and HK$1,885,000 (2005: HK$794,000), respectively.

The long term leasehold buildings were revalued on 30 September 1994 by an independent firm of professionally qualified valuers, C.Y. Leung & Company Limited, at HK$4,556,000 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 taken advantage of the transitional provision, as permitted under paragraph 80A of HKAS 16, of not making further regular valuations on its revalued assets.

Had the Group's leasehold buildings been carried at cost less accumulated depreciation and any impairment losses, there would be a nil balance in the financial statements (2005: Nil (restated)).

As at 30 June 2006, certain of the Group's property, plant and equipment which are situated in the Mainland China and a property which is situated in Hong Kong with a net book value of approximately HK$9,028,000 and HK$2,408,000, respectively, were pledged as security to banks for a bank loan and an overdraft facility granted to the Group (note 23).

13. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**167,647**	167,647
Due from subsidiaries	**864,648**	845,585
	1,032,295	1,013,232
Provision for impairment	**(601,870)**	(601,870)
	430,425	411,362

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

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

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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 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 (Marks) Limited	British Virgin Islands	Ordinary US$1	100	Holding of trademarks
Golden Harvest (Shenzhen) Cinemas Company Limited **	PRC/ Mainland China	Registered RMB10,000,000	100	Theatre operation
Golden Screen Limited	Hong Kong	Ordinary HK$8,750,000	100	Investment holding
Golden Sky Pacific Limited	Hong Kong	Ordinary HK$2	100	Investment holding
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

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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
Real Merry Limited	Hong Kong	Ordinary HK$16,831,002	100	Theatre operation
Shanghai Golden Harvest Media Management Company Limited ***	PRC/ Mainland China	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.

* 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.

** Golden Harvest (Shenzhen) Cinemas Company Limited is a wholly-foreign owned enterprise under the PRC Law.

*** 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

The balances with jointly-controlled entities are unsecured, interest-free and not expected to be repaid within the next twelve months except for HK$14,400,000 (2005: HK$18,000,000) due from a jointly-controlled entity which is expected to be repaid within the next twelve months and classified as a current asset. The carrying amounts of balances with jointly-controlled entities approximate to their fair value.

Particulars of the jointly-controlled entities are as follows:

Name	Place of incorporation and principal operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
TGV Cinemas Sdn. Bhd. ("TGV") #	Malaysia	50	50	50	Theatre operation
Warner Village Cinemas Co., Ltd. ("WVT")*	Taiwan	40	40	40	Theatre operation and leisure operation

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

* Subsequent to the balance sheet date, WVT changed its name to Vie Show Cinemas Co., Ltd.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

Share of the jointly-controlled entities' assets and liabilities:

	Group 2006 HK$'000	Group 2005 HK$'000
Current assets	**45,934**	67,243
Non-current assets	**223,610**	202,255
Current liabilities	**(63,884)**	(68,853)
Non-current liabilities	**(109,135)**	(128,482)
Net assets	**96,525**	72,163
Share of the jointly-controlled entities' results:		
Turnover	**286,236**	73,347
Other revenue	**21,348**	10,233
Total revenue	**307,584**	83,580
Total expenses	**(280,872)**	(81,817)
Tax	**(3,944)**	(2,196)
Profit/(loss) after tax	**22,768**	(433)

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15. INTERESTS IN ASSOCIATES

	Group	
	2006 HK$'000	2005 HK$'000
Share of net assets other than goodwill	**102,666**	69,980
Due from associates	**95,551**	91,689
Due to associates	**(902)**	(882)
	197,315	160,787
Provision for impairment	**(1,413)**	(1,413)
	195,902	159,374

The balances with associates are unsecured, interest-free and not expected to be repaid within the next twelve months except for HK$1,113,000 (2005: Nil) due to associates which is expected to be repaid within the next twelve months and has been included under current liabilities.

The Group's share of the post-acquisition retained profits of associates as at 30 June 2006 amounted to HK$2,290,000 (2005: accumulated losses of HK$21,853,000).

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006 HK$'000	2005 HK$'000
Total assets	**658,901**	628,952
Total liabilities	**405,956**	444,303
Revenue	**677,311**	582,979
Profit after tax	**50,104**	46,164

15. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and principal operations	Percentage of paid-up share capital held by the Group	Principal activities
Dartina Development Limited	Ordinary shares of HK$1 each	Hong Kong	50	Investment holding
Golden Access Pte Ltd#	Ordinary shares of S$1 each	Singapore	50	Computer programming
Golden Screen Cinemas Sdn. Bhd.#	Ordinary shares of RM1 each	Malaysia	40.22	Distribution of motion pictures and theatre operation
Golden Village Entertainment (Singapore) Pte Ltd	Ordinary shares of S$1 each	Singapore	50	Investment holding
Golden Village Pictures Pte Ltd	Ordinary shares of S$1 each	Singapore	50	Distribution of motion pictures
Golden Village Holdings Pte Ltd	Ordinary shares of S$1 each	Singapore	50	Investment holding
Golden Village Multiplex Pte Ltd	Ordinary shares of S$1 each	Singapore	50	Theatre operation
Keen Fortune Production Limited	Ordinary shares of US$1 each	British Virgin Islands	50	Dormant
Rich Will Limited	Ordinary shares of HK$1 each	Hong Kong	50	Dormant

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.

NOTES TO FINANCIAL STATEMENTS
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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 July		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(b))*	**759**	777
As restated	**759**	777
Amortised during the year	**(18)**	(18)
Carrying amount at 30 June	**741**	759

The Group's leasehold land included above is held under a long term lease and is situated in Hong Kong.

As at 30 June 2006, the prepaid land lease payments was pledged as security to a bank for an overdraft facility granted to the Group (note 23).

17. 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 2001, 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 income statement 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 2006. Accordingly, the directors consider that no impairment provision is necessary at the balance sheet date.

18. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Raw materials	**403**	396
Chemicals	**52**	54
Machinery parts	**142**	121
Audio visual products	**129**	–
	726	571

19. FILM RIGHTS

As at 30 June 2006, there was no impairment loss (2005: Nil) on film rights charged to the consolidated income statement for the year.

20. ACCOUNTS RECEIVABLE

The Group usually grants credit periods ranging from one to three months. Each customer has a credit limit and overdue balances are regularly reviewed by management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, the concentration of credit risk is not considered significant. Accounts receivable are non-interest-bearing. The carrying amounts of the accounts receivable approximate to their fair values. An aged analysis of the accounts receivable, net of provision at 30 June, is as follows:

	Group 2006 HK$'000	2005 HK$'000 (Restated)
Current to 3 months	**10,188**	15,380
4 to 6 months	**1,752**	2,254
7 to 12 months	**65**	31
Over 1 year	**–**	639
	12,005	18,304

The accounts receivable of the Group included nil balance due from Golden Harvest Private Group companies as at 30 June 2006 (2005: HK$481,000). All of the balances with the Golden Harvest Private Group companies were 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 at 30 June 2005 also included amounts due from GH Media Management Pte Ltd, Best Creation International Limited and Wigston Co. Limited of HK$332,000, HK$269,000 and HK$179,000, respectively. The amounts were unsecured and had no fixed repayment terms. Raymond Chow Ting Hsing, Phoon Chiong Kit, David Chan Sik Hong, who are directors of the Company, and a relative of Raymond Chow Ting Hsing, are also directors and/or beneficial shareholders of certain of these related companies.

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Cash and bank balances	**36,361**	49,979	**22**	23
Time deposits	**21,850**	17,278	**–**	–
	58,211	67,257	**22**	23
Less: Pledged bank balances and time deposits				
Pledged for long term bank loans	**(1,972)**	(486)	**–**	–
Pledged as guarantees to landlords	**(1,870)**	(1,139)	**–**	–
Cash and cash equivalents	**54,369**	65,632	**22**	23

Cash at bank earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable at 30 June is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000 (Restated)
Current to 3 months	**42,027**	57,128
4 to 6 months	**6,163**	4,539
7 to 12 months	**1,226**	896
Over 1 year	**12,612**	13,020
	62,028	75,583

The accounts payable of the Group included trading balances due to Golden Harvest Private Group companies totaling HK$207,000 (2005: HK$67,000). The amounts are unsecured, interest-free and repayable in accordance with normal trading terms. The carrying amounts of the accounts payable approximate to their fair values.

The accounts payable of the Group also included amounts due to GH Pictures (China) Limited, Best Creation International Limited, Harvest Crown Limited and Pinetree Production Services, Inc. of HK$8,979,000 (2005: HK$9,987,000), HK$45,000 (2005: Nil), HK$698,000 (2005: HK$618,000) and nil (2005: HK$206,000), respectively. These amounts are unsecured and have no fixed repayment terms. Except for an amount of HK$8,979,000 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 are directors 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.

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Current						
Bank loans – unsecured	4	April 2007	**2,328**	–	**–**	–
Bank loans – secured	8	June 2007	**34,873**	24,697	**–**	–
Total current portion of bank loans			**37,201**	24,697	**–**	–
Finance lease payables *(note 24)*	8	June 2007	**328**	413	**–**	–
Convertible note *(note 27)* #	7	November 2006	**143**	–	**143**	–
			37,672	25,110	**143**	–
Non-current						
Bank loans – unsecured	4	2008-2011	**13,259**	–	**–**	–
Bank loans – secured	7	2008-2010	**43,828**	65,325	**–**	–
Total non-current portion of bank loans			**57,087**	65,325	**–**	–
Finance lease payables *(note 24)*	8	2008-2010	**1,152**	298	**–**	–
Convertible note *(note 27)*	7	2008	**19,618**	–	**19,618**	–
			77,857	65,623	**19,618**	–
			115,529	90,733	**19,761**	–

Interest charged in relation to the convertible note is included in "Accrued liabilities and other payables" on the face of the balance sheets of the Company and of the Group.

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year	**37,201**	24,697	**–**	–
In the second year	**22,428**	21,577	**–**	–
In the third to fifth years, inclusive	**34,659**	43,748	**–**	–
	94,288	90,022	**–**	–
Convertible note and other borrowings repayable:				
Within one year	**471**	413	**143**	–
In the second year	**19,971**	298	**19,618**	–
In the third to fifth years, inclusive	**799**	–	**–**	–
	21,241	711	**19,761**	–
	115,529	90,733	**19,761**	–

23. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 30 June 2006				
	HK Dollars HK$'000	US Dollars HK$'000	Chinese Renminbi HK$'000	Malaysian Ringgit HK$'000	Total HK$'000
Bank loans	**7,000**	**64,021**	**7,680**	**15,587**	**94,288**
Convertible note and other borrowings	**21,241**	**–**	**–**	**–**	**21,241**
	28,241	**64,021**	**7,680**	**15,587**	**115,529**

	As at 30 June 2005				
	HK Dollars HK$'000	US Dollars HK$'000	Chinese Renminbi HK$'000	Malaysian Ringgit HK$'000	Total HK$'000
Bank loans	5,000	75,622	9,400	–	90,022
Other borrowings	711	–	–	–	711
	5,711	75,622	9,400	–	90,733

Except for the finance lease payables and the convertible note with carrying amounts totaling of HK$21,241,000 (2005: HK$711,000), all other borrowings of the Group bear interest at floating interest rates.

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values. The fair value of the liability portion of the convertible note is estimated using the Group's prevailing borrowing rate.

The Group's overdraft facility amounting to HK$2,250,000 (2005: Nil) which had not been utilised as at the balance sheet date, is secured by the leasehold property and the prepaid land lease payments of the Group (notes 12 and 16).

The Group's bank loans as at 30 June 2006 were secured by:

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

(ii) its 70% shareholding in a wholly-owned subsidiary;

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

(iv) the property, plant and equipment of a subsidiary (note 12); and

(v) pledged bank balances (note 21).

24. FINANCE LEASE PAYABLES

At 30 June 2006, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2006 HK$'000	Minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amounts payable:				
Within one year	**437**	456	**328**	413
In the second year	**434**	309	**353**	298
In the third to fifth years, inclusive	**869**	–	**799**	–
Total minimum finance lease payments	**1,740**	765	**1,480**	711
Future finance charges	**(260)**	(54)		
Total net finance lease payables	**1,480**	711		
Portion classified as current liabilities	**(328)**	(413)		
Non-current portion	**1,152**	298		

25. LOANS FROM JOINT VENTURE PARTNERS

Loans from joint venture partners are unsecured, interest-free and except for HK$14,400,000 (2005: HK$18,000,000) which is expected to be repaid within the next twelve months and classified as a current liability, are not expected to be repaid within the next twelve months. The carrying amounts of the loans from joint venture partners approximate to their fair values.

26. PROVISIONS

Group

	Long service payments HK$'000	Other employee benefits HK$'000	Total HK$'000
At beginning of year			
As previously stated	3,661	1,680	5,341
Effect on adoption of HKAS 31	9	–	9
As restated	3,670	1,680	5,350
Additional provision	432	263	695
At 30 June 2006	4,102	1,943	6,045
Portion classified as current liabilities	–	(1,943)	(1,943)
Non-current portion	4,102	–	4,102

Under the relevant labour laws and regulations governing retirement payments, the Company's directors have estimated and provided for the amount of provisions 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.

27. CONVERTIBLE NOTE

On 23 May 2006, the Company issued 4% convertible note with a principal amount of HK$20,000,000. The note is convertible at the option of the note holder into ordinary shares on or before 15 May 2008 at a price of HK$0.22 per share. There was no conversion up to the balance sheet date. If the conversion right is not exercised by the note holder, the convertible note not converted will be redeemed on 23 May 2008 at 104% of the principal amount of the note. The note carries interest at a rate of 4% per annum, which is payable half-yearly in arrears on 23 May and 23 November.

The fair value of the liability portion of the convertible note was estimated at the issuance date using the Group's prevailing borrowing rate and an equivalent market interest rate for a similar note without a conversion option, and has been ascertained by Vigers Appraisal & Consulting Ltd., a firm of independent professionally qualified valuers. The residual amount is assigned as the equity component and included in shareholders' equity.

27. CONVERTIBLE NOTE *(continued)*

The net proceeds received from the issue of the convertible note have been split between the liability and equity components, as follows:

Group and Company

	2006 **HK$'000**	2005 HK$'000
Nominal value of the convertible note issued during the year	**20,000**	–
Issuing costs	**(287)**	–
Equity component	**(95)**	–
Liability component at date of issue	**19,618**	–
Interest charged #	**143**	–
Liability component at 30 June	**19,761**	–
Analysed for reporting purpose as:		
Current liability – accrued liabilities and other payables	**143**	–
Non-current liability	**19,618**	–
	19,761	–

Interest charged is included in current liabilities under the heading of "Accrued liabilities and other payables" on the face of the balance sheets of the Company and of the Group.

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28. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

	Accelerated tax depreciation HK$'000	Revaluation of leasehold buildings HK$'000	Total HK$'000
At 1 July 2004			
As previously reported	–	878	878
Effect on adoption of HKAS 17	–	(416)	(416)
As restated	–	462	462
Effect on adoption of HKAS 31			
– Acquisition of jointly-controlled entities	5,237	–	5,237
– Deferred tax credited to the income statement	(85)	–	(85)
– Exchange adjustments	1	–	1
Deferred tax credit to equity during the year (as restated)	–	(30)	(30)
At 30 June 2005 (as restated)	5,153	432	5,585
At 1 July 2005			
As previously reported	–	825	825
Effect on adoption of HKAS 17	–	(393)	(393)
Effect on adoption of HKAS 31	5,153	–	5,153
As restated	5,153	432	5,585
Deferred tax charged to the income statement	1,399	–	1,399
Deferred tax credited to equity during the year	–	(30)	(30)
Exchange adjustments	320	–	320
At 30 June 2006	**6,872**	**402**	**7,274**

The Group has tax losses arising in, and outside Hong Kong of approximately HK$399,260,000 and HK$58,195,000 (2005: HK$421,640,000 and HK$82,196,000 (restated)), 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$10,717,000 and HK$30,706,000 (2005: HK$10,193,000 and HK$50,928,000 (restated)) 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 and jointly-controlled entities that have been loss-making for some time.

At 30 June 2006, there was no significant unrecognised deferred tax liability (2005: 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 significant liability to additional tax should such amounts be remitted.

There is no income tax consequence attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

	Company	
	2006	2005
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,330,309,375 (2005: 1,330,309,375) ordinary shares of HK$0.10 each	**133,031**	133,031

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of 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.

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 the 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 the 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.

30. SHARE OPTION SCHEME *(continued)*

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.

The Company completed a rights issue on the basis of one share for every four existing shares 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 an 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 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.

As at 30 June 2006, the aggregate number of the shares of the Company issuable under share options granted under the 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, of which 39,525,000 shares of the Company remain issuable under share options granted under the Scheme (which represented approximately 2.97% of the Company's shares in issue as at 30 June 2006), 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 2006).

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

30. SHARE OPTION SCHEME *(continued)*

During the year, no share option was granted, exercised, cancelled or lapsed and the following table shows the outstanding share options held by directors and employees of the Company:

Name or category of participant	Date of grant of share option	Exercise price HK$	Exercise period	Number of share options outstanding as at 1 July 2005 and 30 June 2006
Director				
Phoon Chiong Kit	25/07/2000	0.624	25/07/2000 to 24/07/2010 *Note (a)*	5,750,000
	31/10/2001	0.496	30/11/2001 to 30/10/2011 *Note (b)*	12,500,000
	09/12/2004	*Note (d)*	10/01/2005 to 30/10/2011 *Note (c)*	18,750,000
David Chan Sik Hong	31/10/2001	0.496	30/11/2001 to 30/10/2011 *Note (b)*	6,250,000
Eric Norman Kronfeld	31/03/2005	0.260	31/03/2005 to 30/10/2011	350,000
Paul Ma Kah Woh	31/03/2005	0.260	31/03/2005 to 30/10/2011	350,000
Frank Lin	31/03/2005	0.260	31/03/2005 to 30/10/2011	350,000
Prince Chatrichalerm Yukol	31/03/2005	0.260	31/03/2005 to 30/10/2011	350,000
Other participant				
In aggregate	31/10/2001	0.496	30/11/2001 to 30/10/2011 *Note (b)*	625,000
				45,275,000

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, 1 August 2002 to 30 October 2011 and 1 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.

30. SHARE OPTION SCHEME *(continued)*

Notes: (continued)

(d) The 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 (adjusted for the Rights Issue), HK$0.256 (adjusted for the Rights Issue) and HK$0.304 (adjusted for the Rights Issue) per share, respectively.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

The fair value of the share options granted during the year ended 30 June 2005 but had not vested by 1 July 2005 was HK$762,000.

The fair value of equity-settled share options granted during the year ended 30 June 2005 was estimated as at the date of grant, using Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. The following table listed the inputs to the model used for the year ended 30 June 2005.

Dividend yield (%)	–
Expected volatility (%)	58.21
Historical volatility (%)	58.21
Risk-free interest rate (%)	2.08
Expected life of option (year)	3.00
Weighted average share price (HK$)	0.20 (adjusted for the Rights Issue)

The expected life of the options is based on the historical date over the past three years and is not necessary indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 45,275,000 share option outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 45,275,000 additional ordinary share of the Company and additional share capital of HK$4,527,500 and share premium account of HK$13,835,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 45,275,000 share options outstanding under the Scheme, which represented approximately 3.4% of the Company's shares in issue as at that date.

31. 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.

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000 (Restated)	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000 (Restated)	Total HK$'000
At 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)
Loss for the year	–	–	–	–	(14,009)	(14,009)
Equity-settled share option arrangement	–	150	–	–	–	150
At 30 June 2005	639,881	150	145	191,644	(553,883)	277,937
At 1 July 2005						
As previously reported	639,881	–	145	191,644	(553,733)	277,937
Prior year adjustments	–	150	–	–	(150)	–
As restated	639,881	150	145	191,644	(553,883)	277,937
Loss for the year	–	–	–	–	(1,275)	(1,275)
Equity-settled share option arrangement	–	394	–	–	–	394
At 30 June 2006	**639,881**	**544**	**145**	**191,644**	**(555,158)**	**277,056**

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.

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2006 HK$'000	2005 HK$'000
Net assets acquired:		
Interests in an associate	–	11,506
Prepayments, deposits and other receivables	–	35
Cash and cash equivalents	–	12,951
Accrued liabilities and other payables	–	(12)
Amounts due to related companies	–	(41)
Amounts due to shareholders	–	(14,216)
Net assets	–	10,223
Negative Goodwill on acquisition	–	(3,709)
	–	6,514
Satisfied by:		
Cash	–	18,318
Amounts due to shareholders	–	(14,216)
Reclassification to interests in subsidiaries from interests in associates	–	2,412
	–	6,514

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2006 HK$'000	2005 HK$'000
Cash consideration	–	(18,318)
Less: cash and cash equivalents acquired	–	12,951
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	(5,367)

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 was financed by the Group's banking facilities. The principal activity of GEMS is holding investment in TGV, which is principally engaged in theatre operation in Malaysia. The Group's interest in TGV increased to 50% through the acquisition of GEMS.

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

(b) Acquisitions of jointly-controlled entities

For the year ended 30 June 2005, the investments in jointly-controlled entities have been shown in the consolidated cashflow statement as a single item. The cashflow effect can be analysed as follows:

(i) WVT

	2006 HK$'000	2005 HK$'000 (Restated)
Net assets attributable by WVT:		
Property, plant and equipment	–	124,054
Prepaid rental	–	1,670
Long term deposits	–	41,525
Cash and bank balances	–	25,039
Accounts receivable	–	14,786
Prepayments, deposits and other receivables	–	13,636
Accounts payable	–	(16,330)
Accrued liabilities and other payables	–	(26,111)
Shareholders' loan	–	(112,637)
Deposits received	–	(3,991)
Provision for long service payments	–	(9)
Net assets	–	61,632
Negative Goodwill recognised as income	–	(39,323)
	–	22,309
Satisfied by:		
Cash	–	123,134
Shareholders' loan acquired	–	(112,055)
Transaction costs associated with the investment	–	11,230
	–	22,309

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of WVT is as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Cash consideration	–	(123,134)
Less: cash and cash equivalents acquired	–	25,039
Net outflow of cash and cash equivalents in respect of the acquisition of WVT	–	(98,095)

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

(b) Acquisitions of jointly-controlled entities *(continued)*

(ii) TGV

	2006 HK$'000	2005 HK$'000 (Restated)
Net assets attributable by TGV:		
Property, plant and equipment	–	38,184
Time deposits	–	10,445
Cash and bank balances	–	1,276
Accounts receivable	–	463
Prepayments, deposits and other receivables	–	4,668
Accounts payable	–	(4,529)
Accrued liabilities and other payables	–	(7,436)
Tax payable	–	(480)
Deferred tax	–	(5,237)
Shareholders' loan	–	(25,287)
Net assets	–	12,067
Satisfied by:		
Reclassification from interests in an associate	–	12,067

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of TGV is as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Cash consideration *(note)*	–	–
Less: cash and cash equivalents acquired	–	11,721
Net inflow of cash and cash equivalents in respect of the acquisition of TGV	–	11,721

Note: The increase in the Group's equity interests in TGV was resulted indirectly from the acquisition of the subsidiary disclosed in note 32(a).

(c) The Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the finance leases of HK$2,134,000 (2005: Nil).

(d) During the year ended 30 June 2006, deposits of HK$1,386,000 included in prepayments, deposits and other receivables as at 30 June 2005 were transferred to property, plant and equipment.

33. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group also had the following material 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 related parties

		Group	
	Notes	**2006** **HK$'000**	2005 HK$'000
Rental income from a related company	*(i), (ii)*	**120**	122
Interest expense to a related company	*(i), (iii)*	**319**	178
Distribution consultancy fee paid to a related company	*(i), (iv)*	**363**	429
Film royalties income from an associate	*(i), (v)*	**268**	669
Management fee income from associates	*(i), (vi)*	**351**	384
Purchase of items of property, plant and equipment from an associate	*(i), (vii)*	**242**	–
Accounting service fee paid to an associate	*(i), (viii)*	**88**	87
Office rental paid to an associate	*(i), (ix)*	**98**	–
Ticketing system maintenance/development costs paid to an associate	*(i), (x)*	**1,008**	221
Theatre rental paid to an associate	*(i), (xi)*	**82**	139
Sale of a motor vehicle to a director	*(i), (xii)*	**436**	–
Corporate guarantee given in respect of banking facilities granted to an associate	*(i), (xiii)*	**18,338**	17,325
Film distribution commission income from related companies	*(i), (xiv)*	**–**	164
Consultancy fee paid to a related company	*(i), (xv)*	**–**	585

Notes:

(i) Mr. Raymond Chow Ting Hsing, Phoon Chiong Kit and David Chan Sik Hong, who are directors of the Company, are interested, directly or indirectly, in the above transactions as directors and/or beneficial shareholders of certain of these companies.

(ii) The rental income was charged at a rate of approximately HK$10,000 per month for sub-letting a portion of the Group's office premises to an associate of the Golden Harvest Private Group.

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

(iv) 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.

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

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties *(continued)*

Notes: (continued)

(vi) The management fee income represented accounting services provided to two associates of the Group which were charged at rates of HK$10,000 (2005: HK$10,000) per month and HK$22,000 per month from July 2005 to March 2006 and HK$11,000 per month from April 2006 to June 2006 (2005: HK$22,000 per month), respectively.

(vii) The selling price of the property, plant and equipment was mutually agreed between the parties concerned.

(viii) The accounting service fee was charged at a rate of S$1,500 (2005: S$1,500) per month.

(ix) The rental expense was charged at a rate of approximately S$1,747 per month for sub-letting a portion of office premises of an associate to the Group.

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

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

(xii) A motor vehicle was sold to a director by a wholly-owned subsidiary during the year and the selling price was with reference to market value.

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

(xiv) 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.

(xv) 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.

Certain transactions amounting to HK$799,000 (2005: HK$1,037,000) included in notes (iv), (xii), (xiv) and (xv) above with a related company and a director (2005: three related companies) constituted connected transactions as defined in the Listing Rules.

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

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30 JUNE 2006

33. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group

	2006 HK$'000	2005 HK$'000 (Restated)
Salaries and other short-term employee benefits	**14,986**	17,271
Post-employment benefits	**113**	133
Share-based payment	**394**	150
Total compensation paid to key management personnel	**15,493**	17,554

The total compensation paid to key management personnel also included the executive directors' emoluments as disclosed in note 34 to the financial statements.

34. 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:

	2006 HK$'000	2005 HK$'000 (Restated)
Fees:		
Executive directors	**–**	–
Non-executive director	**120**	120
Independent non-executive directors	**350**	350
	470	470
Basic salaries, allowances and benefits in kind:		
Executive directors	**13,000**	15,530
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
	13,000	15,530
Employee share option benefits:		
Executive directors	**394**	150

NOTES TO FINANCIAL STATEMENTS
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34. REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

Directors' remuneration *(continued)*

	2006 HK$'000	2005 HK$'000 (Restated)
Pension contributions:		
Executive directors	71	91
Non-executive directors	–	–
Independent non-executive directors	–	–
	71	91
	13,935	16,241

	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Pension contributions HK$'000	Employee share option benefits HK$'000	Total emoluments HK$'000
For the year ended 30 June 2006					
Independent non-executive directors:					
Paul Ma Kah Woh	150	–	–	–	150
Frank Lin	100	–	–	–	100
Prince Chatrichalerm Yukol	100	–	–	–	100
	350	–	–	–	350
Executive directors:					
Raymond Chow Ting Hsing	–	3,717	–	–	3,717
Phoon Chiong Kit	–	5,900	47	394	6,341
David Chan Sik Hong	–	2,000	12	–	2,012
Roberta Chin Chow Chung Hang	–	1,383	12	–	1,395
	–	13,000	71	394	13,465
Non-executive director:					
Eric Norman Kronfeld	120	–	–	–	120
	470	13,000	71	394	13,935

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

Directors' remuneration *(continued)*

	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Pension contributions HK$'000	Employee share option benefits HK$'000	Total emoluments HK$'000
For the year ended 30 June 2005					
Independent non-executive directors:					
Paul Ma Kah Woh	150	–	–	–	150
Frank Lin	100	–	–	–	100
Prince Chatrichalerm Yukol	100	–	–	–	100
	350	–	–	–	350
Executive directors:					
Raymond Chow Ting Hsing	–	3,939	–	–	3,939
Phoon Chiong Kit	–	6,469	64	150	6,683
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	150	15,771
Non-executive director:					
Eric Norman Kronfeld	120	–	–	–	120
	470	15,530	91	150	16,241

There was no other emolument payable to the independent non-executive directors during the year (2005: Nil).

At the balance sheet date, certain directors held share options of the Company, the details of which are set out in note 30 to the financial statements. The fair value of the share options, which had been charged to the income statement for the years ended 30 June 2006 and 2005, was determined as at the date of the grant and was included in the above disclosure of directors' emoluments. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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

Five highest paid individuals

Of the five highest paid individuals, four (2005: five) 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 for the year ended 30 June 2006 is as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, allowances and benefits in kind	**1,458**	–
Pension contributions	**12**	–
	1,470	–

The above remuneration of the non-director, highest paid employee fell within the band of HK$1,000,001–HK$1,500,000.

35. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	Group		**Company**	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Guarantee of banking facilities granted to:				
Subsidiaries	**–**	–	**84,021**	95,622
An associate	**18,338**	17,325	**18,338**	17,325
	18,338	17,325	**102,359**	112,947

As at 30 June 2006, banking facilities of HK$78,701,000 (2005: HK$90,022,000) and HK$3,179,000 (2005: HK$9,933,000) 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$16,233,000 (2005: HK$14,093,000) as at the balance sheet date, in respect of a banking facility granted to that associate.

36. COMMITMENTS

	Group 2006 HK$'000	2005 HK$'000 (Restated)
(a) Capital commitments in respect of acquisition of items of property, plant and equipment:		
Contracted for	**4,314**	7,804
Authorised, but not contracted for	**72,637**	78,971
	76,951	86,775

(b) Operating lease arrangements

(i) As lessor

The Group leases certain of its buildings under operating lease arrangements for terms ranging from 1 to 13 years. The terms of the leases generally also required the tenants to provide for periodic rent adjustments according to the then prevailing marketing conditions.

At 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2006 HK$'000	2005 HK$'000 (Restated)
Total future minimum lease receivables under non-cancellable operating leases for land and buildings:		
Within one year	**18,921**	12,015
In the second to fifth years, inclusive	**34,840**	32,587
After five years	**1,458**	3,914
	55,219	48,516

During the year, the Group did not receive any contingent rent (2005: Nil).

36. COMMITMENTS *(continued)*

(b) Operating lease arrangements *(continued)*

(ii) As lessee

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Total future minimum lease payments under non-cancellable operating leases for land and buildings:		
Within one year	**107,818**	119,604
In the second to fifth years, inclusive	**422,503**	411,797
After five years	**598,556**	676,721
	1,128,877	1,208,122

Certain non-cancellable operating leases included in the above are subject to contingent rent payments, which are charged at 5% to 28% (2005: 5% to 28%) of their monthly or annual gross box office takings in excess of the base rents as determined in the respective lease agreements. In addition, 10% of theatre confectionery sales and advertising income is also charged under certain leases.

The Company had no significant commitment at the balance sheet date (2005: Nil).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments comprise interest-bearing bank loans, convertible note, finance leases, short term deposits and cash at banks. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of such risks are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The interest rates and terms of repayment of the bank and other borrowings are disclosed in note 23.

Foreign currency risk

The Group's assets and liabilities are principally denominated in Hong Kong dollars except certain assets and liabilities associated with the investments located in Singapore, Malaysia, Taiwan and Mainland China including the bank and other borrowings as disclosed in note 23. Management has assessed the foreign currency risk and exposures in these territories from time to time. Since the exchange rates of these foreign currencies have been either relatively stable or favourable to the Group for the past two years, the directors are of view that the Group's exposure to foreign currency risk is minimal.

However, management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group has established credit control policies of which credit limits, credit approvals and other monitoring procedures for debts recovery are in place to minimise the credit risk. In addition, management reviews the recoverable amount of each individual receivable regularly to ensure that adequate impairment allowances are made for irrecoverable amounts. With such policies in place, the Group has been able to maintain its bad debts at minimal level.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible note, other interest-bearing finance leases. Management monitors the liquidity position of the Group on a daily basis to ensure availability of sufficient liquid funds to meet its cash flow requirements in the short term. In addition, bank overdraft facility has been put in place for contingency purposes.

38. POST BALANCE SHEET EVENTS

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

(a) On 10 July 2006, the Company and each of Quick Target Limited, Pleasant Villa Investments Limited, Garex Resources Limited and Typhoon Music (PRC) Limited entered into subscription agreements (the "Agreements"). Pursuant to the Agreements, the Group agreed to issue, and the subscribers agreed to subscribe for the 4% convertible notes due 2008 with an aggregate principal amount of HK$100,000,000 (the "Notes"). On 22 August 2006, the subscription was completed and the net proceeds of the issue of the Notes amounted to approximately HK$99,000,000. The Group intends to apply the net proceeds for investments in new businesses, expansion of existing businesses and the discharge of its current liabilities.

The Notes are convertible at the option of the note holders into ordinary shares on or before 14 August 2008 at a price of HK$0.22 per share. Any note not converted will be redeemed on 21 August 2008 at a price of 104% of the principal amount of the Notes.

The above transaction constitutes a connected transaction as defined in the Listing Rules. Further details of the issue of the Notes are set out in the circular of the Company dated 31 July 2006.

(b) On 16 October 2006, the Group entered into agreements with World Media Group Limited, a company of Golden Harvest Private Group and independent third parties to acquire the entire equity interests of three companies, GH Pictures (China) Limited, GH Media Management Pte Ltd and GH Media Management Limited (the "Target Companies"), at a total consideration of approximately HK$22.6 million. The Target Companies hold a film library of 39 Chinese language films. The consideration will be financed by the internal resources of the Group. This transaction constitutes a connected transaction as defined in the Listing Rules and is subject to independent shareholders' approval.

39. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 October 2006.